HALF-YEARLY REPORT AND PRESENTATION 2012

BAE SYSTEMS

Cautionary statement:
All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of BAE Systems and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of BAE Systems or the markets and economies in which BAE Systems operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. BAE Systems plc and its directors accept no liability to third parties in respect of this report save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000. It should be noted that section 90A contains limits on the liability of the directors of BAE Systems plc so that their liability is solely to BAE Systems plc.

RESULTS IN BRIEF, FINANCIAL KEY POINTS AND OUTLOOK

RESULTS IN BRIEF

Results from continuing operations	Six months ended 30 June 2012	Six months ended 30 June 2011	Year ended 31 December 2011
Sales[1]	**£8,334m**	£9,229m	£19,154m
Underlying EBITA[2]	**£939m**	£968m	£2,025m
Operating profit	**£786m**	£757m	£1,580m
Underlying earnings[3] per share[4]:			
– including R&D tax benefit	**18.8p**	18.6p	45.6p
– excluding R&D tax benefit	**18.8p**	18.6p	39.7p
Basic earnings per share[5]	**14.5p**	14.5p	37.0p
Order backlog[1,6]	**£40.0bn**		£39.1bn

Other results including discontinued operations	Six months ended 30 June 2012	Six months ended 30 June 2011	Year ended 31 December 2011
Dividend per share	**7.8p**	7.5p	18.8p
Operating business cash flow[7]	**£742m**	£11m	£634m
Net debt (as defined by the Group)[8]	**£(1,230)m**	£(1,122)m	£(1,439)m

FINANCIAL KEY POINTS

– Sales[1] reduced by 10%

– Underlying EBITA[2] reduced by 3%

– Underlying earnings[3] per share[4] increased by 1%

– Order backlog[1,6] increased to £40.0bn

– Non-US and UK order intake[1] increased to £4.3bn

– Interim dividend increased by 4% to 7.8p per share

– Operating business cash inflow[7] increased to £742m

OUTLOOK

In line with previous guidance, modest growth in underlying earnings[3] per share[4] is anticipated, assuming a satisfactory conclusion to the Salam pricing negotiations in 2012 and excluding the benefit in 2011 of the Research & Development tax settlement. A higher level of operating business cash inflow[7] is planned in 2012 including the anticipated benefit of cash receipts related to the Salam programme.

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 3).
3 Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and non-recurring items (see note 5).
4 Restated for the six months ended 30 June 2011 to exclude the add back of £28m of pre-tax charges that would have been incurred in future years and, therefore, remain within underlying earnings.
5 Basic earnings per share in accordance with International Accounting Standard 33, Earnings per Share.
6 Order backlog comprises funded and unfunded unexecuted customer orders, and is stated after the elimination of intra-group orders.
7 Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.
8 See definition on page 4.

INTERIM MANAGEMENT REPORT

The Group outlook for 2012 is unchanged. In line with forecast, there is a greater bias to the second half trading from the existing order book. The performance of the Group in the first half of 2012 reflects the anticipated further reduction in volume within the Group's land activities and that contractual deliveries under the Typhoon Salam programme do not recommence until 2013. The planned conclusion of negotiations relating to the formalisation of price escalation on the Salam programme is expected to contribute to the Group's second half performance.

The outlook for defence spending in the UK has stabilised. The Group welcomed the UK government's confirmation, as part of the PR12 planning round, that the defence budgets were now in balance with the equipment plan.

In the US, the approval of the Department of Defense Fiscal Year 2012 budget in December 2011 has resulted in less disruption to the award of defence contracts compared with the corresponding period for 2011, when the US government was operating under a Continuing Resolution. However, with US government debt reduction measures to be determined and with Presidential and Congressional elections in November, delay to the approval of Fiscal Year 2013 budgets is likely, with the possibility that the US government operates under a Continuing Resolution in the last quarter of calendar year 2012. The risk of further reductions in US defence budgets remains, including sequestration if it comes into force in January 2013.

BAE Systems has made good progress in securing business opportunities in international markets with notable successes achieved in the period. Order intake in the first half of 2012 in markets outside the US and UK increased to £4.3bn (2011 £1.6bn), including a £1.6bn training aircraft contract in the Kingdom of Saudi Arabia and a £0.5bn contract for CV90 vehicles in Norway. Overall, order backlog has increased by £0.9bn from the position at 31 December 2011.

Cost reduction remains a key feature of BAE Systems' plans and the continued actions through the first half of 2012 build on the significant cost reduction achieved over the past three years, contributing to the Group's competitive position and performance.

M&A activity

There were no acquisitions in the period. Three business disposals have been completed as portfolio streamlining in the Land & Armaments business continued.

In March, the Group completed the sale of BAE Systems Safety Products Inc. and Schroth Safety Products GmbH businesses (Safety Products) in the US and Germany for cash consideration of approximately \$32m (£20m). The businesses generated full year sales of approximately \$40m (£25m) in 2011.

In July, the US-based Safariland, LLC (Safariland) business was sold for cash consideration (after adjustment) of approximately \$124m (£79m). The business had full year sales in 2011 of \$206m (£128m).

Also in July, the Group sold the assets comprising its BAE Systems Tensylon High Performance Materials Inc. (Tensylon) business for cash consideration of \$18m (£11m).

Balance sheet

The Group's balance sheet continues to be managed conservatively in line with the Group's policy to retain its investment grade credit rating and to ensure operating flexibility.

Consistent with this approach, the Group will meet its pension obligations, continue to pursue organic investment opportunities, plan to pay dividends in line with the Group's policy of long-term sustainable cover of around two times underlying earnings and make accelerated returns of capital to shareholders when the balance sheet allows. Investment in value enhancing acquisitions will be considered where market conditions are right and where they deliver on the Group's strategy.

