

# Investor Day

## 9<sup>th</sup> November 2010



# Investor Day 2010

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## Cautionary statement:

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# Agenda

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**14:00 Ian King - Introduction**

**14:15 Nigel Whitehead - UK market environment**

**14:25 Kevin Taylor - military air support in the UK - a demonstrable success**

**14:50 Martin Sutherland - UK security market, capabilities and opportunities**

**15:15 Q&A**

**15:40 Break**

**16:00 Linda Hudson - US market environment**

**16:10 Larry Prior - US security market**

**16:35 Bill Clifford - US naval sustainment**

**17:00 Tom Arseneault - Electronic Solutions**

**17:25 Guy Griffiths - opportunities in KSA , Australia and India**

**17:50 Q&A**

**18:15 Ian King - Summary**

**18:30 Drinks Reception**

**19:00 Alan Garwood - Business development (pre-dinner address)**

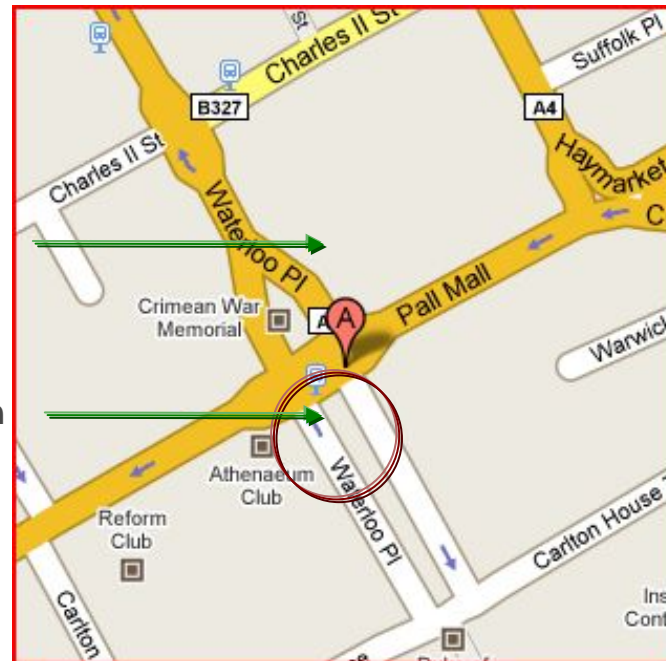
**19:30 Dinner**

# Safety

- No planned practice alarms (test alarm is on Monday)
- If you hear fire alarm, it will sound throughout the building
- All automatic Fire Door Shutters will be activated separating the building to prevent fire from spreading
- Do not use lifts
- Please proceed to the Assembly Area outside main entrance in Waterloo Place as shown below

**Sofitel London St James**

**Assembly Area: Waterloo Place South**



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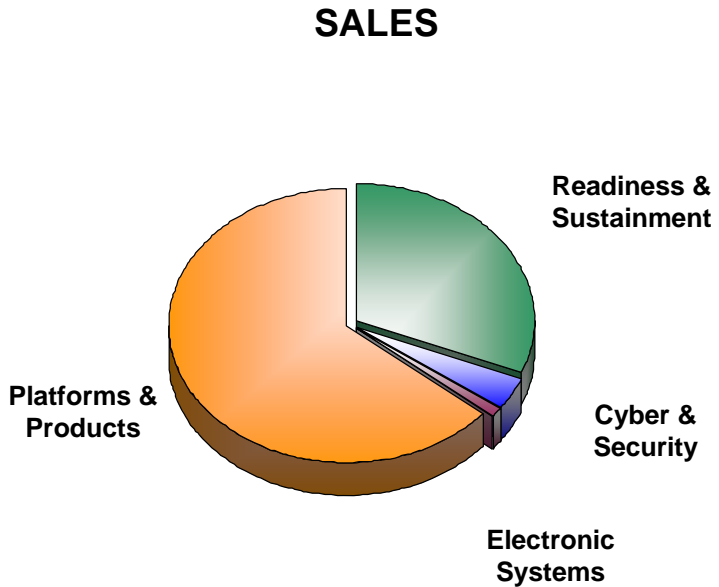
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# Nigel Whitehead Programmes & Support



# Programmes & Support

	First Half 2010	First Half 2009
Sales	£3,035m	£2,399m
Underlying EBITA	£316m	£277m
Margin	10.4%	11.5%
Order book	£23.7bn	£21.2bn
Cash flow	£(50)m	£(47)m



# SDSR Summary

## Royal Air Force

- Fast jet fleet based around **Typhoon** and **JSF**
- **Nimrod MRA4** not in-service
- **Harrier** retired by 2011
- New transport and tanker aircraft
- Chinook helicopters
- **More unmanned systems**
- 33,000 personnel (down 5000)



## Royal Navy

- **Nuclear deterrent** (CASD)
- 7 hunter-killer submarines (**Astute**)
- **Carrier strike** in 2020
- 19 frigates and destroyers (**Type 45; Type 23, Type 26**)
- 14 mine-countermeasure vessels
- Maritime helicopters
- Royal Marines with amphibious capability
- 30,000 personnel (down 5000)



## Army

- Restructured Army (5 brigades)
- One high readiness brigade
- Reduce Challenger II by 40%
- Reduce heavy artillery by 35%
- New medium weight vehicles (FRES SV and UV)
- Greater role for special forces, ISTAR and unmanned systems
- 95,000 personnel (down 7000)



## Security

- Focus on counter-terrorism
- Review of civil liberties
- Enhance ability to detect and defend against cyber attack
- Address shortcomings in protection of critical national infrastructure
- £650m National Cyber Security Programme



Civilian staff reduced by 25,000.  
 Defence Reform Unit established to re-shape MoD

# SDSR Impact on BAE Systems

## Military Air Solutions

- **Typhoon** capability upgrade
- **JSF** ramp-up continues
- Expecting funding for **unmanned systems**
- Termination of **Harrier** programme
- **Nimrod MRA4** not into service
- Reduction in **Tornado** fleet size



## Maritime

- **Queen Elizabeth Class** build programme continues with two ships
- **Type 26** to be less expensive, more flexible, more exportable
- Sustainable **Submarine programme**
- **Successor** Main Gate in 2016



## Global Combat Systems

- **Munitions** partnering agreement continues
- **Warrior** to continue, but with reduced numbers
- Reduced vehicle numbers for support programmes



## Detica

- Opportunity to access growth in **cyber security** funding



Removes significant uncertainty on programmes.  
Impacts on performance, but creates opportunities to be exploited by agile response

# Overview of Programmes & Support

## Military Air Solutions

- Typhoon
- F-35 JSF
- Tornado ATTAC
- Hawk
- Unmanned Air Systems
- Readiness & Sustainment



## Surface Ships

- Type 45 Destroyers
- Queen Elizabeth Class carriers
- Type 26 Combat Ship
- Oman Corvette
- Trinidad & Tobago OPV
- Readiness & Sustainment



## Submarine Solutions

- Astute class
- Successor



## Detica

- Commercial
- Government

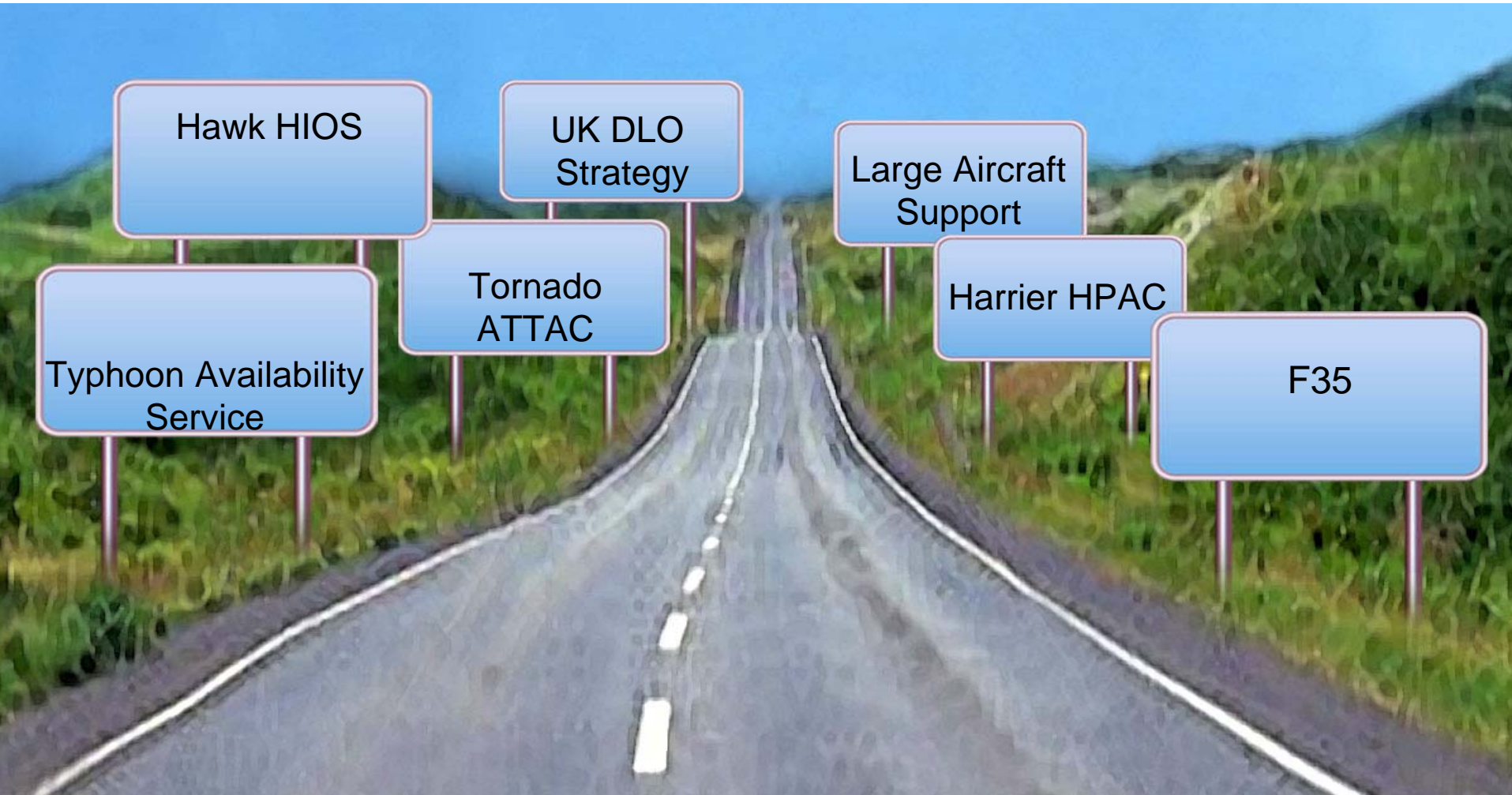


# Kevin Taylor

## Air Sector - Customer Support and Services Journey

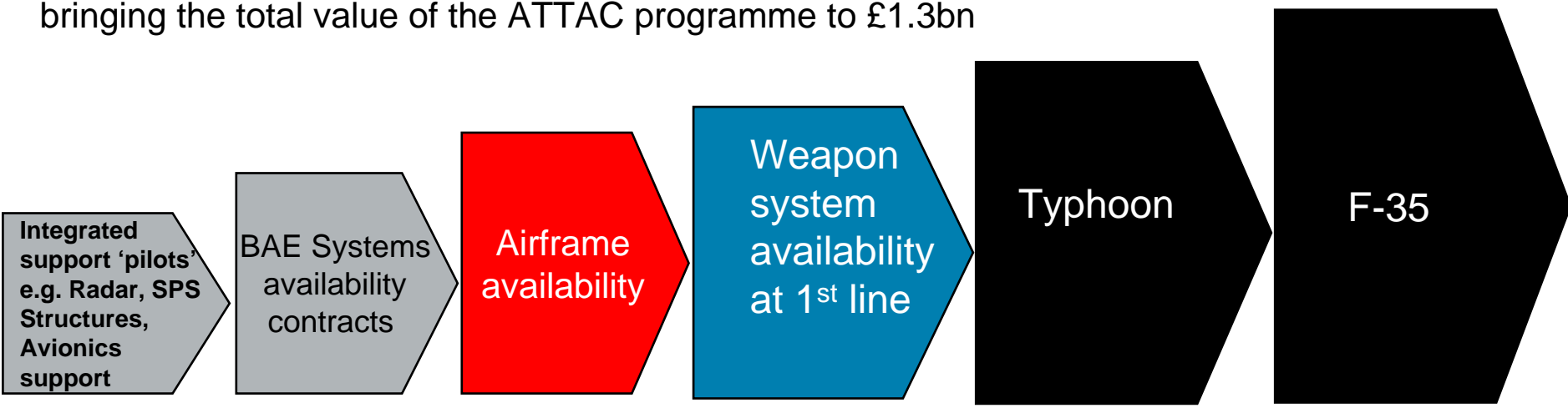


# Air Support - the evolution



# Case Study - Tornado

- 2001 First pilot contract signed (GR4 Avionics), £45m
- 2001 Structural repairs, £35m
- 2002, F3 Foxhunter radar 'power by the hour' 8 year contract, £75m
- 2004, Secondary Power System 10 year contract, £76m
- 2005, Combined Maintenance and Upgrade (CMU) contract, £130m
- 2006, Availability Transformation: ATTAC, £942m
- 2007, Contract amendment to include additional services, bringing the total value of the ATTAC programme to £1.3bn



# Availability Transformation: Tornado Aircraft Contract

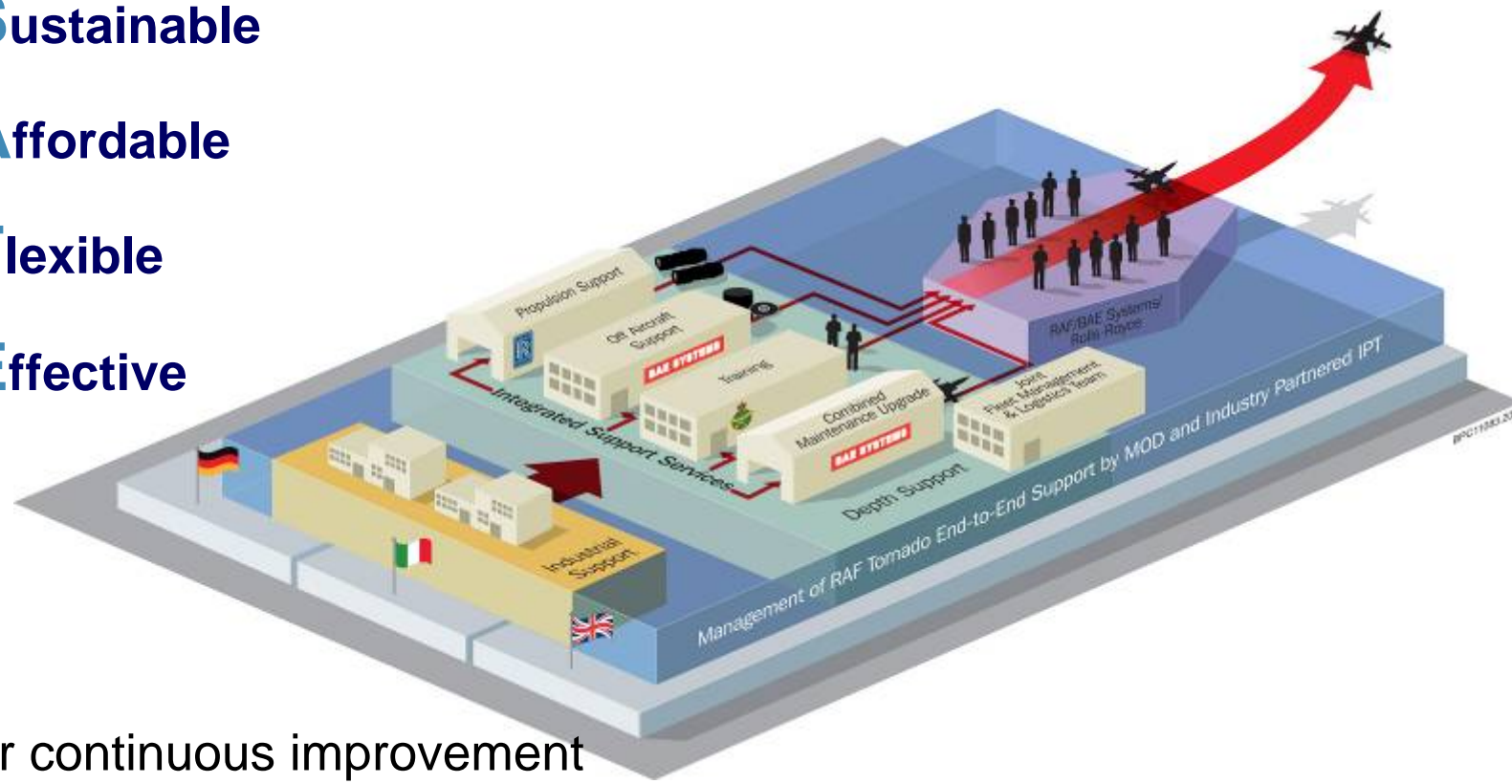
A whole-aircraft end-to-end Tornado through-life support service that is:

**Sustainable**

**Affordable**

**Flexible**

**Effective**



Gainshare for continuous improvement

## Partnering in action

- Tornado - Savings on Tornado support - £1.3bn 2001/2 – 2006/7\*
- Reduced minor maintenance hours by 37%.\*
- Hawk - Exceeding 95% dispatch reliability, saving 10% of cost
- Nimrod MR2 - 40% increase in aircraft availability, 8% Cost Reduction
- VC10 - Costs reduced by 20% and increased availability
- Typhoon - Entry into service, QRA deployment and Typhoon Availability Service (TAS) stand up

**UOR support to current operations**

# Case Study - Typhoon

## CASE WHITE

- UK RAF partnered Entry into Service programme
- 17(R) Squadron and 29 Squadron based at Warton from December 2003 to July 2005
- Aircrew and Groundcrew training
  - Operational Evaluation Unit and Operational Conversion Unit
    - Pilots and instructor pilots
  - Over 180 groundcrew
    - Technician and emergency personnel
- 1300 flying hours in ~1040 sorties
  - Stretch flying hours targets exceeded by 15%
  - 1300 hours achieved earlier than planned



# Typhoon Availability Support (TAS)

TAS contract signed - 4 March '09

TAS contract In-Service Date - 4 Sept '10

TAS service to extend to RAF Leuchars - 1 Oct '10

The five year TAS contract will transform the service approach to enable a reduction in fleet through life support cost of £2.5bn.