Following recent valuations of the Group's two largest UK pension schemes, the BAE Systems Pension Scheme and the BAE Systems 2000 Pension Plan, and three smaller UK schemes, agreements with trustees were completed earlier this year. Following the agreed increase in deficit funding, pension contributions in excess of service costs in the first half were £236m, including £25m paid into Trust for the benefit of the BAE Systems 2000 Pension Plan.

In June, the Company issued a £400m, ten-year bond with an annual coupon of 4.125% intended for general corporate purposes, including the repayment of debt securities at maturity in 2014.

Directors and management

In May, Michael Hartnall, a non-executive director, stood down from the Board having served nearly nine years in that capacity.

In June, Tom Arseneault was appointed Executive Vice President of the Product Sector businesses headquartered in the US and Chief Technology Officer for BAE Systems, Inc., and Lynn Minella was appointed Group Human Resources Director following the retirement of Alastair Imrie. Tom and Lynn join the Group's Executive Committee.

Dividend

The Board has declared a 4% increase in the interim dividend to 7.8p for the first half year to 30 June 2012 reflecting the current outlook for the Group's performance. At this level, the dividend is covered 2.4 times by underlying earnings and is consistent with the Group's policy of long-term sustainable cover of around two times.

Summarised income statement – continuing operations

	Six months ended 30 June 2012 £m	Six months ended 30 June 2011 £m
Sales[1]	**8,334**	9,229
Underlying EBITA[2]	**939**	968
Profit/(loss) on disposal of businesses	**18**	(6)
Regulatory penalties	**–**	(49)
EBITA	**957**	913
Amortisation of intangible assets	**(101)**	(126)
Impairment of intangible assets	**(63)**	(22)
Finance costs[1]	**(129)**	(62)
Taxation expense[1]	**(186)**	(203)
Profit for the period	**478**	500
Underlying earnings[3] per share[4]	**18.8p**	18.6p
Basic earnings per share[5]	**14.5p**	14.5p
Dividend per share	**7.8p**	7.5p

Exchange rates – average

£/$	**1.577**	1.617
£/€	**1.216**	1.152
£/A$	**1.528**	1.564

Exchange rates – period end

£/$	**1.569**	1.605
£/€	**1.237**	1.107
£/A$	**1.531**	1.499

Segmental analysis – continuing operations

	Sales[1]		Underlying EBITA[2]	
	Six months ended 30 June 2012 £m	Restated[6] Six months ended 30 June 2011 £m	Six months ended 30 June 2012 £m	Restated[6] Six months ended 30 June 2011 £m
Electronic Systems	**1,181**	1,221	**164**	172
Cyber & Intelligence	**714**	651	**54**	55
Platforms & Services (US)	**2,254**	2,685	**189**	256
Platforms & Services (UK)	**2,651**	3,052	**420**	310
Platforms & Services (International)	**1,573**	1,756	**161**	211
HQ	**123**	106	**(49)**	(36)
Intra-group	**(162)**	(242)	**–**	–
	8,334	9,229	**939**	968

The results of the Regional Aircraft line of business are shown within discontinued operations.

Income statement – continuing operations

Sales[1] in the first half of 2012 were £8,334m (2011 £9,229m), 11% lower than 2011 on a like-for-like basis, after adjusting for the impact of exchange translation and M&A. This mainly reflects lower volumes in the Land & Armaments business and the transition to UK Typhoon final assembly arrangements under the Salam programme. Sales in 2012 are expected to have a second half bias.

Underlying EBITA[2] was £939m (2011 £968m) giving a return on sales of 11.3% (2011 10.5%).

Non-recurring items are defined as items relevant to an understanding of the Group's performance with reference to their materiality and nature. The non-recurring items, which are excluded from underlying EBITA[2], are as follows:

Profit on disposal of businesses There was a profit of £18m during the period on the disposal of the Safety Products business, which was part of Land & Armaments, including £13m of reclassification of cumulative currency translation reserve.

Regulatory penalties There was a fine of £49m from the US Department of State in the prior period.

Amortisation of intangible assets is £25m lower at £101m mainly reflecting the completion of deliveries under the Family of Medium Tactical Vehicles contract in the first half of 2011.

Impairment of intangible assets of £63m mainly relates to the Safariland and Tensylon businesses sold in July 2012. The £22m impairment in 2011 related to goodwill in the Naval Ships business.

Finance costs[1] were £129m (2011 £62m). The underlying interest charge, excluding pension accounting, marked-to-market revaluation of financial instruments and foreign currency movements, was £91m. In the prior period, the underlying interest charge of £104m included £28m relating to the early redemption of debt in connection with the disposal of the Regional Aircraft Asset Management business.

Taxation expense[1] reflects the Group's effective tax rate for the period of 27% (2011 26%). The effective tax rate is based on profit before taxation excluding profit on disposal of businesses (£18m) and goodwill impairment (£39m). The effective tax rate for the full year is expected to be in the range of 26% to 28%, with the final number dependent on the geographical mix of profits.

Underlying earnings[3] per share[4] for the period increased by 1% to 18.8p compared with 2011 (18.6p).

Basic earnings per share[5] for the period was 14.5p (2011 14.5p).

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.
3 Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and non-recurring items (see note 5).
4 Restated for the six months ended 30 June 2011 to exclude the add back of £28m of pre-tax charges that would have been incurred in future years and, therefore, remain within underlying earnings.
5 Basic earnings per share in accordance with International Accounting Standard 33, Earnings per Share.
6 Restated following changes to the Group's reporting segments.