Although BAE Systems have had a presence at RAF Coningsby since 2004, the TAS contract has expanded the BAE Systems population at RAF Coningsby to over 300 and is expected to reach 450 by 2013.



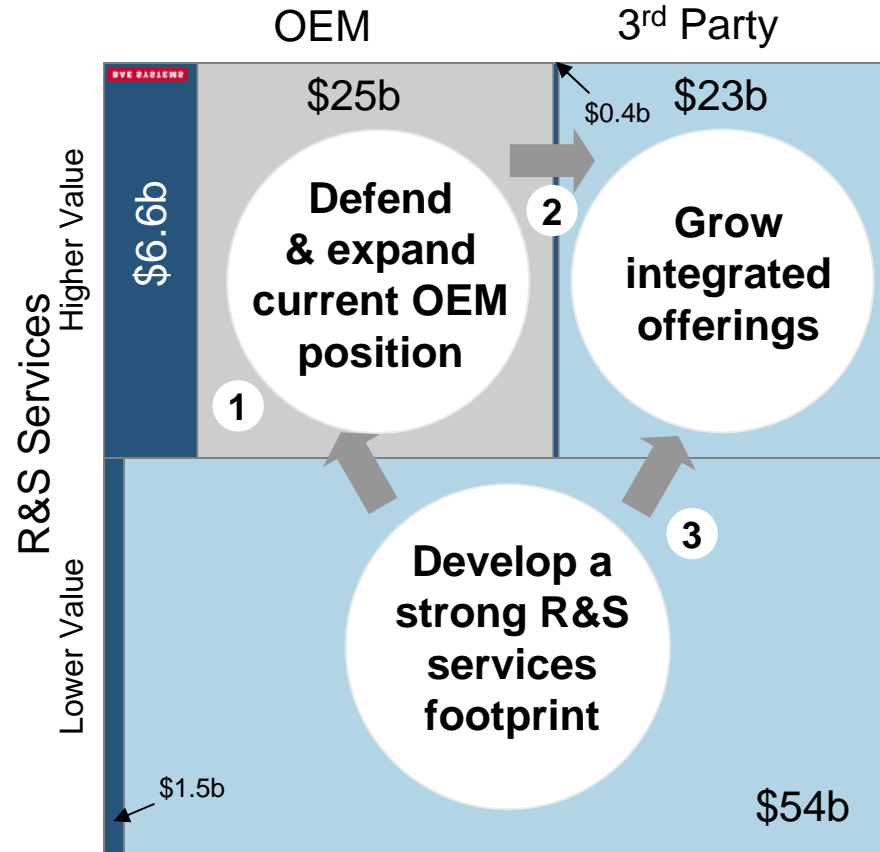
# BAE R&S Assets

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- Developed Enabling Capabilities
  - Business and Solution Modelling
  - Supply Chain and Logistics
  - Service Excellence
  - Underpinning Information Management Systems
  
- Global Awareness and Appetite
  
- Network of Best Practice
  
- Strategy (US / UK / Australia)

# \$110B+ Global R&S Market

## A **Strategy** for Growth

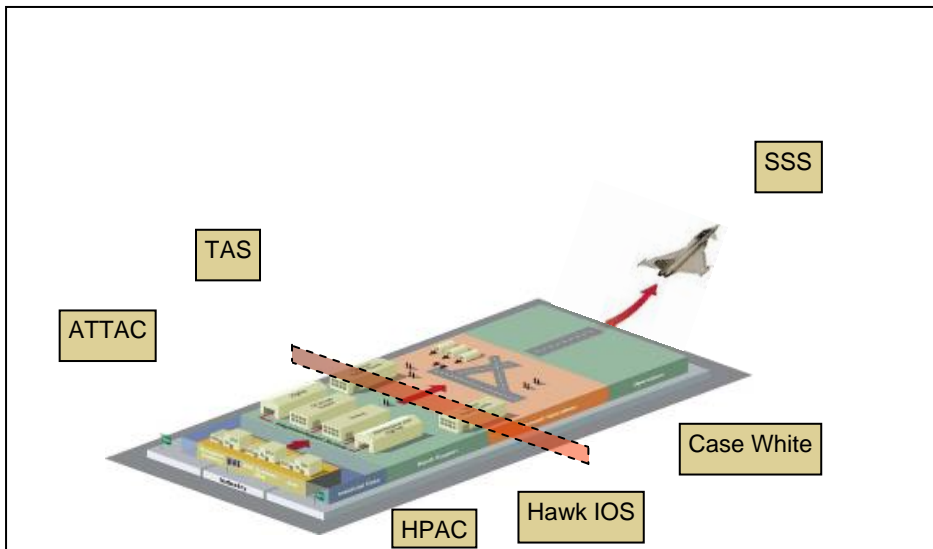


**Grow R&S leadership across all segments through a unique combination of our platform / domain experience & credible service provision, underpinned by integrated R&S capabilities**



# Transferring the learning - Salam Support Service

- Building on the experience of ATTAC, HPAC & evolving TAS
- Integrated end-to-end aircraft availability service to deliver over 3 years:
  - Forward and Depth Capability including AGE & Spares
  - Training Devices and Trained RSAF Groundcrew in Forward & Depth
  - IT Capability & Service plus Mission Data Sets



**Success Criteria**

- Clear understanding of Customer Requirement
- Key Personnel with previous Availability Contracting experience
- Good data and ability to model

# Air Sector Opportunities

- UK - Typhoon, F-35, Extended Aircraft Service Provision, Emergent UAV Service Provision
- US - F-35, Tx, 3<sup>rd</sup> Party Provision
- Australia - F-35, 3<sup>rd</sup> Party Provision
- KSA - Salam, Hawk, 3<sup>rd</sup> Party Provision

**Worldwide \$90bn of new combat air acquisition opportunities  
plus support**

# Summary

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- BAE Systems has a track record of working in relationship with Customers around the world to deliver robust readiness and sustainment
- BAE Systems has differentiating capabilities that means we can deliver coherent and effective long term support solutions
- BAE Systems offers value for money R&S Services
- BAE Systems' unique global presence means we have the people, skills and resources to deliver whatever our Customer needs, whenever they need it across the world
- Large Air Sector opportunity

# Martin Sutherland

## Detica - UK security market, capabilities and opportunities



Detica history and capabilities

UK market in security

Longer term growth opportunities

# Outline



# Introduction to Detica

**Detica provides specialist solutions to help public and private sector clients deliver effective services to citizens and customers while protecting them from harm**



- World-class expertise and innovation
  - creating intelligence from fast, complex, high-volume data at exceptional levels of performance
- Advanced solutions integration
  - business and technology consultancy, specialist products, systems integration and managed services
- Enduring customer relationships
  - combining in-depth industry knowledge with a close and collaborative working style to deliver the best possible service

# Trusted partner with governments and industry

## Key facts

- Over 30 years' experience
- Over 1,500 people
- Acquired by BAE Systems in September 2008 to transform our position in intelligence and security

## Key sectors

- Intelligence and Defence
- Law Enforcement
- Central Government
- Homeland Security
- Financial Services
- Telecommunications

## Core services

- Business and technical services
- Systems integration and managed services
- Electronic solutions

## Strategic initiatives

- Cyber Security
- Communications Interception
- Intelligence-Led Operations
- Compliance Assurance Services
- Protecting Critical National Infrastructure



# Delivering unique integrated solutions

## A global partner



Cyber security and information assurance

Border and transportation security

Countering terrorism and organised crime

## A solution integrator



Business and technical consulting

Software and electronic systems

Systems integration

Managed services

## An innovator and thought leader



Operational decision-making

Real-time situational awareness and control

Secure computing and communications

Core mission solutions

# Some of our key customers

## Secure Government



MINISTRY OF DEFENCE



Working together for a safer London



National Fraud Intelligence Bureau

## Government



United Kingdom Foreign & Commonwealth Office



Department for Transport



## Telecoms

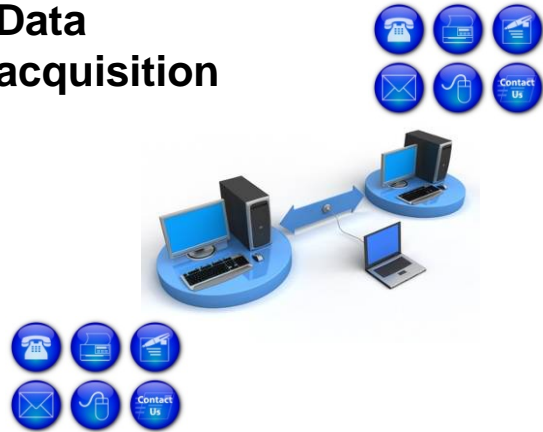


## Financial Services



# Some example projects

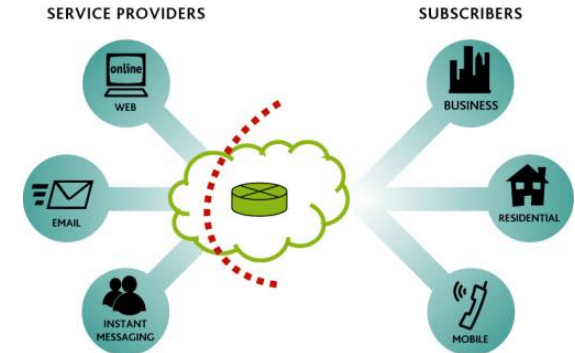
## Data acquisition



## Cyber defence for Defence Industrial Base



## Internet cleansing for telecoms

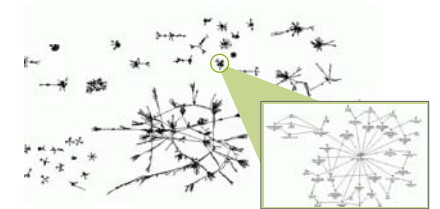


## Mobile data terminals



## HMRC tax evasion

## IFB insurance fraud detection



Example of the fraud rings detected



# Products underpin our capabilities

**Defica NetReveal<sup>®</sup>**  
DISCOVER HIDDEN NETWORKS™



**A revolution in detecting serious organised crime**

**Defica TxtReveal™**



**A major leap forward in advanced text analytics**

**DeficaESG**  
ELECTRONIC SYSTEMS GROUP



**High performance hardware for the toughest problems**

**StreamShield<sup>®</sup>**



**Making the internet a safer place for everyone**

**Defica DataRetain™**  
COST-EFFECTIVE COMPLIANCE



**Cost-effective compliance with data retention legislation**

**Defica CView™**  
GAUGING INTERNET PIRACY



**Gaining a deeper insight into Internet piracy**

Detica history and capabilities

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# Outline



# Nature of the threat

## UK National Security Strategy: Priority Risks

### Tier One

<p>Hostile attacks upon UK cyber space</p> <p>International terrorism affecting the UK or its interests</p>	<p>A major accident or natural hazard</p> <p>An international military crisis</p>
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### Tier Two

<p>An attack on the UK or Overseas Territories using CBRN weapons</p> <p>Major instability, insurgency or civil war overseas</p>	<p>An increase in level of organised crime</p> <p>Disruption to information received, transmitted or collected by satellites</p>
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### Tier Three

<p>Conventional military attack on the UK</p> <p>Significant increase in terrorists, organised criminals, illegal immigrants and illicit goods trying to cross the UK border</p> <p>Disruption to oil or gas supplies</p>	<p>Major release of radioactive material from a civil nuclear site</p> <p>Attack by a state on another NATO or EU member</p> <p>Attack on a UK overseas territory</p>
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# National Security Strategy & Strategic Defence and Security Review

*“In a world of startling change, the first duty of the Government remains: the security of our country.”*

Foreword to the National Security Strategy

## Key points

- Cyber security
  - Re-prioritisation of cyber security a key area of government focus, £650m of funding ring-fenced
- Counter terrorism
  - Ongoing commitment to intelligence agencies and continued investment in counter terrorism capabilities
- Law enforcement and organised crime
  - Strengthening police counter terrorism capabilities and exploiting synergies between CT and organised crime policing
  - Launch of National Crime Agency, Border Police Command and an economic crime ‘body’
- Counter-IED and support to Special Forces
  - Emphasis on force protection and countering IEDs as part of operational expenditure in Afghanistan
  - PM statement of significant increasing investment in Special Forces

## What it means for us

- Our IBP
  - NSS and SDSR have affirmed our view that the areas outlined in our IBP are important priorities for HMG
- US/UK synergy
  - The approach adopted by the NSS, and furthered by the SDSR, is very reminiscent of the US approach to setting strategy and policy for defence and homeland security
  - Therefore we expect closer alignment over the coming years of coalition government
  - The escalation of cyber attacks to a tier-one risk represents further alignment of thinking between UK and US administrations
- UK as an economic hub
  - The emphasis being placed on establishing the UK as an economic hub is significant
  - HMG is committed to ensuring that the entire government effort overseas must be geared to promote UK trade

# Comprehensive Spending Review

*“Britain’s deficit last year was the largest in its peacetime history at 11 per cent of GDP, and the state was borrowing one pound for every four it spent.”*

Introduction, Comprehensive Spending Review 2010

## Key points

- **Risk and compliance**
  - £900m of funding ring-fenced to combat tax fraud, evasion and avoidance while making 25 per cent efficiency savings
  - Investment in new risk-assessment technology and a cyber team
- **Single Intelligence Account**
  - Largely protected to maintain counter terrorism capabilities but 10 per cent reduction in Departmental Expenditure Limit (DEL) to £2bn in 2010/11 through efficiency savings
- **Major IT projects**
  - Increased Treasury and departmental-board scrutiny and assurance of major IT projects together with potential for programme cancellations or deferrals as departments seek to operate within revised expenditure limits
- **Efficiency-savings**
  - Renegotiation of existing contracts to achieve savings through reduction in day rates
  - Further harmonisation of rates across government departments, including the MOD