INTERIM MANAGEMENT REPORT *(continued)*

Reconciliation of cash flow from operating activities[7] to net debt (as defined by the Group)

	Six months ended 30 June 2012 £m	Six months ended 30 June 2011 £m
Cash inflow from operating activities[7]	**940**	176
Capital expenditure (net) and financial investment	**(189)**	(146)
Dividends received from equity accounted investments	**16**	6
Assets contributed to Trust	**(25)**	(25)
Operating business cash flow	**742**	11
Interest	**(68)**	(96)
Income from financial assets at fair value through profit or loss	**–**	4
Taxation	**(56)**	(117)
Free cash flow	**618**	(198)
Acquisitions and disposals	**18**	(382)
Cash classified as held for sale	**–**	(15)
Purchase of equity shares	**(16)**	(11)
Equity dividends paid	**(367)**	(359)
Dividends paid to non-controlling interests	**(11)**	(18)
Cash flow from matured derivative financial instruments	**(49)**	38
Movement in cash collateral	**–**	(3)
Movement in cash received on customers' account[8]	**–**	6
Foreign exchange translation	**16**	53
Other non-cash movements	**–**	9
Total cash inflow/(outflow)	**209**	(880)
Opening net debt (as defined by the Group)	**(1,439)**	(242)
Closing net debt (as defined by the Group)	**(1,230)**	(1,122)
Comprising:		
Debt-related derivative financial assets	**56**	37
Other investments – current	**–**	274
Cash and cash equivalents	**2,464**	1,742
Loans – non-current	**(3,054)**	(1,822)
Loans and overdrafts – current	**(265)**	(1,011)
Less: Cash received on customers' account[8]	**(3)**	(10)
Less: Assets held in Trust	**(428)**	(287)
Less: Cash held for charitable contribution to Tanzania	**–**	(30)
Less: Cash classified as held for sale	**–**	(15)
Net debt (as defined by the Group)	**(1,230)**	(1,122)

Operating business cash flow

	Six months ended 30 June 2012 £m	Restated[6] Six months ended 30 June 2011 £m
Electronic Systems	**105**	103
Cyber & Intelligence	**21**	67
Platforms & Services (US)	**–**	112
Platforms & Services (UK)	**243**	3
Platforms & Services (International)	**568**	(175)
HQ	**(188)**	(122)
Discontinued operations	**(7)**	23
Operating business cash flow	**742**	11

Cash flows

Cash inflow from operating activities[7] was £940m (2011 £176m), which includes contributions in excess of service costs for the UK and US pension schemes totalling £211m (2011 £144m).

As anticipated, advances were consumed on the European Typhoon programme. However, significant cash advances were received on the contract award for training aircraft to the Royal Saudi Air Force and on the Tornado Sustainment Programme in Saudi Arabia.

A cash inflow is expected in the second half, with the planned conclusion of price escalation discussions relating to the Salam programme.

There was an outflow from **net capital expenditure and financial investment** of £189m (2011 £146m).

Dividends from equity accounted investments, comprising FNSS, Advanced Electronics Company and Eurofighter, amounted to £16m (2011 £6m).

Assets contributed to Trust comprises £25m of payments made into Trust during the period for the benefit of the BAE Systems 2000 Pension Plan (2011 £25m).

Taxation payments were £61m lower at £56m primarily reflecting tax refunds following the 2011 Research & Development tax settlement and timing differences on UK tax payments.

Net cash inflow in respect of **acquisitions and disposals** of £18m mainly comprises the disposal of the Safety Products business. The net cash outflow in 2011 mainly comprised the acquisition of L-1 Identity Solutions, Inc.'s Intelligence Services Group, Norkom Group plc, ETI A/S, Fairchild Imaging, Inc. and stratsec.net Pty Limited (£524m), less the proceeds from the disposal of the Group's residual shareholding in Saab AB (£152m).

Foreign exchange translation during the period, primarily in respect of the Group's US dollar-denominated borrowing, reduced reported net debt by £16m.

Net debt (as defined by the Group)

The Group's net debt at 30 June 2012 was £1,230m (30 June 2011 £1,122m), a net inflow of £209m from the net debt position of £1,439m at the start of the period. Cash and cash equivalents of £2.5bn (30 June 2011 £1.7bn) includes £428m (30 June 2011 £13m) held in Trust for the benefit of the Group's two largest UK pension schemes. The remaining £2.1bn is held primarily for pension deficit funding, payment of the 2012 interim dividend, repayment of short-term US commercial paper and management of working capital.

Going concern

After making due enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the accounts.

Principal risks

The principal risks facing the Group for the remaining six months of the year are unchanged from those reported in the Annual Report 2011.

These risks, together with the Group's risk management process, are detailed on pages 60 to 67 of the Annual Report 2011, and relate to the following areas: defence spending; government customers; global market; contract award timing; large contracts; fixed-price contracts; component availability, subcontractor performance and key suppliers; laws and regulations; competition; pension funding; export controls and other restrictions; acquisitions; consortia and joint ventures; exchange rates; and cyber security.

6 Restated following changes to the Group's reporting segments.
7 Excludes the £29.5m charitable contribution made in 2012 for the benefit of the people of Tanzania in connection with the global settlement with the UK's Serious Fraud Office in 2010 as the amount was deducted from the Group's net debt in 2010.
8 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 consolidated balance sheet.

REPORTING SEGMENTS: ELECTRONIC SYSTEMS

Electronic Systems, the US- and UK-based electronics business with 13,300 employees[1], comprises Electronic Combat, Survivability & Targeting, Communications & Control, Intelligence, Surveillance & Reconnaissance, Commercial Aircraft electronics and HybriDrive®.