## What it means for us

- **Defence and security fare well**
  - Defence and security areas, including those that tackle fraud and compliance, and organised crime, fare much better than other areas
  - Savings are coming largely from efficiencies in back-office functions and by joining up services across agencies rather than from front-line operations
- **Short term opportunities**
  - Key areas of focus for Detica in the short term should include DWP and HMRC, targeting fraud and error in the benefits and tax system
- **Long term opportunities**
  - In the longer term, negotiations may lead to new opportunities to transform government services through better use of IT – for instance, making much more widespread use of data analytics for risk management and compliance (targeting Home Office, Justice, HMRC and DWP)
  - Provision of managed services will become key

Detica history and capabilities

UK market in security

Longer term growth opportunities

# Outline



# The security strategy in summary

## 1 Security in the UK

- HMG remains concerned about security and integrity of systems (cyber, border, benefits system, national grid)
- Spending cuts and focus on use of technology to drive efficiencies is an opportunity
- Interest in creation of public-private sector mutuals to outsource key issues, e.g. tax fraud

## 2 Global security business

- Overseas markets have significant security budgets and are investing in new capabilities...
- Emerging economies are upgrading security on the back of high-threats and infrastructure investments
- Target markets include India, Oman, as well as US, Australia, KSA

## 3 Sovereign IP will be at the heart of the strategy



# Core propositions for security franchises

REPOSITION IN THE UK	INNOVATION	INTERNATIONAL
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<b>Cyber Security</b>	<b>Communications Intercept &amp; Surveillance</b>	<b>Intelligence-Led Operations</b>	<b>Financial Crime &amp; Compliance</b>	<b>Protecting Critical National Infrastructure</b>
<p>A cyber solutions and services business offering advice, monitoring, remediation and next generation IT security. Trusted partner to Government and blue-chip clients</p>	<p>A global business for specialist and mainstream intercept. We provide monitoring and data-retention solutions for next generation surveillance needs and telco compliance</p>	<p>A global business providing real-time front and back office analytics capabilities and secure mobile communications to a range of civil government, law enforcement and military clients</p>	<p>A top-tier global counter-fraud, anti-money laundering and financial compliance business, serving the financial services sector and government FIUs</p>	<p>A leading provider of services and solutions for the civilian and homeland security markets, including situational awareness, risk management, training &amp; operations</p>



# Vision of our business in 2015

- Shift from domestic market focus to international focus
  - Our business will feel much more international – not necessarily a home market model
- Need to build up export business so it becomes significantly bigger than UK business
  - We have a common set of tools, methods used across all home markets to enable us to do this (franchise model)
  - Continue to invest in Intellectual Property to underpin franchise model
- Future vision will also need investment in areas that aren't current home markets – e.g. Brazil (principal country with security spending), whole of Middle East
  - Winning work locally and ability to deliver services will require significant BAE Systems investment

**BAE System's security organisation competing effectively, globally**

# Q&A

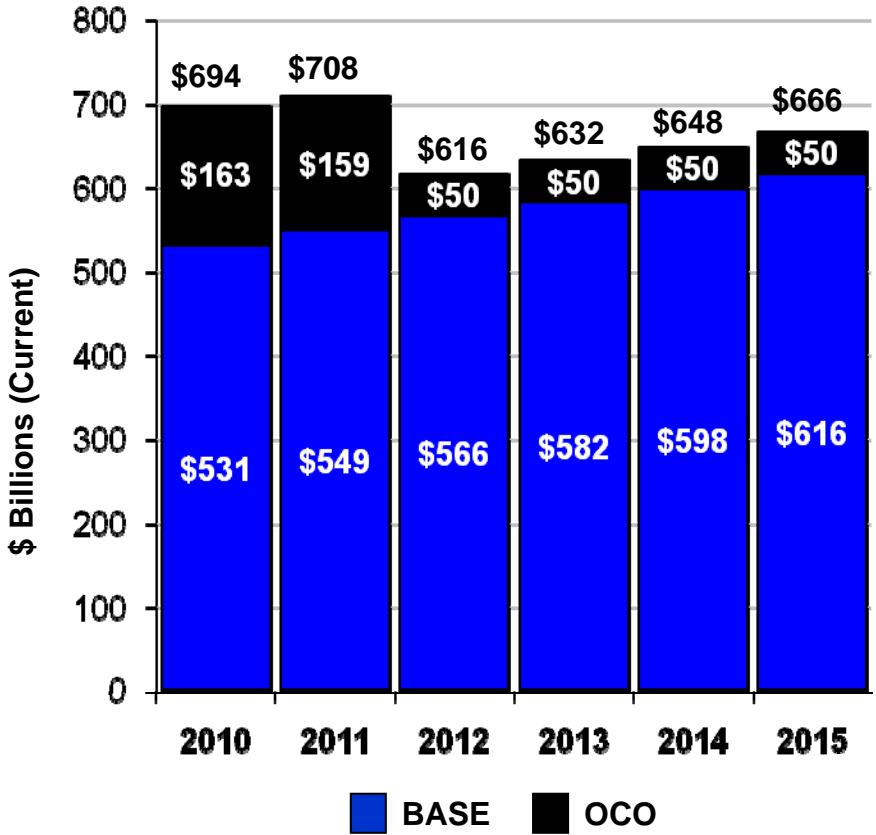


**Linda Hudson  
BAE Systems, Inc.  
US Defense Environment**



# U.S. Defense Budget – Official Plan

Future Years Defense Plan (FYDP) FY11-FY15

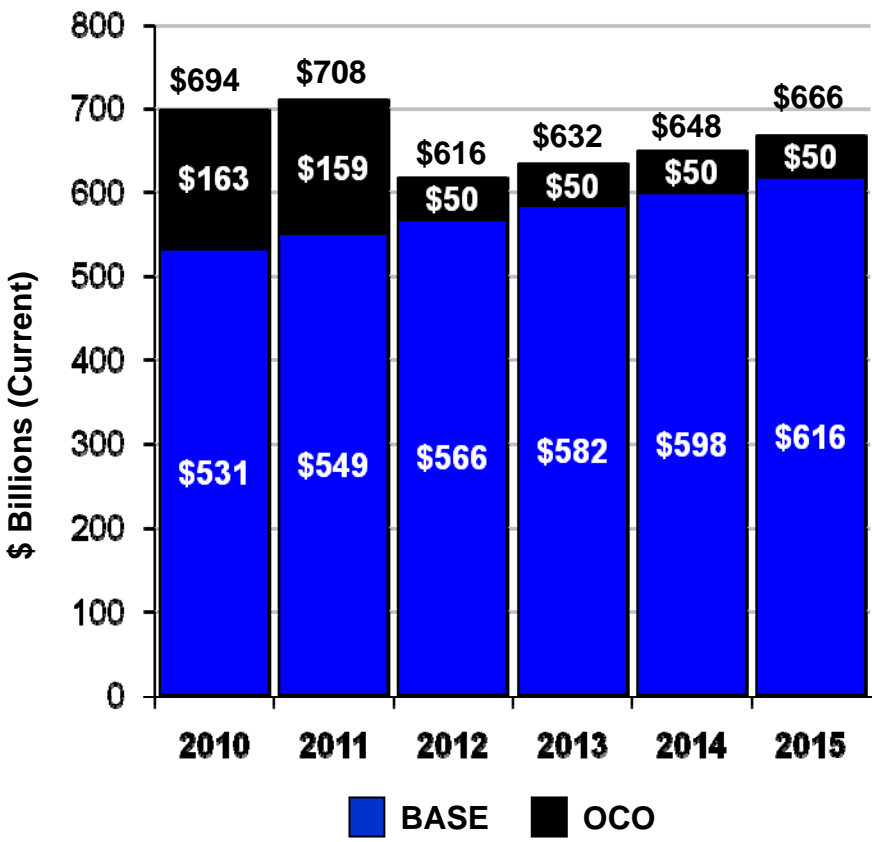


- World’s largest defense budget
  - Base doubled since 2000
  - 45% of global total
  - 1.5 times that of next 10 combined
  - 14 times that of United Kingdom
- Base budget grows 3% through 2015
  - Military personnel grows by 2.6%
  - O&M grows by 5.3%
  - Investment grows by 1.9%
- 2012 - 2015 OCOs are placeholders
  - Driven by Iraq/Afghanistan
  - 2012/2013 likely insufficient

Despite flattening, U.S. Defense Budget remains robust.

# U.S. Defense Budget – Factors to Consider

## Future Years Defense Plan (FYDP) FY11-FY15



- Political shift
- Economic pressures
  - Deficit reduction
  - Healthcare costs
- World events
  - Declining support for Afghanistan
  - Terrorist threats
- Aging equipment
- DoD efficiency initiatives
  - Productivity incentives
  - Affordability focus
  - Increased competition
  - Reduced bureaucracy
  - \$100B?

# U.S. Defense Budget - Areas of Growth

## Areas of above market growth remain inside a flattening budget



- Readiness and Sustainment

- Need to upgrade existing platforms as investment slows
- Market significant at \$100B per annum



- Intelligence and Security

- DoD and agency budgets expected to grow 7.5% CAGR
- Intelligence analysis remains in high demand
- Cyber security major focus in Quadrennial Defense Review



- Electronics (ISR)

- Key to counter-insurgency, stability, and counter-terror
- Data collection linked to data analysis
- Manned and unmanned platform upgrades

BAE Systems positioned in “fast lanes” – affordability will be key.

# Project Evolution - Facing the Challenge

## Why?

- Competitiveness increasing
- Contract decisions being made on cost alone
- Contract losses
- Further budget challenges expected

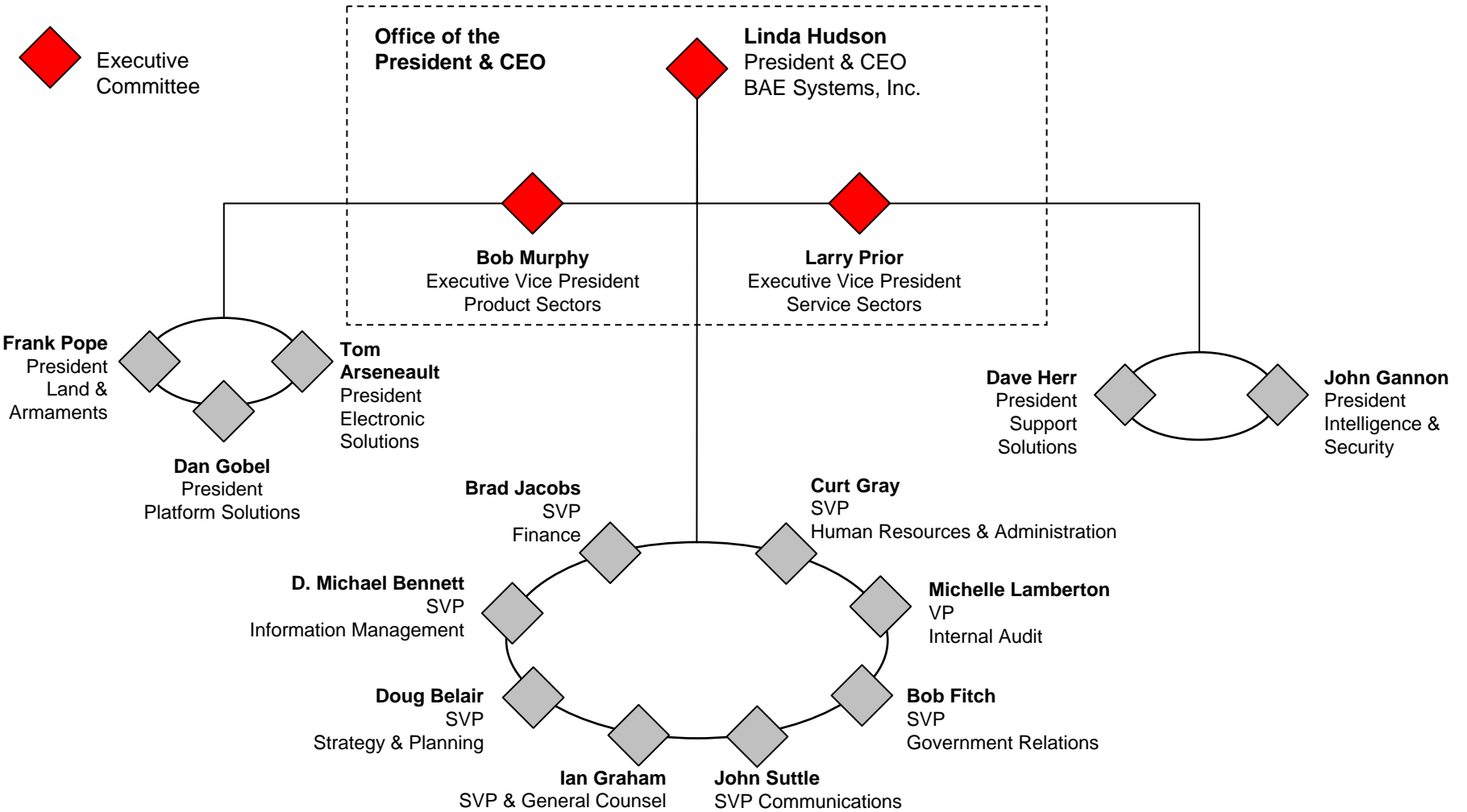
## Process

- Analyze layers/ spans of control
- Focus on key markets
- Streamline for agility
- Benchmark world-class companies
- Promote/retain key employees

## Outcomes

- Eliminated one layer of management
- Increased span of control
- Established five market-focused sectors
- Consolidated systems/ data centers
- Implementing shared services – Finance & HR
- Reduced overhead costs

# BAE Systems, Inc. Senior Leadership Team



# Larry Prior US Security Business

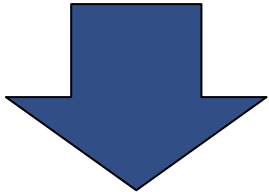


# Headlines for US Security Sector

- **The market is substantial....**
  - \$40B unclassified budget, larger classified budget
- **The market is resilient....**
  - Intelligence is a traditional safe-haven during DoD cuts
- **The market is growing**
  - Expected to grow, on average at 7.5% CAGR through 2015, there are also fast streams that will exceed average growth
- **The market is still being shaped**
  - Most competitors are new entrants
  - Opportunity to make the market and set requirements - helping clients solve problems with innovative, smart solutions

**BAE Systems is positioning to grow with the market**

# Understanding Our Customers



**White House National Security Strategy (May 2010)**

**DNI's National Intelligence Strategy (Sept 2009)**

**DoD's Quadrennial Defense Review (Feb 2010)**

**DHS Quadrennial Homeland Security Review (Feb 2010)**

## Common capability needs emerge :

- Analysis, Targeting and Support to Operations
- Knowledge Management and Information Sharing
- Cybersecurity
- Identity Management
- Collection and Information Capture
- Training

**Innovation, service delivery and an unparalleled understanding of our customer's mission underpin our capabilities and offerings**

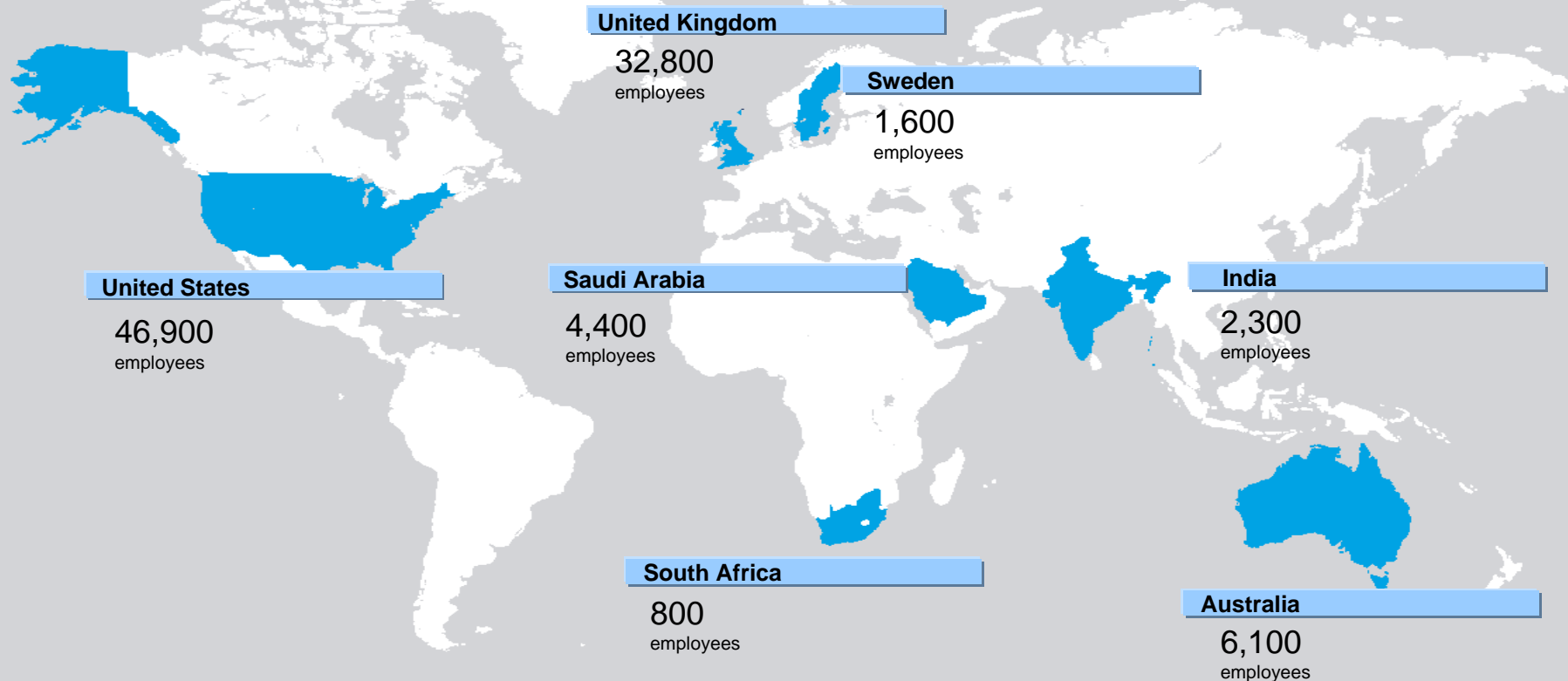
# Understanding Our Strengths

- BAE is a pure play national security global competitor
- Building on 30 years experience in managing security systems and solutions both at home and abroad
- The US/UK Special Relationship finds substance in Intelligence and Security
- Workforce possesses diverse security credentials to meet all security solution requirements
- Our Home Markets approach allows a focus on national interests, while facilitating collaboration and support to emerging market of joint requirements

**BAE Systems is an experienced supplier of security solutions**

# Leveraging the Group's Global Position

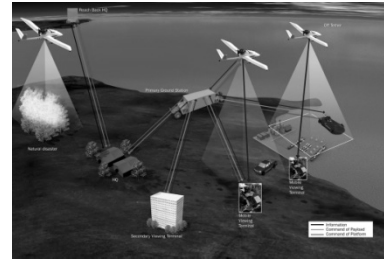
Developing a global Business...



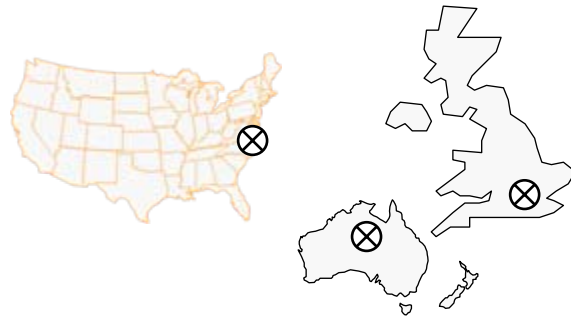
**A unique transatlantic position – with leading, tier 1 positions in both the US and UK – and established home market positions across a further five countries provides BAE Systems leverage**

# Understanding the Opportunity

- Success requires a strategic, targeted approach
- Key fast streams for growth identified to include:
  - C4ISR, UAS, TPED
  - The “Counters”
  - Border Security
  - Critical National Infrastructure Protection
  - Cyber Security
- Support to operations with mission success as our goal

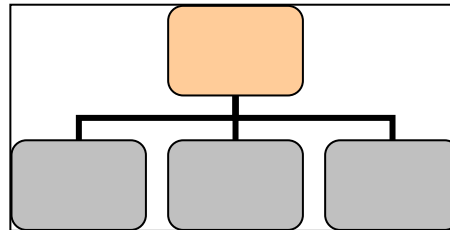


# Focusing on Cyber as a Priority



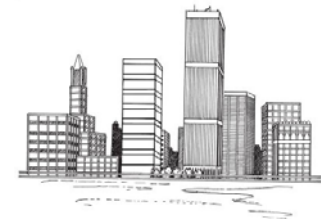
- BAE Systems is presently positioned at the heart of the secure government market in the US and UK and Australia
- Addressing the US and UK's requirements for interoperability, BAE Systems is assisting governments in solving high-end problems and working together
- The US/UK special relationship remains an indispensable technical alliance for both countries in addressing the threat

**Dual-use Technologies and Information Sharing**



- The secure government arena are setting the agenda for the wider federal /civil government markets
- BAE Systems is positioning to address these requirements with scalable, cost-competitive solutions, across a variety of sophistication levels from general information assurance to active defense solutions

**Dual-use Technologies and Information Sharing**



- Government is set to significantly increase security requirements for industry – to include the defense industrial base, ISPs and others
- Requirements will soon extend to include banks and other mainstream industries
- BAE Systems is already providing services and is ready to grow in this developing market

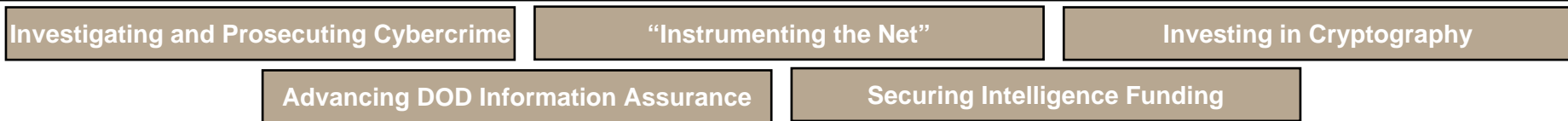
**BAE Systems is adopting a long-term strategy in cyber, assisting our customers in meeting their advancing requirements**

# Comprehensive National Cybersecurity Initiative

## The 12 Interdependent Initiatives and Responsible Agencies

1	Develop Trusted Internet Connections	Limit the thousands of Internet access points to Federal civilian networks to 50 or less; expand DHS US-CERT with a 24/7 capability; support e-Gov initiatives	DHS/OMB
2	Deploy Passive Sensors Across Federal Systems	Upgrade DHS's EINSTEIN program by deploying passive sensors across the Federal enterprise to provide intrusion detection and situational awareness	DHS
3	Develop and Deploy Intrusion Prevention Systems	Move EINSTEIN from detection to prevention by developing a robust intrusion prevention system that dynamically assesses and blocks access in near real-time	DHS/NSA
4	Coordinate and Redirect R&D Efforts	Improve coordination of existing classified and unclassified Federal research and fund new high-risk, high-reward, game-changing technological pursuits	OSTP
5	Connect Cyber Centers to Enhance SA	Ensure that US-CERT (DHS), JTF-GNO (DOD), NCIJTF (FBI), NTOC (NSA), and other cyber centers are fully connected in order to share data	DHS/ODNI
6	Develop a USG Cyber Counterintelligence Plan	Ensure the Nation's counterintelligence plan accounts for new threats in the cyber environment	NCIX/FBI
7	Increase the Security of Classified Networks	Identify national security and mission critical systems; improve risk assessments; coordinate incident detection programs; and share vulnerability information	DOD/ODNI
8	Expand Cyber Education	Enhance our cyber education and career development programs to build a cadre of cybersecurity experts	DHS/DOD
9	Develop Leap-Ahead Technologies and Programs	Identify ways to accelerate R&D in high-risk, high-return areas, working in close cooperation with private sector partners to jumpstart technical transformation	OSTP
10	Develop Deterrence Strategies and Programs	Implement programs that develop alternative constructs for warning and communication of red lines and appropriate responses to our Nation's adversaries	NSC/ODNI
11	Develop Approach for Global Supply Chain Risk Mgmt	Develop a multi-pronged approach for global supply chain risk management based on sound acquisition policies, international standards, and best practices	DHS/DOD
12	Define Federal Role for Protecting CI/KR Domains	Identify new mechanisms for the government and industry to share lessons learned and – when possible – relevant technologies	DHS

## Enabling Activities



# Driving Organic Growth

- A US heritage as a premier electronic, intelligence and support solutions
- A position among the top, largest providers of managed information technology services
- Core customer experience and leading technology solutions
  - Analysis and targeting
  - Imagery processing that supports geospatial intelligence and TPED
  - Knowledge management that couples deep domain analytical expertise with networking and IT skills
- An approach to fast stream business and a focus on cyber security which accounts for the full spectrum of customers and solutions

**BAE retains significant competitive advantages to drive organic growth**

# Cyber Acquisition

- Cyber acquisitions will be small and focused
- Consolidation of the security services industry will accelerate to create opportunities and we will gain
  - technology
  - contract positions
  - customer intimacy and access
- Limitations exist but are often over-stated
  - OCI affects a small and narrow market with little impact to BAE
- L1 Intelligence Services acquisition provides case study

**Value propositions are available in the security sector despite some high multiples**

# Conclusions

- US security market is area for real growth
  - Initial growth in Federal market, but new opportunities in critical infrastructure
- Headwinds exist but are manageable
  - Top line pressure still allows for "fast lane" opportunities
  - In-sourcing countered by long term cost and demographic pressures on the government workforce
- Must be strategic and targeted in approach
- Opportunities exist for agile, innovative companies able to offer leading technologies and solutions

**BAE Systems is well positioned to grow with the market**

# Bill Clifford

## US naval sustainment



# Leading Market Position in U.S. Navy Surface Ship Repair and Modernization



## Full Service Shipyard Capabilities

Drydocks, Piers, Cranes  
Skilled Workforce  
Significant Production Facilities  
Organic QA and Engineering

## Executing our Maritime Strategy

- Vested in every USN Surface Ship class
  - Located in all major USN homeports
- Unrivaled customer trust and confidence

# BAE Systems Ship Repair Facilities

## Norfolk

1,400 Personnel

**Acres:** 109 (Owned by BAE Systems)

**Drydocks:** 52,500-ton and  
14,000-ton

**Piers:** Four (3,015 ft.)

## San Diego

1,500 Personnel

**Acres:** 17 (Leased from Port of San  
Diego) 3 acres (Owned by BAE Systems)

**Drydock:** 26,000-ton

**Piers:** Four (2,800 ft.)

## Mayport

400 Personnel

Collocated with Mayport Naval Station

Direct access to USN customer

**Acres:** 2.56 (Leased from USN)

## Hawaii

350 Personnel

Embedded in Pearl Harbor Naval SY

**Acres:** 2.5 (Leased from USN)

**Drydock:** Graving Dock #4

# BAE Systems Ship Repair Facilities

## Jacksonville

Acres: 101  
500 Personnel  
(Owned by BAE Systems)  
Drydock: 13,500-ton  
3 Marine Railways: 1000-4000-ton  
Piers/Wharf: Three/One (1,600 ft.)

## Mobile

Acres: 101  
500 Personnel  
(Owned by BAE Systems)  
Drydocks: 46,400-ton and  
12,000-ton  
Piers: Four (7,243 ft.)

*Strategically Located*  
to support  
government and  
commercial maritime customers

5,000 Employees  
Eight Drydocks

## San Francisco

Acres: 21.1  
250 Personnel  
(Leased from Port of San Francisco)  
Drydocks: 66,000-ton and  
14,500-ton  
Piers: Two (2,557 ft.)

Three Marine Railways  
17 piers  
716 acres

## Moss Pt. (MS)

50 Personnel  
Skilled multi-crafted fly away teams  
offshore structural and piping repair  
Supporting Energy Industry

# Customers / R&S Availabilities / Programs

U.S. Navy

Military Sealift Command

Maritime Administration

U.S. Coast Guard

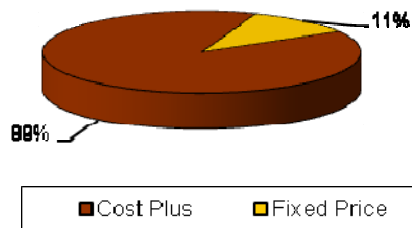
U.S. Army

Off Shore Energy Industry

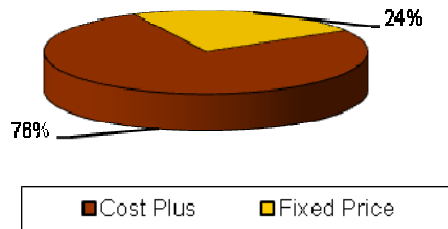
Commercial Maritime



Contract Type - Legacy Ship Repair - 2010



Contract Type with Atlantic Marine - 2010



## R&S Availability Packages

- Complex Overhauls
- Modernization Availabilities
- Dry Docking Availabilities
- Pierside Availabilities
- Fitting Out Availabilities
- Foreign Military Sales Ship Transfers
- Continuous Maintenance
- Emergent Repairs