	Six months ended 30 June 2012	Six months ended 30 June 2011	Year ended 31 December 2011
Funded order intake[1]	**£1,133m**	£1,108m	£2,620m
Order backlog[1,4]	**£3.6bn**		£3.6bn
Sales[1]	**£1,181m**	£1,221m	£2,645m
Underlying EBITA[2]	**£164m**	£172m	£386m
Return on sales	**13.9%**	14.1%	14.6%
Cash inflow[3]	**£105m**	£103m	£268m

Sales[1] compared with 2011 decreased primarily due to the completion of deliveries of Thermal Weapon Sights as operational tempo-driven activity reduces. Sales[1] in the Commercial Aircraft electronics business grew by 12% and the sales deferred from 2011 due to the Johnson City flooding are expected to be recovered in the second half of the year.

Electronic Combat

Electronic Systems maintained its leadership position in the electronic warfare market, with continued focus on completion of the F-35 Systems Design and Development programme and Low-Rate Initial Production Lot 5 deliveries in progress.

The Digital Electronic Warfare System (DEWS) continues to secure new contract awards, including a six-year, $0.4bn (£0.2bn) contract to upgrade 70 F-15 fighter jets for the Royal Saudi Air Force. The business continues to pursue opportunities for the DEWS suite in other markets.

The business received a $20m (£13m) modification to extend its existing technology maturation contract in support of the US Navy's Next-Generation Jammer (NGJ) programme. The award covers research in support of future development of airborne electronic attack capability. The NGJ will replace the ageing ALQ-99 jammer currently in service on certain US Navy aircraft.

Survivability & Targeting

In early 2012, the US Army awarded the business a two-year, $38m (£24m) contract to develop the Common Infrared Countermeasures (CIRCM) capability. Following a stop work order due to a competitor protest, the award was upheld by the US Government Accountability Office and work restarted in June.

Under a $37m (£24m) subcontract, BAE Systems continues to support the engineering and manufacturing development of the Joint and Allied Threat Awareness System (JATAS), a next-generation warning system to enhance aircraft survivability for the US Navy.

The Advanced Precision Kill Weapon System programme passed tests on several airborne platforms, and achieved initial operational capability in March and subsequent deployment in theatre.

Thermal Weapon Sight deliveries to the US Army in support of military operations in Iraq and Afghanistan are coming to completion as the contract winds down.

The business received more than $36m (£23m) in new orders for its lightweight, low-power, handheld electro-optical devices to support forward deployed soldiers, including an award from US Special Operations Command for thermal monoculars.

Communications & Control

The F-35 Night Vision Goggle Helmet-Mounted Display programme, which gives the aircraft a critical virtual head-up display capability, has successfully completed system requirements and initial design milestones.

In early 2012, Electronic Systems delivered the last of 35 mobile military communications systems to the Slovak Ministry of Defence, several months ahead of contract schedule.

The business continues to pursue significant opportunities in the tactical radio and networking markets to meet the need for the modernisation of battlefield communication systems.

Intelligence, Surveillance & Reconnaissance

The business continues to provide Wide Area Airborne Surveillance capability on several key development programmes for the US Air Force and US Army. These programmes are based on two wide-area, high-resolution imaging sensor systems, the Airborne Wide Area Persistent Surveillance System (AWAPSS), which is currently operating in theatre, and the Autonomous Real-time Ground Ubiquitous Surveillance – Imaging System (ARGUS-IS).

Commercial Aircraft electronics

The business continues to be well positioned to support the growth in worldwide demand for commercial aviation through its engine and flight controls activities. General Electric has signed an agreement with the business's joint venture, FADEC International, to form an equally owned joint venture to develop and produce the Full-Authority Digital Engine Control (FADEC) for CFM International's next-generation engine, the LEAP.

Embraer and the Brazilian Air Force have selected BAE Systems to provide active side sticks as part of the overall cockpit controls for the KC-390 military transport aircraft. With the selection of the business in 2011 to provide flight control computers and actuator control electronics, this win positions the Group to provide a full stick-to-surface solution for the KC-390 aircraft. The estimated value of this opportunity is anticipated to exceed $60m (£38m) over the life of the programme.

HybriDrive®

Buses powered by the HybriDrive® Series hybrid electric propulsion system have now driven over one million miles of revenue service.

Following severe flooding in September 2011, operations formerly conducted at the Electronic Systems facility in Johnson City, New York, were moved to a new location in Endicott, New York, during the period. All production programmes at the site are back online. Customer recovery commitments are expected to be met in the second half of the year.

LOOKING FORWARD

Efforts to reduce the US government's budget deficit are likely to require reductions across most areas of government spend. The risk of further reductions in US defence budgets remains, including sequestration if it comes into force in January 2013.

Electronic Systems remains well positioned with a balanced portfolio that will enable it to respond to changing US Department of Defense priorities.

The business expects to benefit from its incumbent positions and its ability to provide capability upgrades on core platforms, and from positions in areas such as commercial aircraft electronics and international defence programmes.

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 3).
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 Order backlog comprises funded and unfunded unexecuted customer orders.

INTERIM MANAGEMENT REPORT *(continued)*

REPORTING SEGMENTS: CYBER & INTELLIGENCE

Cyber & Intelligence, with 8,500 employees[1], comprises the Group's cyber, secure government, and commercial and financial security activities within the US-based Intelligence & Security business and the UK-headquartered BAE Systems Detica business.

	Six months ended 30 June 2012	Six months ended 30 June 2011	Year ended 31 December 2011
Funded order intake[1]	**£736m**	£640m	£1,443m
Order backlog[1,4]	**£1.0bn**		£1.1bn
Sales[1]	**£714m**	£651m	£1,399m
Underlying EBITA[2]	**£54m**	£55m	£136m
Return on sales	**7.6%**	8.4%	9.7%
Cash inflow[3]	**£21m**	£67m	£123m

Sales[1] growth was 6% in the US-based Intelligence & Security business and 13% in BAE Systems Detica.

Return on sales in the period of 7.6% (2011 8.4%) reflects increased levels of organic investment in the BAE Systems Detica business in support of targeted future growth in commercial and international markets.

Cash flow[3] in 2011 included the settlement received under the terminated Raytheon e-Borders contract.

Intelligence & Security
The US-based Intelligence & Security business continues to secure Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles with key intelligence agency customers, including the National Geospatial-Intelligence Agency, that position it for growth.

Information Technology & Cybersecurity Solutions The Solutions for the Information Technology Enterprise IDIQ contract placed task orders in 2011, now worth a total of $344m (£219m), to improve the US Defense Intelligence Agency's information technology environment. In respect of these task orders, BAE Systems has recruited and placed more than 700 employees on site with the customer, and reduced the customer's total cost of IT ownership by 20%.

The business completed phase one of the Defense Intelligence Agency's Next-Generation Desktop Environment programme, installing more than 10,000 analyst workstations across the customer base. Phase two of the programme includes version upgrades and the installation of more than 5,000 additional desktops.

Geospatial Intelligence – Intelligence, Surveillance and Reconnaissance (GEOINT-ISR) The business continues to meet critical milestones in support of the National Geospatial-Intelligence Agency and its mission partners through the Total Application Services for Enterprise Requirements IDIQ contract and various classified programmes.

Global Analysis Work continues on the Counter Improvised Explosive Device (C-IED) programme, with a total value of funded awards in 2011 and 2012 of approximately $250m (£159m). The C-IED programme provides mission analytical support to forward deployed defence personnel, with approximately 450 analysts deployed in theatre.

The business is executing on the Full Motion Video (FMV) and Geospatial Imagery Analysis contract awarded in 2011. The current value for this contract is $402m (£256m) and utilises more than 400 employees. The business captured a significant proportion of the FMV market and continues to win new geospatial business.

SpecTal SpecTal provides government customers with specialised security and intelligence mission support, including intelligence analysis, engineering, operations support, training and information technology development. The business is pursuing a major re-compete to expand its footprint with its primary customer.

BAE Systems Detica
The business continues to develop and deliver information intelligence solutions to government and commercial customers, and grow its business in the areas of cyber security, information assurance and information intelligence products.

BAE Systems Detica has primary operations in the UK, Denmark, Ireland and the US. In July, the stratsec business in Australia and a new security entity in India were transferred to BAE Systems Detica. BAE Systems Detica will also lead the drive into the US commercial market.

NetReveal® The business has market-leading positions in enterprise risk, fraud and compliance, providing solutions used globally to reduce financial loss, fight crime, and manage risk and compliance.

Global Communications Solutions The business provides a range of communications monitoring and intercept solutions for the law enforcement communities.

Cyber Security The business continues to build a portfolio of offerings, including specialist cyber security and secure communications solutions. The Security Operations Centre provides services to detect and remediate advanced cyber-attacks for both government and businesses, and is operating at full capability, delivering for clients internationally. The business is experiencing increased interest in its advisory, incident response and remediation services.

UK The UK business has seen growth in both the commercial and government sectors, with increased sales of security solutions to the energy, telecommunications and financial services sectors, including strong sales of BAE Systems Detica's electronic systems solution in the UK security market.

International Secure Government The business continues to develop an information intelligence, security solutions and information assurance services business, initially focused on the Middle East region.

LOOKING FORWARD

Efforts to reduce the US government's budget deficit are likely to require reductions across most areas of government spend. The risk of further reductions in US defence budgets remains, including sequestration if it comes into force in January 2013. Cyber and intelligence is expected to remain a priority and focused growth opportunities in critical areas remain.

The US-based business has maintained its competitive position as a result of structural, cost and investment actions. However, the market is experiencing delays in new awards and de-scoping of existing contracts as IT budgets are reduced. In this highly competitive market, the US-based business continues to leverage its customer intimacy, innovation and competitive pricing.

BAE Systems Detica expects continued growth from intelligence and cyber security both in the UK and overseas government markets, and from growing demand for commercial products and services to manage cyber threats, counter financial fraud and improve compliance.

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 3).
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 Order backlog comprises funded and unfunded unexecuted customer orders.

REPORTING SEGMENTS: PLATFORMS & SERVICES (US)

Platforms & Services (US), with 23,600 employees[1], comprises the US-headquartered Land & Armaments business, with operations in the US, UK, Sweden and South Africa, together with US-based services and sustainment activities, including ship repair and modernisation services.

	Six months ended 30 June 2012	Six months ended 30 June 2011	Year ended 31 December 2011
Funded order intake[1]	**£2,616m**	£2,178m	£5,077m
Order backlog[1,4]	**£9.1bn**		£8.7bn
Sales[1]	**£2,254m**	£2,685m	£5,305m
Underlying EBITA[2]	**£189m**	£256m	£478m
Return on sales	**8.4%**	9.5%	9.0%
Cash inflow[3]	**–**	£112m	£410m

At Support Solutions, sales[1] were 2% higher and return on sales was 8.2% (2011 8.0%).

At Land & Armaments, like-for-like sales[1] reduced by 26% primarily reflecting the completed Family of Medium Tactical Vehicles programme, and lower volumes on Bradley, Caiman and Mine Resistant Ambush Protected vehicles. Return on sales, which reduced to 8.5% (2011 10.3%), includes accelerated rationalisation charges in respect of the Newcastle manufacturing site and certain legal claims. Excluding these charges, return on sales is 9.4%. Cash flow[3] in the period includes continued investment in the UK munitions facilities, with cash performance biased to the second half due to the timing of funding on the UK munitions contract.