## Programs



**CG**



**DDG**



**FFG**



**LSD/LPD/LHA/D**



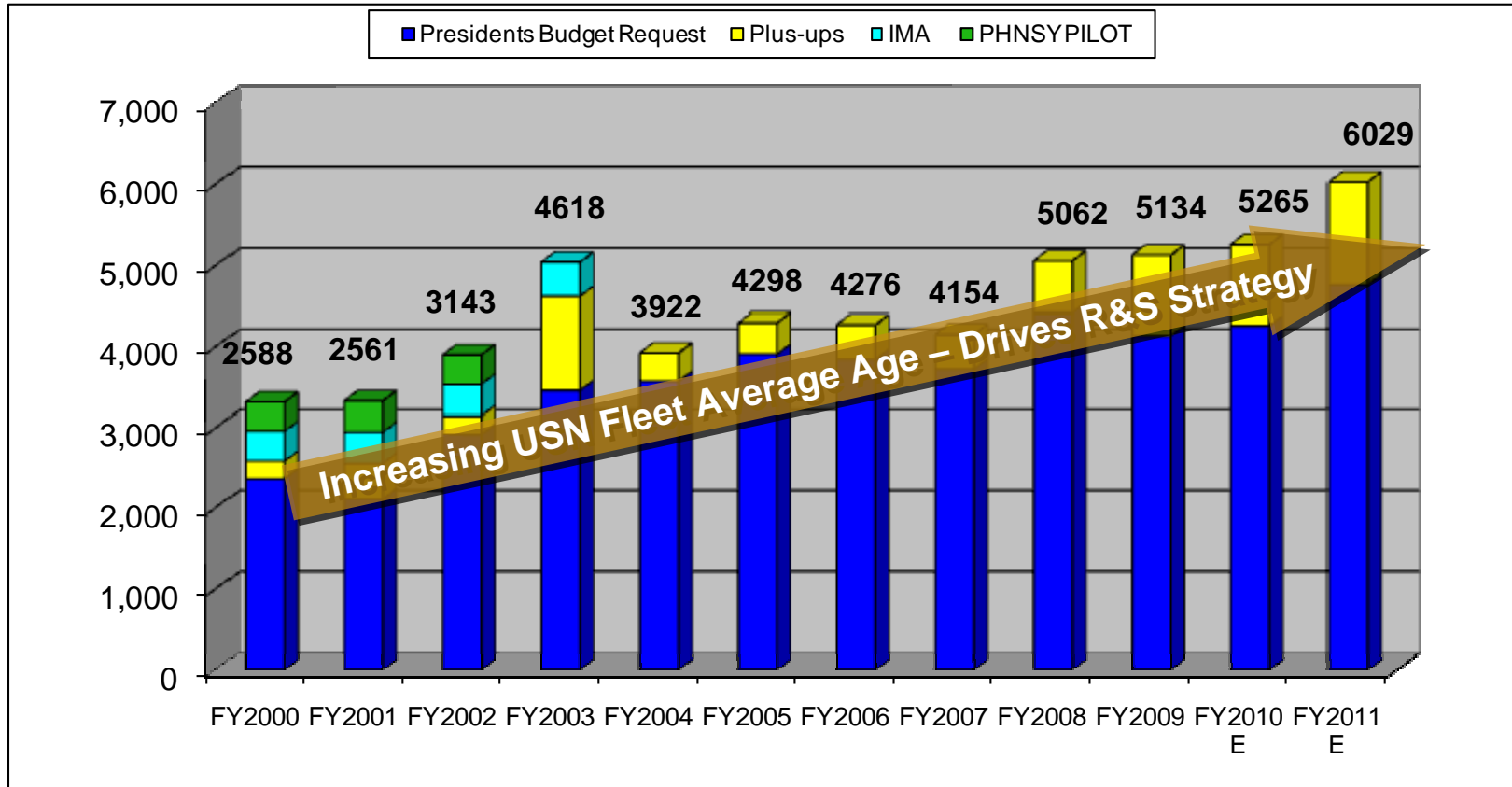
**CVN**



**MCM**

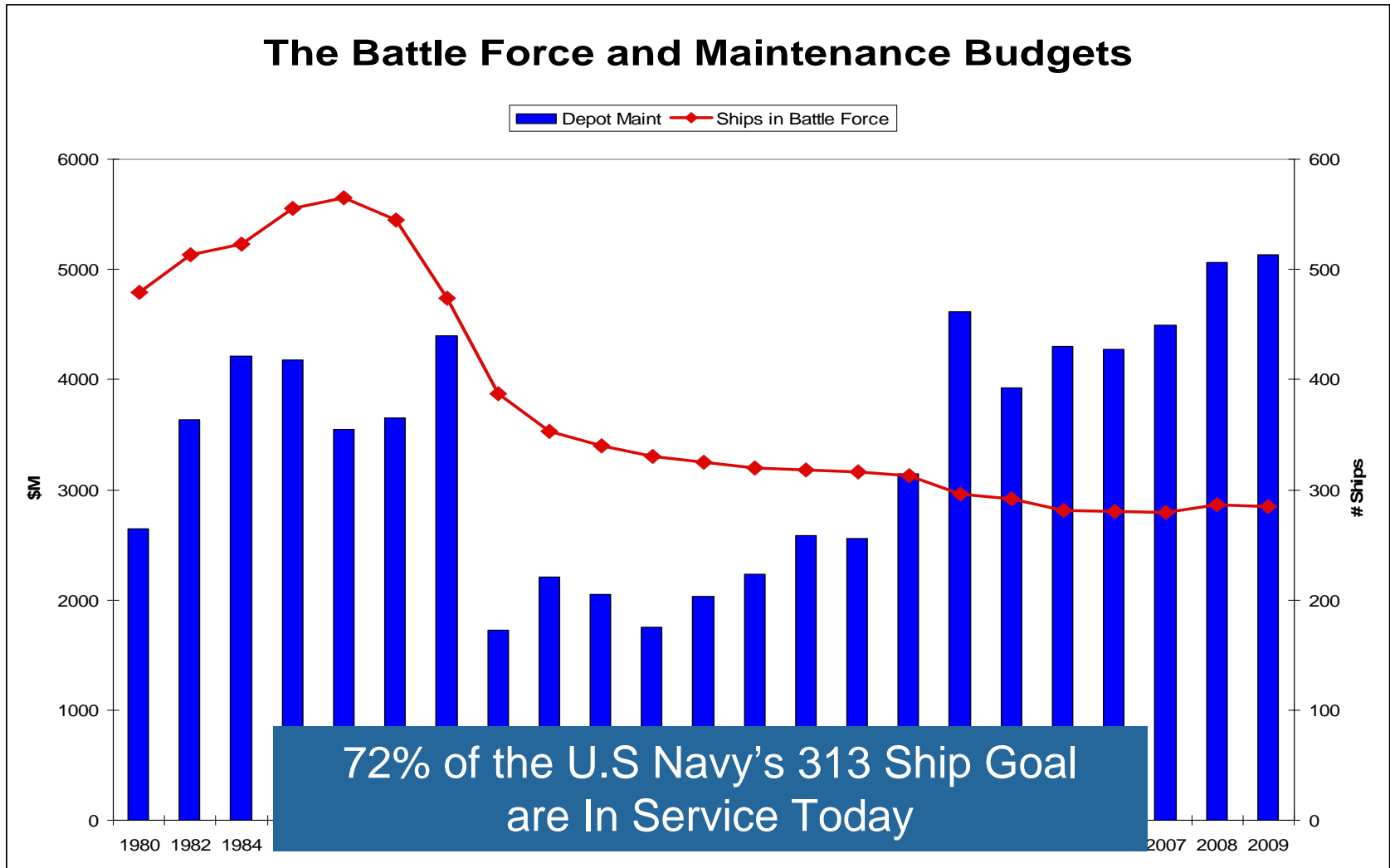
# Ship Depot Maintenance Budgets

- Funds all Public, 2 Private Nuclear yards and all Private Non-nuclear yards



Proactive Support of Navy Budget on Capitol Hill

# Historic Fleet Size and Maintenance Funding Trends



# Multi-Ship Multi-Option (MSMO)

## – Primary USN R&S Vehicle

- Multi-Ship, Multi-Option – Foundation of our Maritime Strategy
  - By Homeport and Ship Class – One Year Base + Four Options (except Hawaii/Mayport)
  - Proposals/Awards on San Diego and Norfolk Contracts in Progress
- Scope – Readiness and Sustainment
  - Planning and Scheduling
  - All Maintenance, Repair, and Modernization
  - Integration of all Third Party Activities
  - Maintenance Periods
    - Depot Maintenance
    - Continuous Maintenance
    - Emergent Maintenance
  - Support Surge Ops (Haiti)
- Award Fee Structure
  - Cost Plus Award Fee (CPAF)
  - CPAF → Hybrid CPAF/Incentive Fee



# MSMO Objectives - Navy/Industry Team

## MSMO Program: Summary



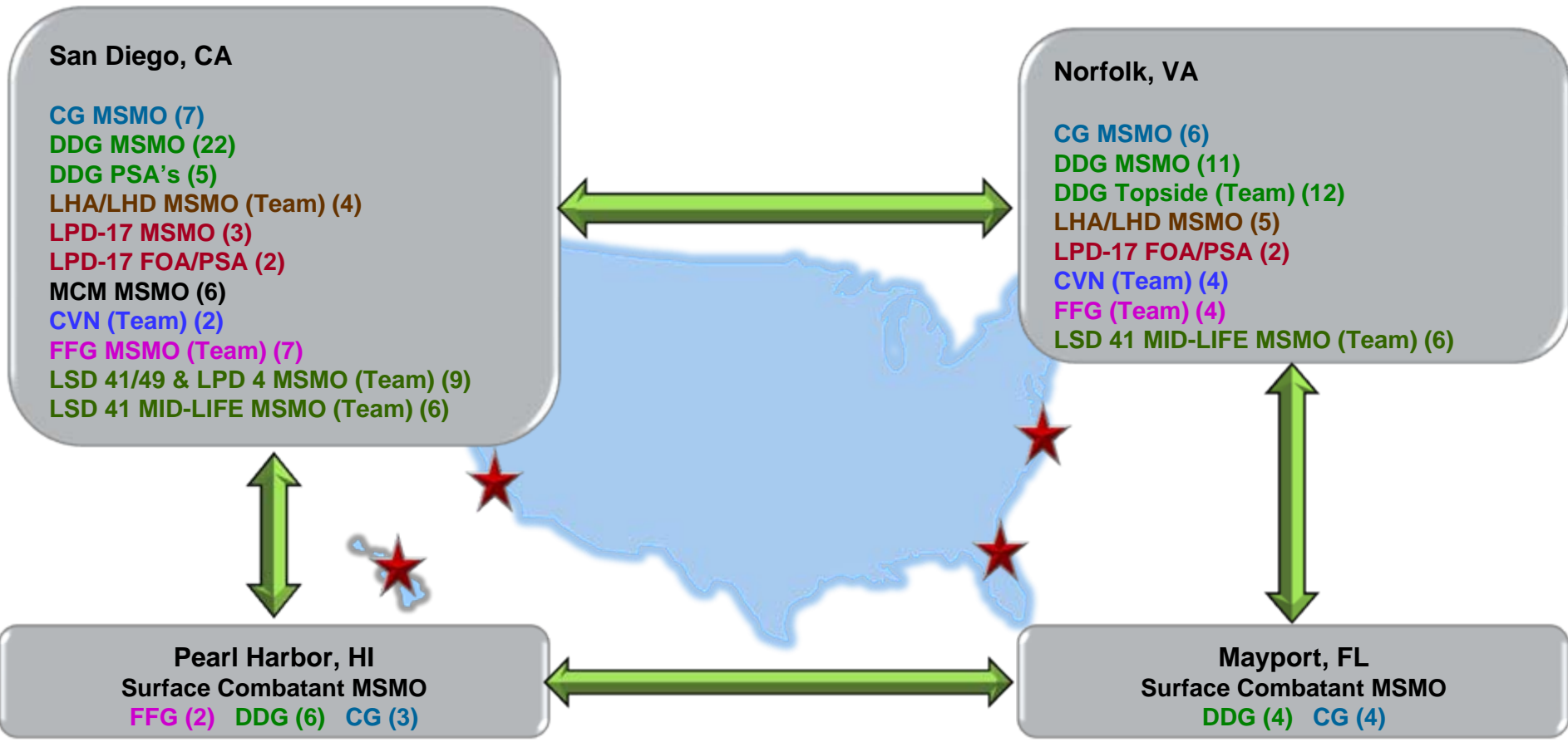
### In Summary...

- Navy fully committed to MSMO – it fits our operating concept
- MSMO Program Objectives being met:
  - MSMO demonstrates it effectively supports Operational Availability (Ao) and Surge Readiness
  - MSMO demonstrates it provides critical Business Base & Industrial Stability
  - MSMO demonstrates it enables cost reduction and allows for long-term investment
- MSMO Metrics Working Group focused on consistency across all Home Ports

-Rear Admiral Jim McManamon  
*MSMO Brief to HASC/SASC Professional Staff Members*

# BAE Systems Ship Repair:

*MSMO Trusted Partner*

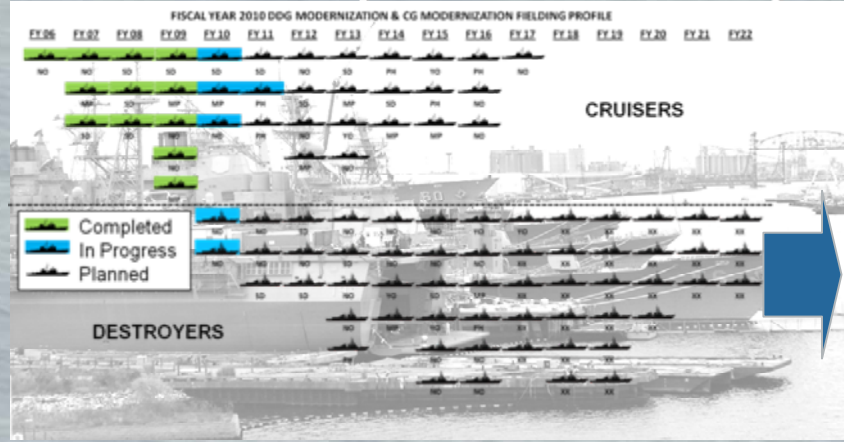


**BAE Systems Ship Repair is impacting the Readiness and Sustainment (R&S) of every Surface Ship Class in the Navy**

# AEGIS Modernization – Mid-Life Class Upgrades

- *Sustain Force Structure*
- *Meet the Emerging Threat*
- *Upgrade Technology*
- *Extend Service Life*
- *Improve Crew Quality of Life*

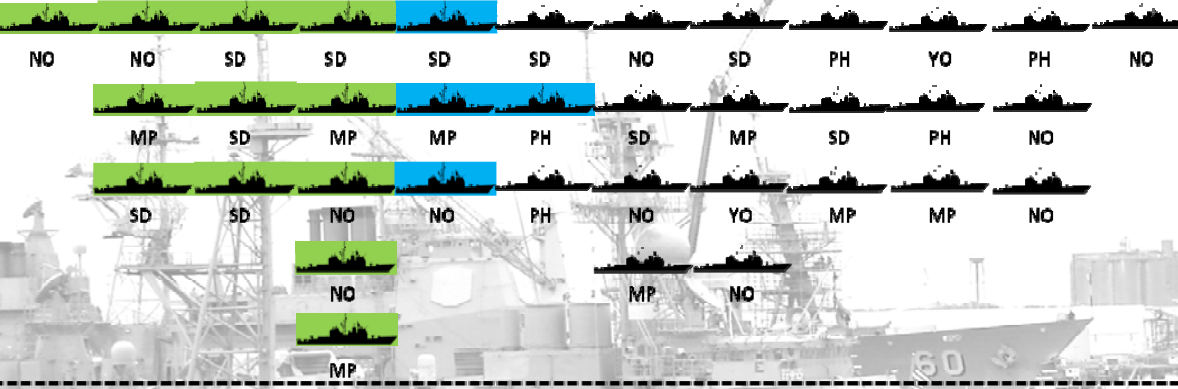
- Mid-Life Recapitalization to both CG-47 Class and DDG-51 Class
- Program Includes 22 Cruisers and 65 Destroyers
- Successfully Completed 12 CG Mods
- BAE Systems executing 4 CG and 2 DDG Modernizations



# AEGIS Modernization Program of Record

**FISCAL YEAR 2010 DDG MODERNIZATION & CG MODERNIZATION FIELDING PROFILE**

**FY 06** **FY 07** **FY 08** **FY 09** **FY 10** **FY 11** **FY 12** **FY 13** **FY 14** **FY 15** **FY 16** **FY 17** **FY 18** **FY 19** **FY 20** **FY 21** **FY 22**