Support Solutions

Support Solutions continues to capture business in the complex infrastructure market. Despite a delay due to a protest filed by the incumbent, the business took over management of the Radford Army Ammunition Plant on 1 July under a contract valued at $850m (£542m) over ten years.

Last year, the business signed an agreement with Olin Corporation to form a joint venture to support the pursuit of a significant opportunity to manage and operate the US Army's Lake City Army Ammunition Plant. Bids have now been submitted.

In the maritime environment, the first ever tandem dry docking of two US Navy Aegis guided missile destroyers was achieved at the Norfolk, Virginia, shipyard. The business successfully completed the construction of the American Phoenix, a product chemical tanker, which positions Support Solutions to pursue additional build to print opportunities, with approximately $0.9bn (£0.6bn) in new shipbuilding prospects identified.

The business was awarded a $60m (£38m) task order under the US Department of Defense's Joint Improvised Explosive Device Defeat Organization contract to develop and implement a five-year training programme on methods for identifying and disabling improvised explosive devices.

In the Individual Protection business, which supplies a range of soldier protection products, three contracts have been secured totalling $141m (£90m) for the supply of Enhanced Small Arms Protective Inserts, Tactical Vests and Modular Lightweight Load Carrying Equipment.

Land & Armaments

US

Land & Armaments continues to streamline its portfolio by completing the sales of its Safety Products, Safariland and Tensylon businesses. The Individual Protection business was transferred to Support Solutions at the start of the year.

Work on the $450m (£287m) Ground Combat Vehicle programme, the Army's top ground modernisation priority, commenced in December 2011. The programme is progressing to schedule.

The Paladin Integrated Management programme to modernise the Army's self-propelled howitzers completed its first major milestone under the $313m (£200m) contract awarded in January.

Strong performance on Bradley continued, with 22 consecutive months of on-time vehicle deliveries at the end of June. Incremental funding of $103m (£66m) was received in the period.

The business received further orders totalling $148m (£94m) for mobility and protection upgrades to Caiman Multi-Terrain Vehicles.

In March, two teams submitted proposals for the Engineering and Manufacturing Development (EMD) phase of the Joint Light Tactical Vehicle programme. The US government plans to award up to three $65m (£41m) EMD contracts in the second half of the year.

In June, it was announced that the Canadian Tactical Armoured Patrol Vehicle competition had been awarded to a competitor.

UK

Production vehicle trials continue on the Terrier combat engineer vehicle contract, with successful completion of air transportability tests and demonstration of the key user requirement for weight. Training of military crews on production vehicles has commenced.

The business continues to perform well under its 15-year partnering agreement with the UK MoD to deliver small arms ammunition. Recapitalisation of the main manufacturing facilities progresses on schedule and is expected to complete at the end of 2013.

During the period, the Indian Defence Acquisition Council approved the acquisition of M777 howitzers to be effected through the US Department of Defense's foreign military sales programme.

Other markets

In January, the business was awarded a £65m contract to supply 48 BvS10 armoured all-terrain vehicles and an initial support package to Sweden.

In May, the Swedish naval armaments business received orders for additional 57mm Mk110 naval guns from both prime contractor teams supporting the US Navy's Littoral Combat Ship programme.

In June, the business was awarded a £0.5bn contract from the Norwegian government for the supply of 144 new and upgraded CV90 armoured combat vehicles. BAE Systems continues to progress the Canadian Close Combat Vehicle competition, where the business will offer on a CV90 armoured combat vehicle.

The South African business secured a £39m contract for 73 RG31 Mobile Mortar Platforms for the United Arab Emirates, a £43m order for 110 RG32 patrol vehicles for the Swedish Defence Force and an £11m contract for 25 RG32 mine-hardened armoured patrol vehicles for Finland.

LOOKING FORWARD

Efforts to reduce the US government's budget deficit are likely to require reductions across most areas of government spend. The risk of further reductions in US defence budgets remains, including sequestration if it comes into force in January 2013.

Support Solutions is focused on creating sustainable positions through long-term, single-award contracts with competitive differentiators. The increasing age of US and allied government equipment is expected to provide opportunities for lifecycle support services.

In the near term, the Land & Armaments business faces a challenging market environment. The business continues to focus on capturing key new domestic programmes and export opportunities, whilst improving its competitive position through ongoing rationalisation and efficiency programmes.

INTERIM MANAGEMENT REPORT *(continued)*

REPORTING SEGMENTS: PLATFORMS & SERVICES (UK)

Platforms & Services (UK), with 27,600 employees[1], comprises the Group's UK-based air and maritime activities, and certain shared services activities, including the UK-based Advanced Technology Centre.

	Six months ended 30 June 2012	Six months ended 30 June 2011	Year ended 31 December 2011
Funded order intake[1]	**£3,501m**	£2,343m	£4,355m
Order backlog[1]	**£19.5bn**		£18.7bn
Sales[1]	**£2,651m**	£3,052m	£6,258m
Underlying EBITA[2]	**£420m**	£310m	£658m
Return on sales	**15.8%**	10.2%	10.5%
Cash inflow[3]	**£243m**	£3m	£69m

The reduction in sales[1] reflects contractually no aircraft deliveries on the Salam Typhoon programme in the period, completion in 2011 of South African Gripen deliveries and timing of milestone achievements on the Astute contract.

Return on sales benefited from strong programme execution, particularly on the European Typhoon and Type 45 programmes.