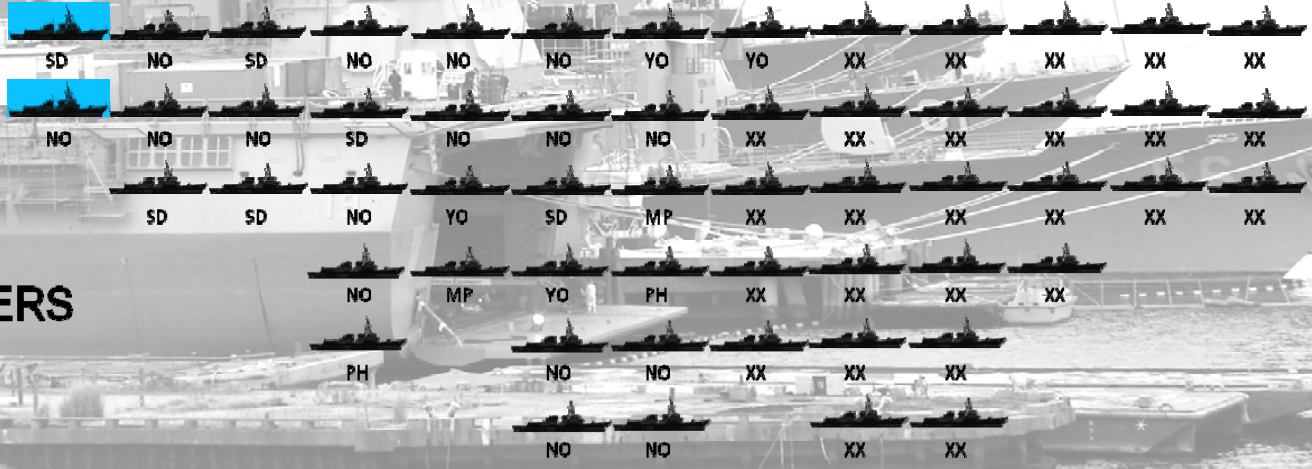


## CRUISERS

Completed

In Progress

Planned



Extend to cover all DDGs

## DESTROYERS

Each Modernization Availability ~ \$40M

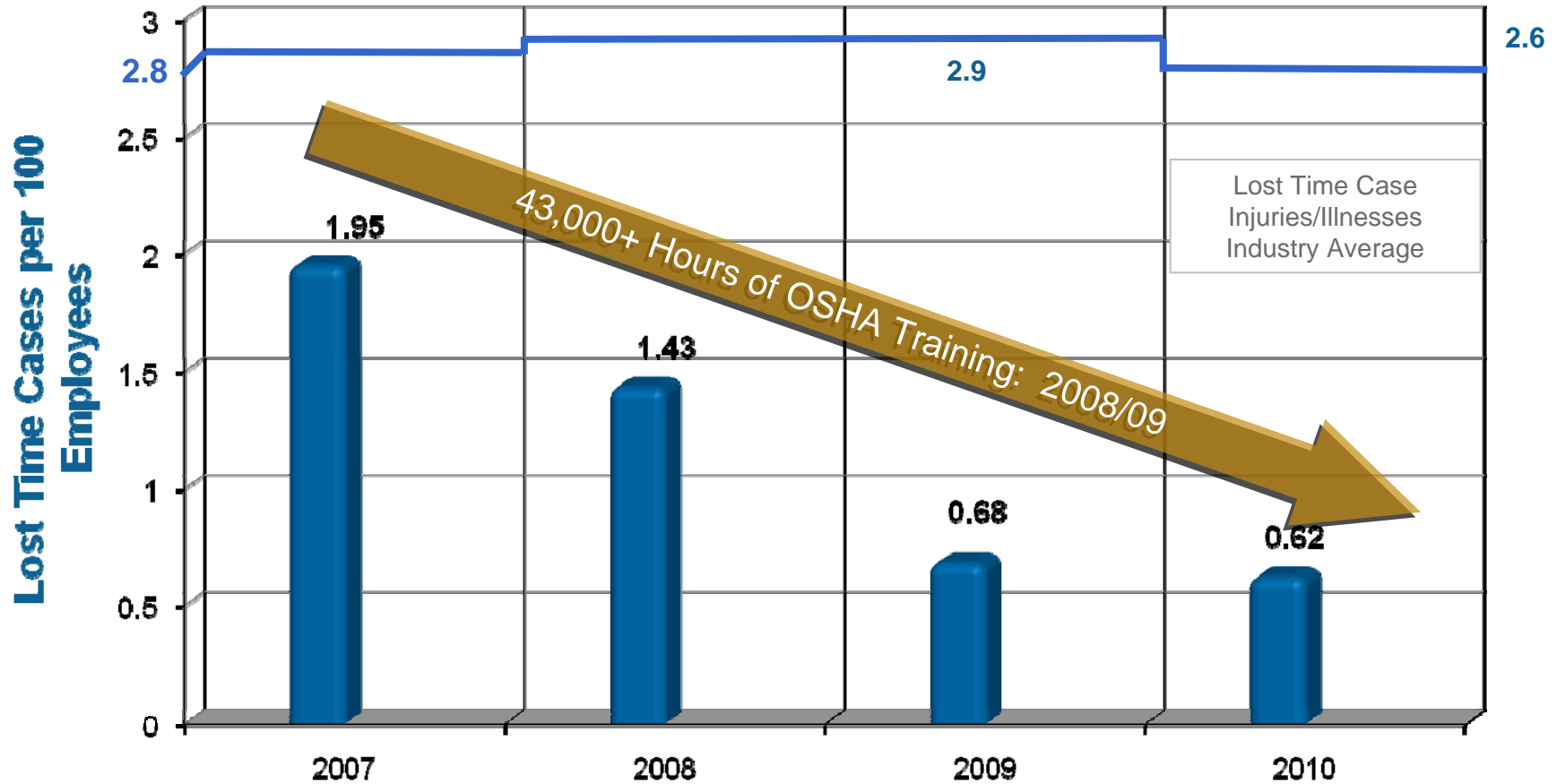
# MSMO Technology and Logistics (R&S) Initiatives

- **Aluminum Welding**
  - Partner with NAVSEA & ALCOA
- **Shaft Refurbishment**
  - Capital Investment for CG Spares
- **Fiber Optic Installations**
  - Aircraft Industry Best Practices
- **Stability Improvements**
  - Cable Way Improvement Program
- **Coating Systems**
  - Intersleek
  - Fast Clad



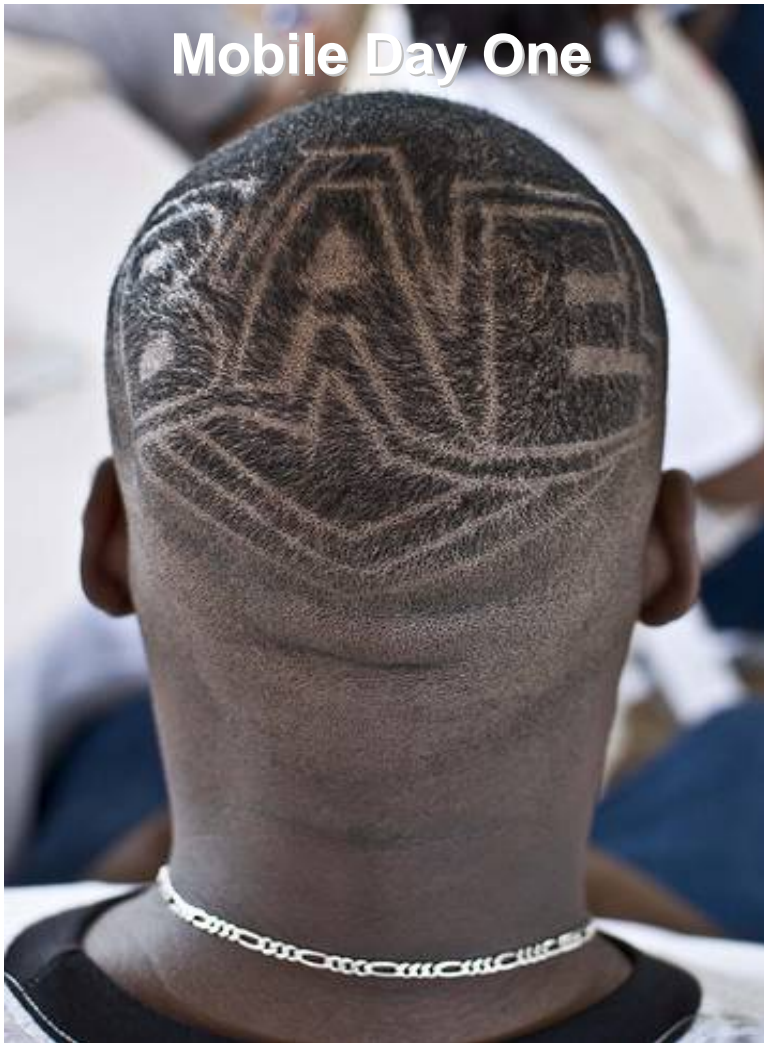
BAE Systems Ship Repair is leading technology insertion to reduce costs and Increase Service Life Expectancy → Key Discriminator

# “Anchored in Safety”: *Improving Safety Across the Industry*



Exceeding industry standards: 68% improvement in lost-time cases from 2007 to 2010

# Committed Employees → Satisfied Customers



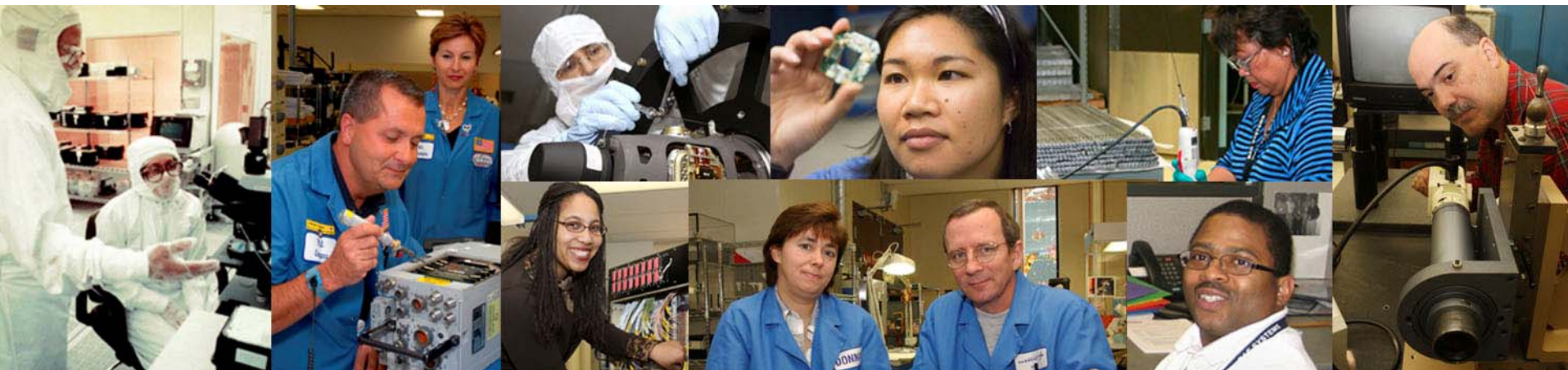
# Take Aways

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## BAE Systems Ship Repair:

- Largest non-nuclear ship repair, maintenance and modernization company in the US
- Expanded to all major Navy homeports
- Holds majority of Navy Surface Combatant repair and modernization contracts
- Best positioned to execute the Navy's modernization and service life extension programs

# Tom Arseneault Electronic Solutions



# Electronic Solutions Business Areas

**Communications & Network Solutions**



**Electronic Combat Solutions**



**Survivability & Protection Solutions**



**Technology Management**



**Soldier & Vehicle Solutions**



**Intelligence, Surveillance & Reconnaissance Solutions**



# Electronic Solutions Strategic Business Model



# Joint Strike Fighter



# Compass Call



**ATIRCM**



# Thermal Weapon Sight



# CROWS



**Check-6<sup>®</sup>**



# Laser Targeting Locator Module



# SkeetIR™



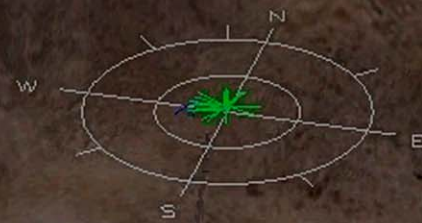
# Link 16



# Hostile Fire Indicator System



# Persistent Surveillance



Latitude -0:00:05.5  
Longitude 0:00:03.0  
Altitude 48.80

# Final thoughts

- We are focused on the “Fast Lanes” in an otherwise flat market
- Innovative technology management coupled with deep mission understanding provides focus for investments resulting in responsive product offerings
- M&A strategy, which targets gap filling technologies, will augment capabilities and support market share take away

**Electronic Solutions is poised to out-perform the market**

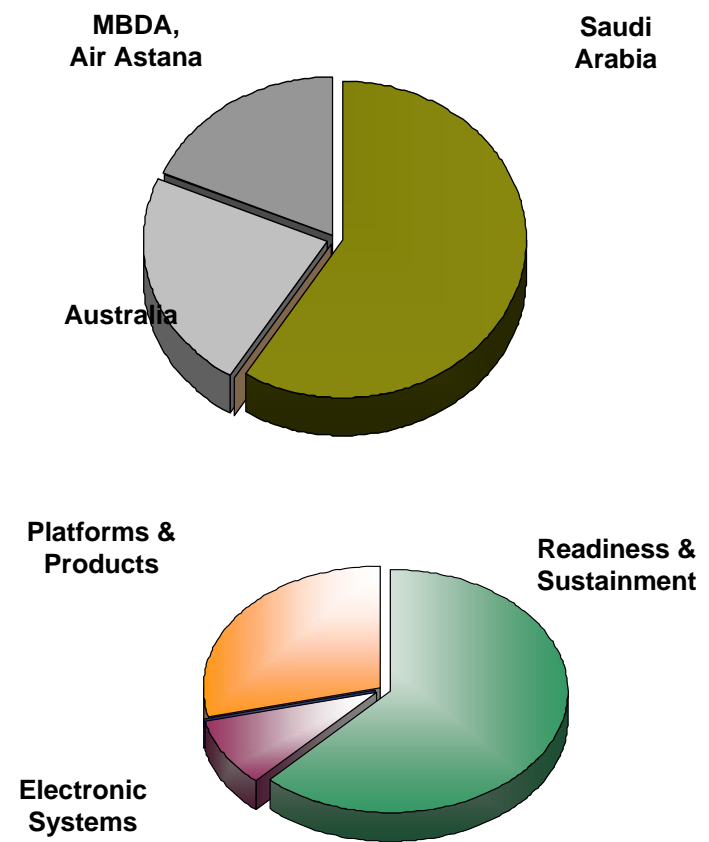
# Guy Griffiths International Operating Group



# In Year Financial Performance

	First Half 2010	First Half 2009
<b>Sales</b>	<b>£2,078m</b>	<b>£1,416m</b>
<b>Underlying EBITA</b>	<b>£218m</b>	<b>£160m</b>
<b>Margin</b>	<b>10.5%</b>	<b>11.3%</b>
<b>Order book</b>	<b>£9.6bn</b>	<b>£10.8bn</b>
<b>Cash flow</b>	<b>£(553)m</b>	<b>£122m</b>

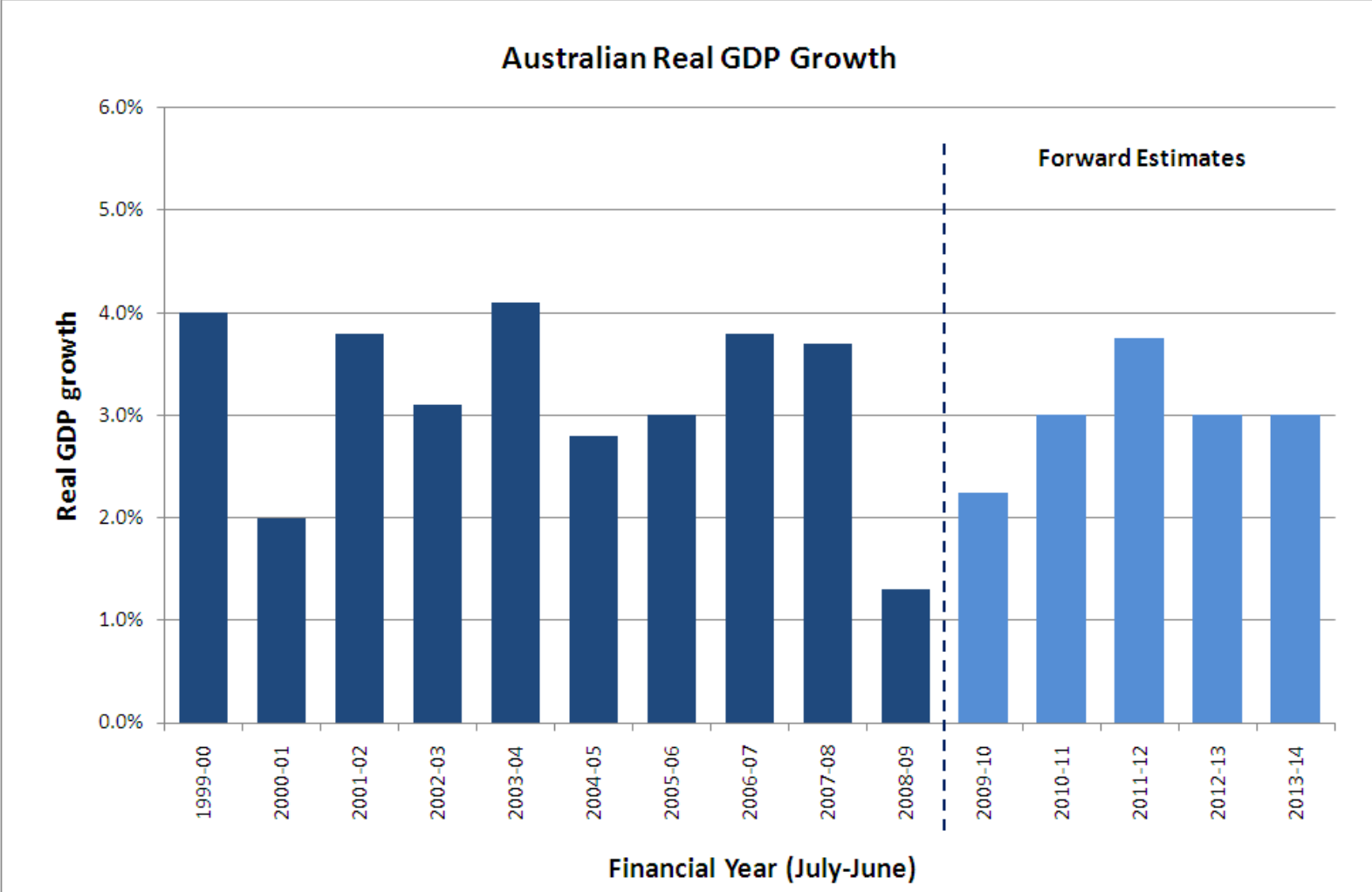
**SALES**



# Australia



# Australia GDP



# Reform

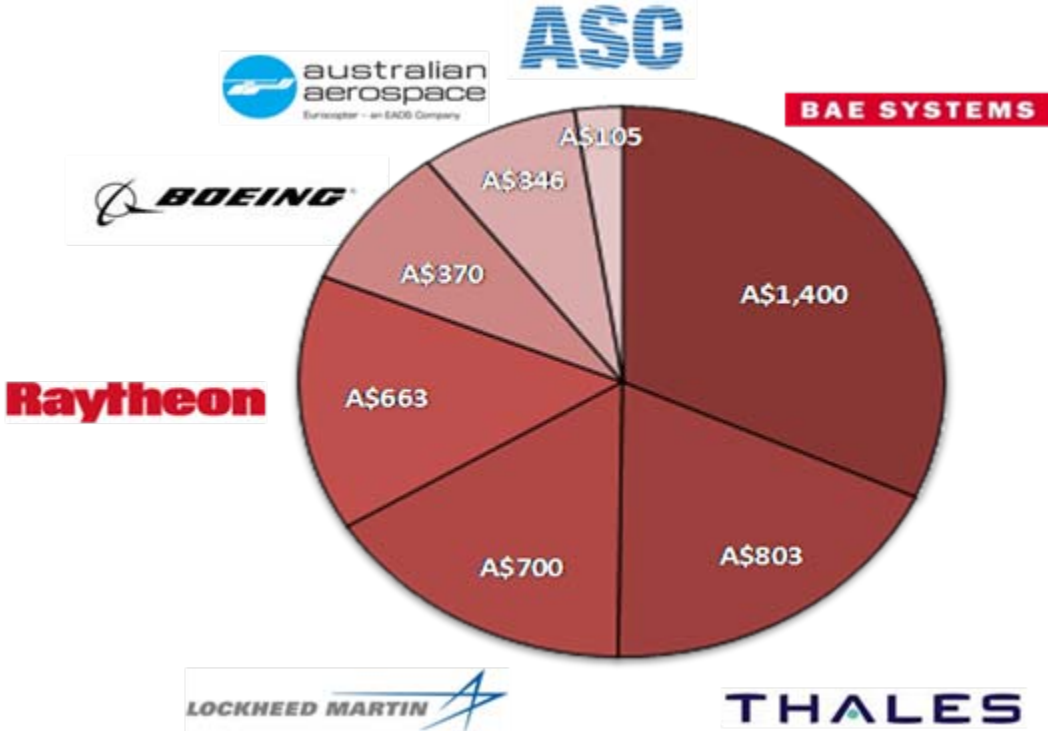


# TENIX Integration



# Market Share

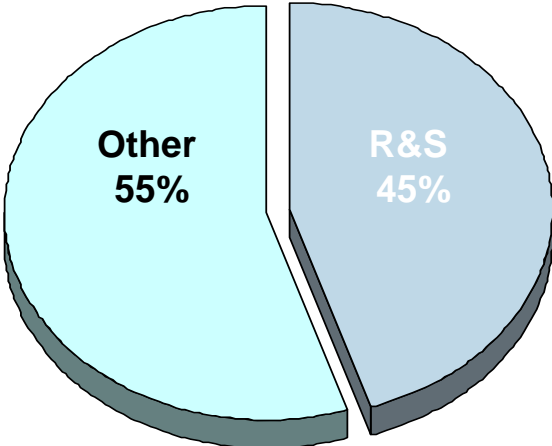
Key Competitor Turnover p/a\*



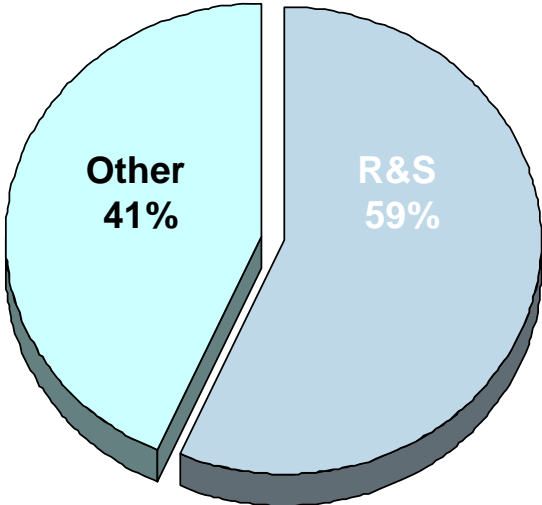
\*2008/2009 fiscal year as reporter in ADM Top 40 Survey.

# Readiness & Sustainment

**2010 Sales**



**2015 Sales**



# Major Programmes



# Recent Successes



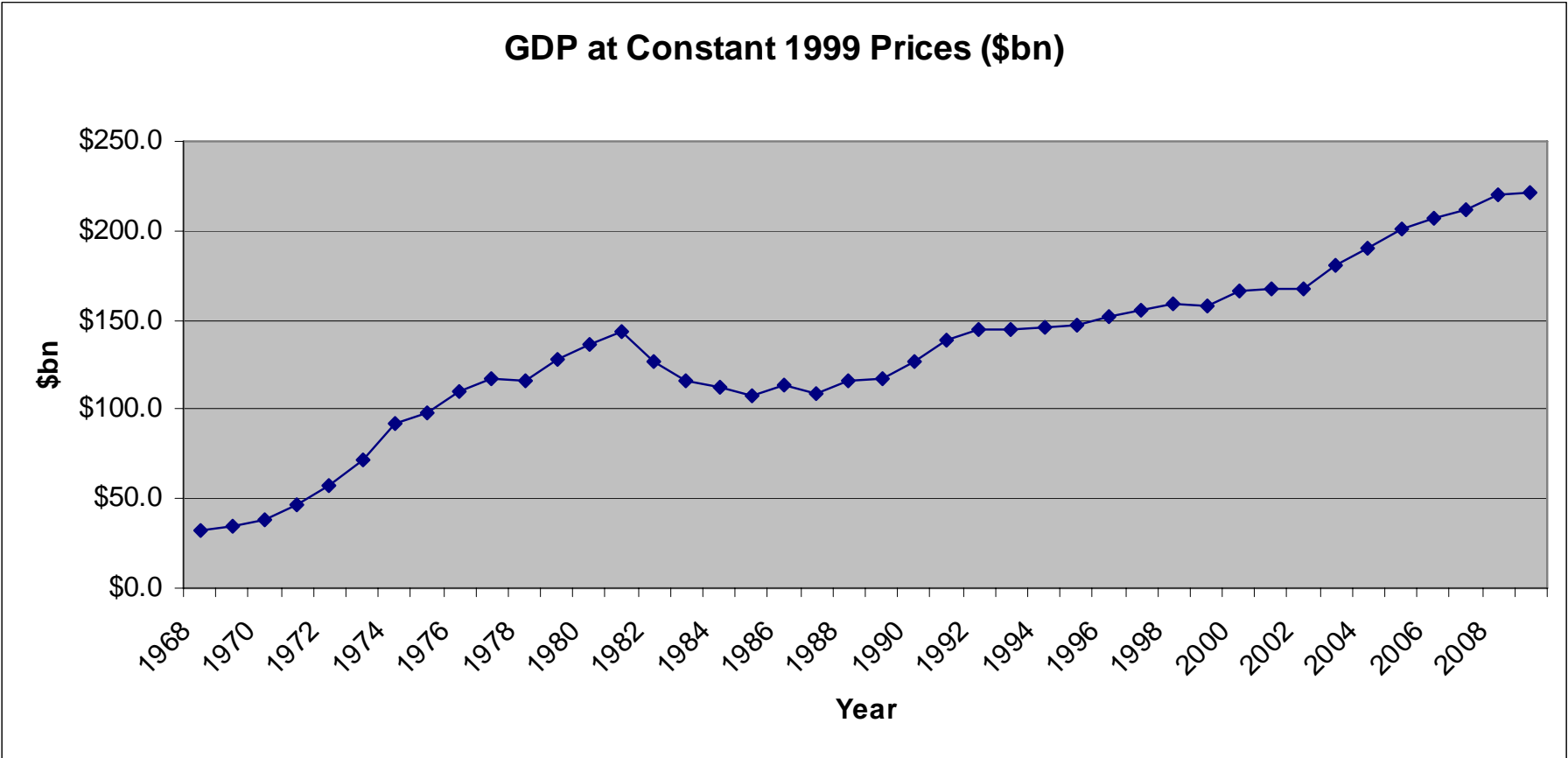
# Prospects



# KSA



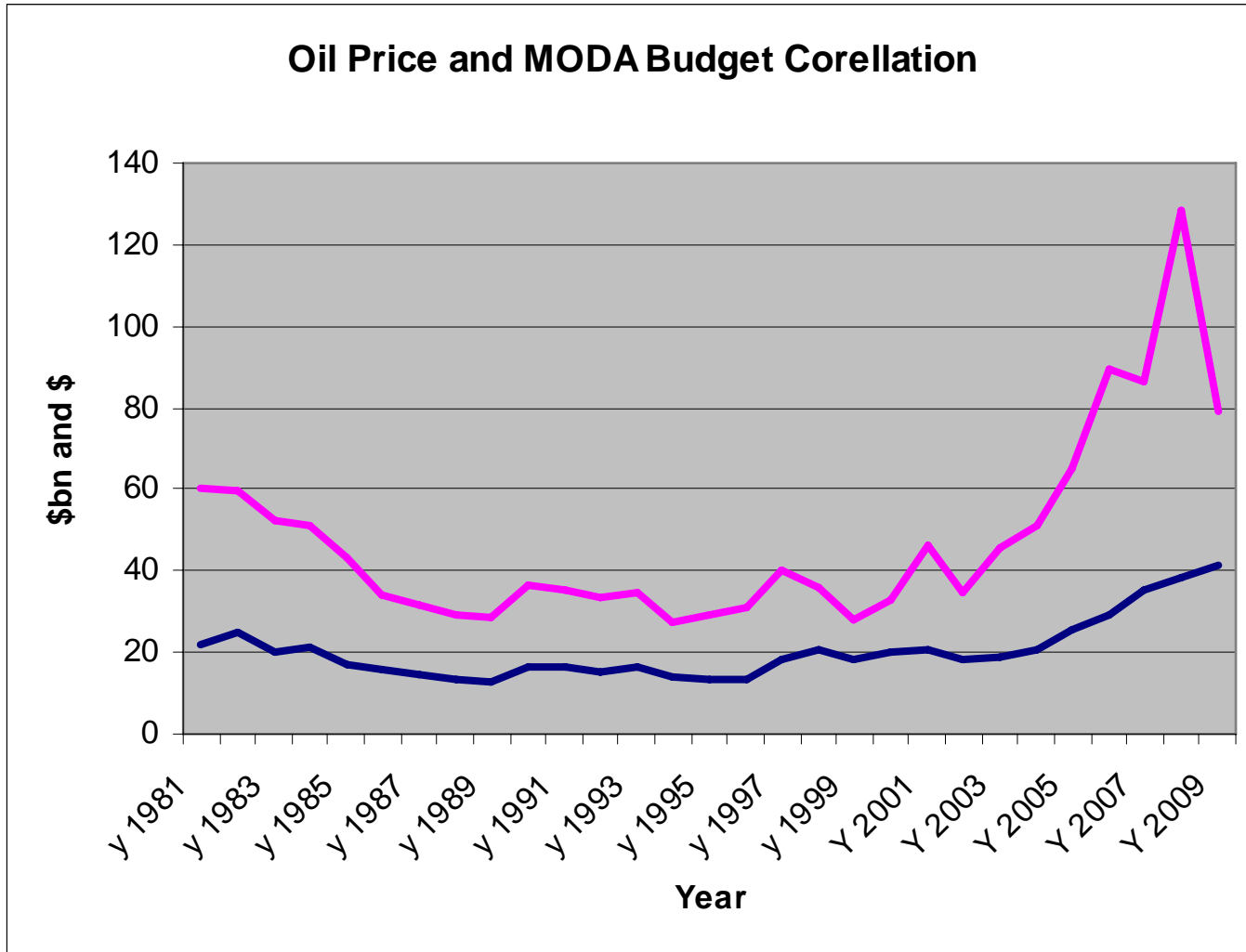
# GDP



# Geopolitical Environment



# Oil Price & Defence Budget



# Recent Achievements



# Prospects

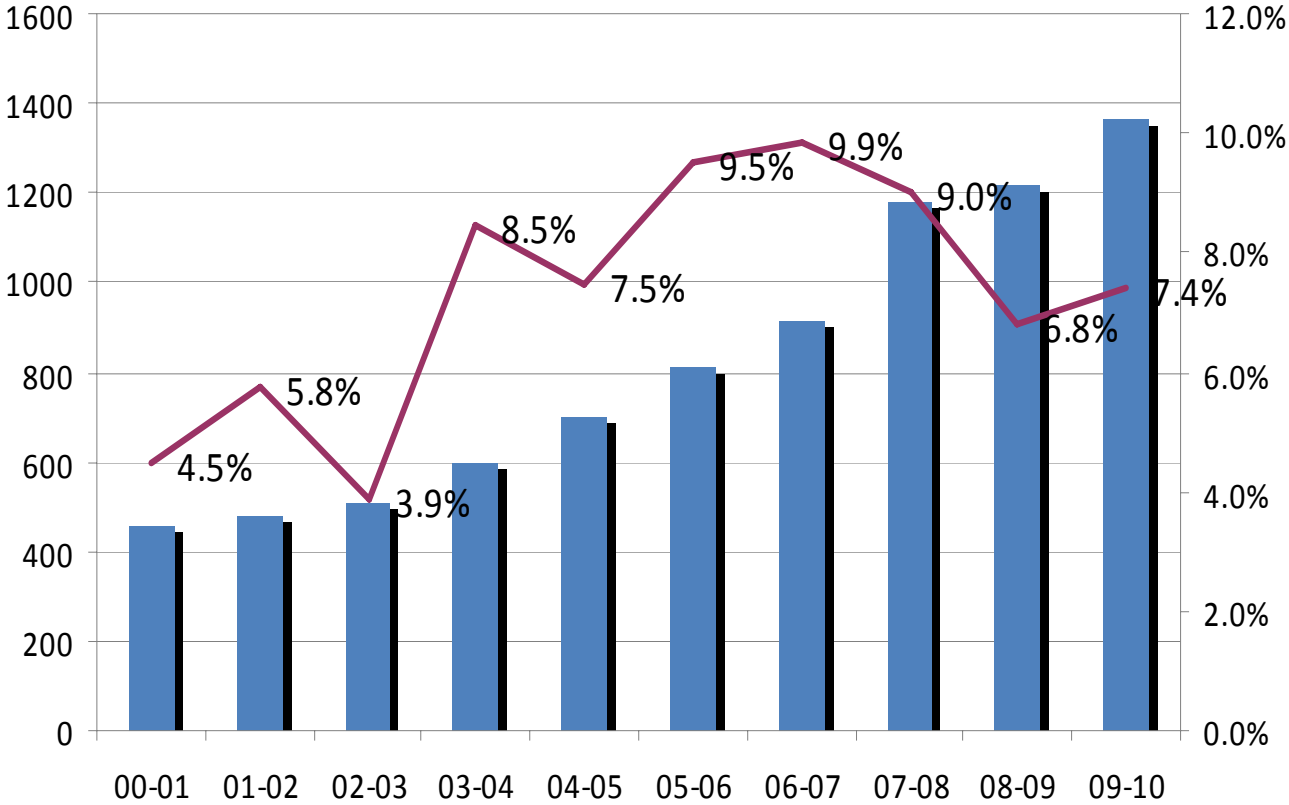


# India



# GDP

## GDP Growth



Pakistan occupied  
(PoK)  
India-P.