Cash flow[3] in 2012 reflects the advances received on the contract award for training aircraft to the Royal Saudi Air Force, the utilisation of advances on the European Typhoon programme, and utilisation of provisions for costs incurred on rationalisation and the Omani Offshore Patrol Vessel (OPV) programme.

Military Air & Information

Deliveries of Typhoon Tranche 2 aircraft to the four partner nations totalled 21 in the period. Cumulative aircraft deliveries to these customers are now 144 out of the contracted 236.

The business continues to support its UK customer's Typhoon and Tornado aircraft and their operational commitments through availability-based service contracts, with £149m of sales in the period. The out-of-service date for the UK Tornado fleet has been confirmed by the MoD as March 2019.

The business received a contract worth £446m for Typhoon support operations across Germany, Italy, Spain and the UK.

The business has delivered a further 17 development and production aircraft fuselage assemblies to Lockheed Martin on the F-35 programme. Interim funding of £116m for the fifth Low-Rate Initial Production contract was secured in the period and negotiations with the customer continue in respect of final funding.

In partnership with Hindustan Aeronautics Limited, production of the 66 Batch 1 Hawk trainer aircraft has been completed in India. Deliveries of materials and equipment in support of licence production of the 57 Batch 2 aircraft continue and aircraft assembly in India is progressing to schedule. Quotes are now being submitted for an additional 20 aircraft to India.

Support continues to be provided to users of Hawk aircraft across the world and sales of Indian Hawk packages worth £56m were made in the period.

In 2011, a Memorandum of Understanding was signed with Dassault Aviation to bid jointly for new Unmanned Aircraft Systems for the UK and French Ministries of Defence. Work is now underway for the UK and French governments on the demonstrator programme preparation phase for the Future Combat Air System under a contract announced in July 2012.

In the defence information domain, the FALCON secure deployable communication system programme for the British Army and RAF completed formal field trials. Work continues to prepare the system for entry into service.

Maritime

The first superblock on the Royal Navy's new aircraft carrier, the Queen Elizabeth, is structurally complete and the second ship, Prince of Wales, is well into her construction phase, with the forward section progressing to plan. The business is working with its Aircraft Carrier Alliance partners to finalise the detailed design changes required for operation of the short take-off and vertical landing variant of F-35 on the carriers.

The fifth Type 45 destroyer was accepted by the Royal Navy in July. The final ship is on schedule for delivery in 2013. The Type 45 support contract met all three ship deployment dates in the first half of the year.

Cumulative savings ahead of target have been reported to the MoD against commitments made under the surface ships Terms of Business Agreement (ToBA).

Work is progressing on the assessment phase of the programme to design the Type 26 Global Combat Ship, which will replace the Royal Navy's Type 23 frigates.

The arbitration process with the Government of the Republic of Trinidad and Tobago, in respect of the cancelled OPV programme, continues. The arbitration hearing to determine liability took place in May and an interim award is anticipated later in the year. Following the agreement in December 2011 for the sale of the OPVs to the Brazilian Navy, delivery of the first vessel took place in June, with the second and third to be delivered in 2012 and 2013.

Progress continues on the Omani OPV programme. There was an incident at sea during recent gunnery trials and, whilst this will extend the programme, deliveries of the ships are still expected in 2012 and 2013.

HMS Astute, the first of class attack submarine for the Royal Navy, continues to progress to plan with operational handover expected in 2013. Ambush, the second of class, is expected to depart for sea trials in the second half of the year. Long lead procurement has commenced on the sixth and seventh boats.

BAE Systems is proceeding under a £328m contract for the design and development phase of the Vanguard class replacement submarine programme.

LOOKING FORWARD

Platforms & Services (UK) has a strong order book of long-term committed programmes and an enduring support business.

In Military Air & Information, sales are underpinned by combat aircraft production on Typhoon and F-35, and in-service support for existing and legacy combat and Hawk trainer aircraft. There are a number of significant opportunities to secure future Typhoon export sales, including to Oman, Saudi Arabia and Malaysia.

In Maritime, sales are underpinned by the Type 45 destroyer, Queen Elizabeth carrier and Astute submarine manufacturing programmes, the 15-year surface ships ToBA, the warship support modernisation initiative, and the design of the Vanguard class successor submarine and Type 26 Global Combat Ship. The through-life support of these platforms, together with their associated command and combat systems, provides sustainable long-term opportunities in technical services and mid-life upgrades.

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

REPORTING SEGMENTS: PLATFORMS & SERVICES (INTERNATIONAL)

Platforms & Services (International), with 15,700 employees[1], comprises the Group's businesses in Saudi Arabia, Australia, India and Oman, together with its 37.5% interest in the pan-European MBDA joint venture.

	Six months ended 30 June 2012	Six months ended 30 June 2011	Year ended 31 December 2011
Funded order intake[1]	**£1,512m**	£986m	£3,319m
Order backlog[1]	**£8.1bn**		£8.3bn
Sales[1]	**£1,573m**	£1,756m	£3,794m
Underlying EBITA[2]	**£161m**	£211m	£449m
Return on sales	**10.2%**	12.0%	11.8%
Cash inflow/(outflow)[3]	**£568m**	£(175)m	£80m

The reduction in sales[1] in the period is primarily on spares and repairs activity on the Saudi British Defence Co-operation Programme (SBDCP). Sales are expected to have a second half bias for the formalisation of price escalation on the Salam programme and increased weapons deliveries under the Tornado Sustainment Programme (TSP).

Cash flow[3] benefited from the acceleration of advances on TSP.

Saudi Arabia

The Group's commitment to developing a greater indigenous capability in Saudi Arabia has been enhanced by the entry into service of Typhoon and continued development of the in-country industrial base.