India-P.

India-Pakist:

in  
6's

**Naxal-affected areas**

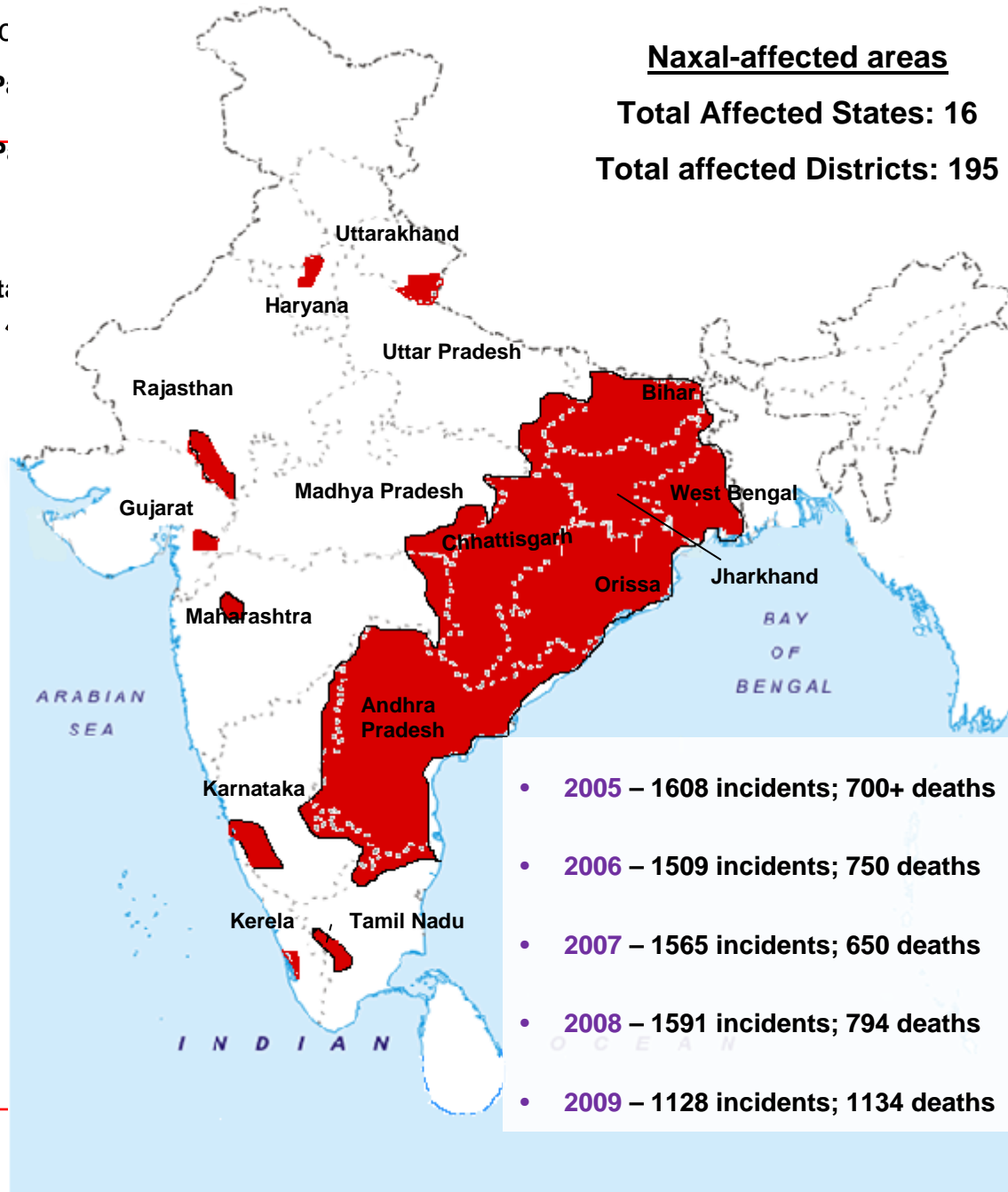
**Total Affected States: 16**

**Total affected Districts: 195**

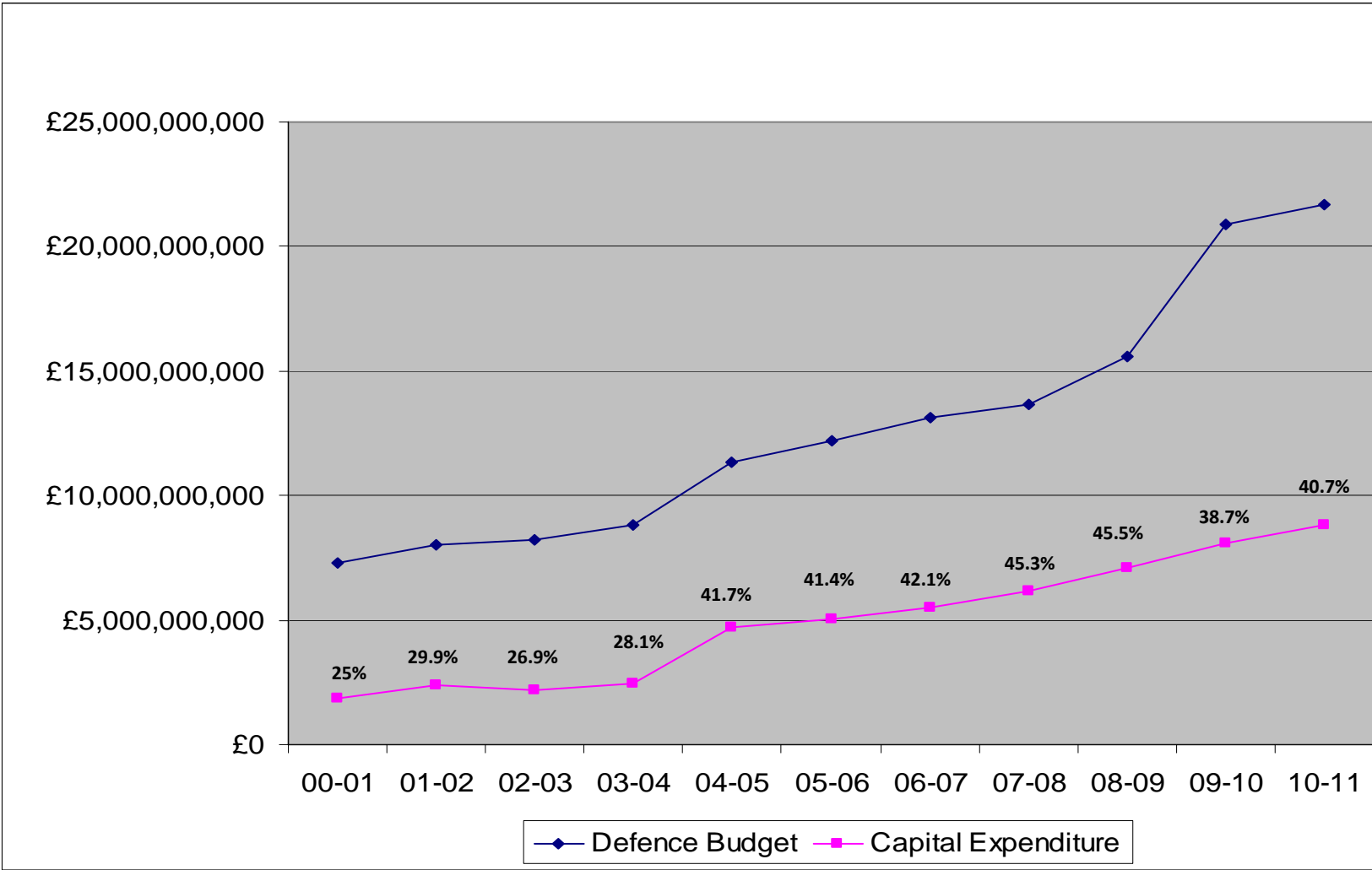
puted area

desh

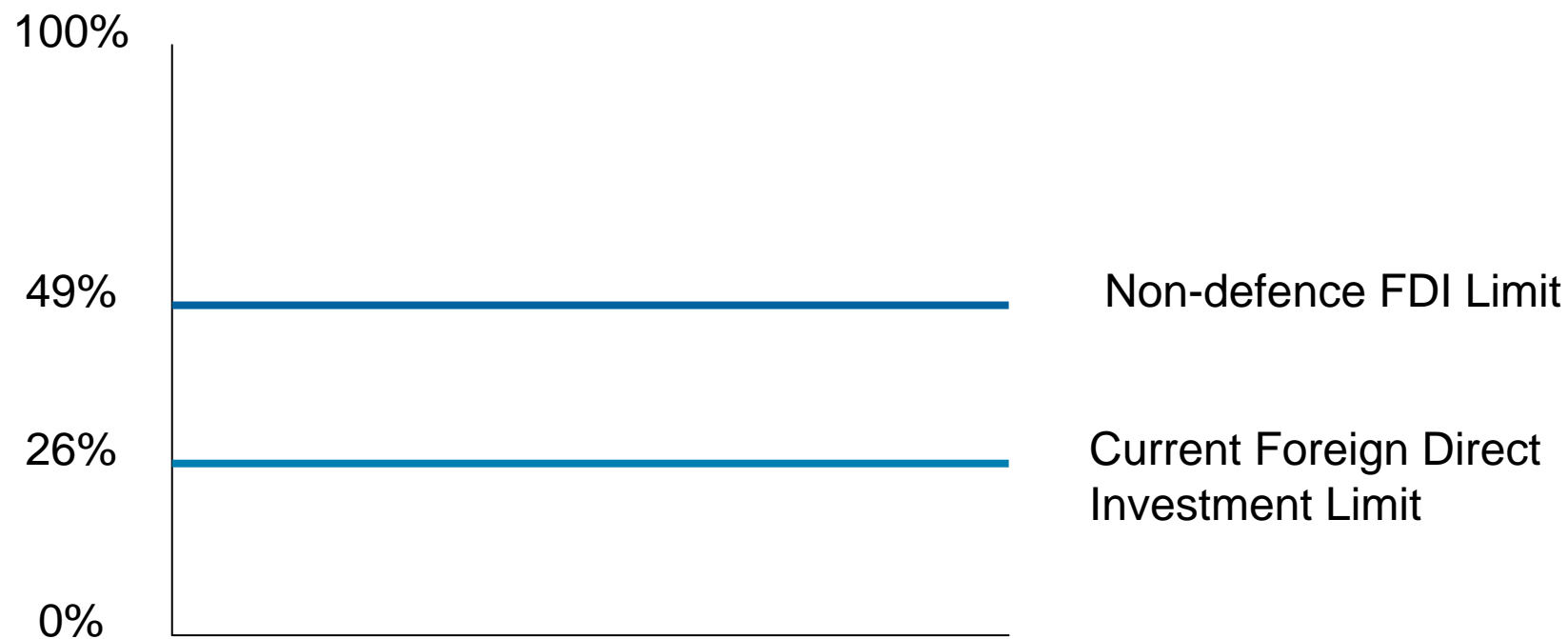
lia-Myanmar  
Border



# Defence Budget



# Foreign Direct Investment



# Land



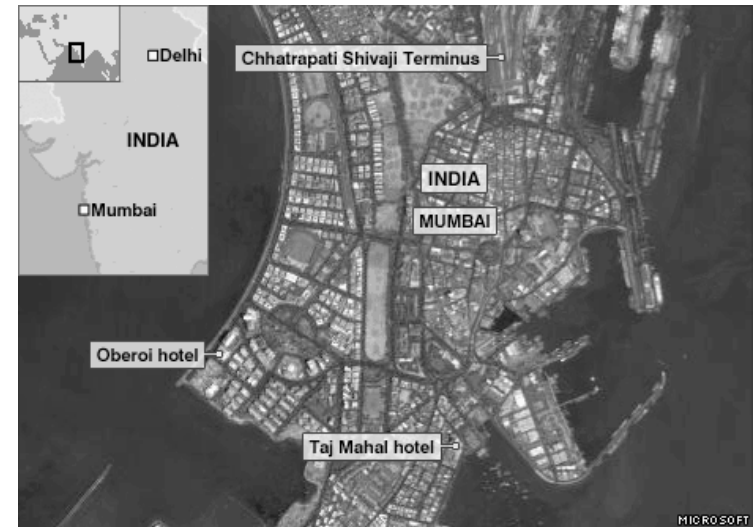
# Air



# Naval



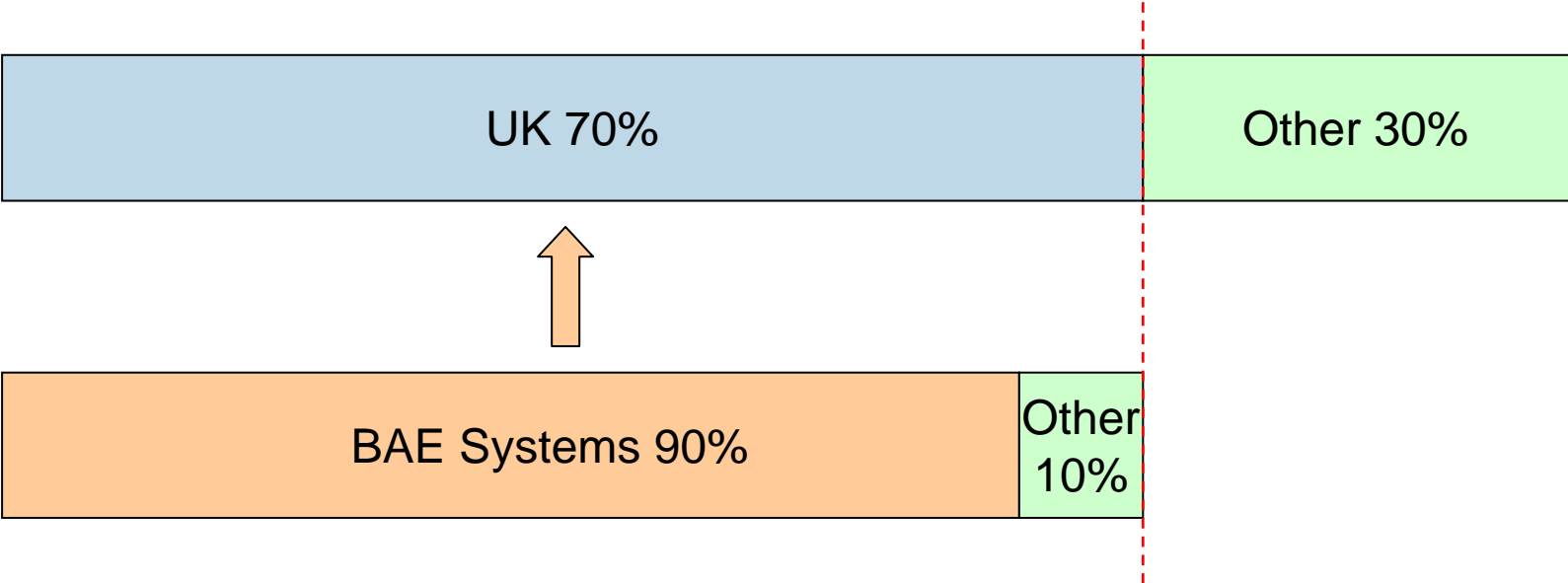
# Security



# Oman



# Oman



# Opportunities



# Summary

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- Growth agenda in all IOG markets
- Dependent on “pull-through”
- Home Market Model

# Q&A



# Summary

## Ian King



# Agenda

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14:00 Ian King - Introduction

14:15 Nigel Whitehead - UK market environment

14:25 Kevin Taylor - military air support in the UK - a demonstrable success

14:50 Martin Sutherland - UK security market, capabilities and opportunities

15:15 Q&A

15:40 Break

16:00 Linda Hudson - US market environment

16:10 Larry Prior - US security market

16:35 Bill Clifford - US naval sustainment

17:00 Tom Arseneault - Electronic Solutions

17:25 Guy Griffiths - opportunities in KSA , Australia and India

17:50 Q&A

**18:15 Ian King - Summary**

**18:30 Drinks Reception**

**19:00 Alan Garwood - Business development (pre-dinner address)**

**19:30 Dinner**