On the Salam programme, the business has been awarded a contract for UK final assembly of the last 48 of the 72 Typhoon aircraft, initial provisioning for subsequent insertion of Tranche 3 capability in respect of the last 24 aircraft and provision of a multi-role capability. Salam trading relating to the formalisation of price escalation, including significant cash receipt, remains deferred until ongoing negotiations have been concluded.

The three-year Typhoon support contract continues to perform in line with expectations and is providing increased levels of capability to the Royal Saudi Air Force (RSAF). Discussions continue on the next phase of the support contract which is due to commence later this year.

Under the SBDCP, a £1.6bn contract was awarded in May to support the RSAF's future aircrew training requirements involving the supply of, and initial support for, Hawk Advanced Jet Trainer and Pilatus training aircraft. The majority of the work on this contract will be traded through Platforms & Services (UK). Discussions to formalise contracts for the next five years of support on the core SBDCP continue.

The upgrade of the RSAF Tornado fleet under the TSP continues to perform ahead of schedule with a further 12 aircraft delivered back into the fleet this year, bringing total deliveries to 73. The weapons element of the programme will see increasing deliveries in the second half of the year.

Work has ceased on the C4i (Command, Control, Communications, Computers and Intelligence) programme and the Group is seeking to establish an acceptable closure of the contract.

Australia

Construction and outfitting of the superstructure blocks and masts on the A$2.8bn (£1.8bn) Landing Helicopter Dock contract continues at the Williamstown shipyard in preparation for the arrival of the first hull from subcontractor, Navantia, later this year.

Following agreement with the customer on the reduced scope of work under the Air Warfare Destroyer programme, the business is responsible for 11 blocks across the three ships in the programme, worth A$209m (£137m). To the end of June, seven blocks have been delivered and the remaining four are in production.

The first of seven Royal Australian Navy ANZAC class frigates to be upgraded with anti-ship missile defence capability under the A$267m (£174m) contract awarded in January docked in the Henderson shipyard during the period and is currently undergoing preparatory work.

During the period, the final Electronic Support Measures system under the Wedgetail airborne early warning and control programme for the Royal Australian Air Force was delivered and the business was awarded an associated in-service support contract to 2015 with a value up to A$68m (£44m).

Contracts totalling A$28m (£18m) have been secured under the Applications Managed Services Partnership Arrangement with the Department of Defence following selection in 2011 as the preferred industry partner for the Warfighter and Intelligence domain.

The business has recently submitted bids for the next phase of the existing in-service support contract on the Hawk Lead-In Fighter programme and the next-generation Battlespace Communications System.

India

Following the selection of Rafale as the preferred bidder in the Medium Multi-Role Combat Aircraft programme, the business continues to support the Indian customer and its evaluation process, and to work with its Eurofighter partners to ensure that Typhoon remains positioned as the evaluation process continues.

The business is bidding to participate in the Futuristic Infantry Combat Vehicle programme through Defence Land Systems India, the Group's 26% joint venture with Mahindra & Mahindra, and the Tactical Communications System programme for the Indian military, as a subcontractor to Bharat Electronics Limited.

Oman

The Royal Air Force of Oman is currently reviewing the Group's commercial response for 12 Typhoon Tranche 3 aircraft, plus associated support and training facilities. Contract negotiations have commenced, with contract award possible in late 2012.

MBDA

Key missile deliveries during the period included Aster (surface-to-air), Mistral (short-range ground-to-air), Eryx (anti-armour), Exocet (anti-ship) and Dual-Mode Brimstone (air-to-ground), as well as Spada air defence systems.

Development programmes are progressing well, with key milestones achieved on the Medium Extended Air Defence System (MEADS), FREMM frigate weapons integration, Meteor beyond visual range air-to-air missile and Aster air-defence programmes, with a further six successful firings on the Aster programme during the period, including one against a supersonic target.

LOOKING FORWARD

In the Kingdom of Saudi Arabia, the Group will sustain its long-term presence through delivering current programmes and industrialisation, and developing new business in support of the Saudi military and paramilitary forces. The focus is on securing the next phases of both the SBDCP and Salam programmes under the budgets approved in 2011.

In Australia, BAE Systems will continue to work with its customers to identify and deliver cost and service improvements across all contracts, as well as expanding into commercial maritime markets.

In India and Oman, good progress is being made towards capturing significant opportunities to address the future requirements of customers.

In MBDA, whilst domestic budgetary pressures continue, export markets are anticipated to grow, potentially benefiting from significant platform procurements.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF-YEARLY FINANCIAL REPORT

Each of the directors (as detailed opposite) confirms that to the best of his/her knowledge:

– The condensed set of financial statements has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union.

– The interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules (DTR), being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the DTR, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the directors:

R L Olver, Chairman

1 August 2012

Directors

Dick Olver	Chairman
Ian King	Chief Executive
Linda Hudson	President and Chief Executive Officer of BAE Systems, Inc.
Peter Lynas	Group Finance Director
Paul Anderson	Non-executive director
Harriet Green	Non-executive director
Lee McIntire	Non-executive director
Sir Peter Mason	Non-executive director
Paula Rosput Reynolds	Non-executive director
Nick Rose	Non-executive director
Carl Symon	Non-executive director

INDEPENDENT REVIEW REPORT TO BAE SYSTEMS PLC

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Cash Flow Statement, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules (the DTR) of the UK's Financial Services Authority (the UK FSA). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union (EU). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

A G Cates
for and on behalf of KPMG Audit Plc
Chartered Accountants
15 Canada Square
London
E14 5GL

1 August 2012

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June 2012 £m	Six months ended 30 June 2012 £m	Six months ended 30 June 2011 £m	Six months ended 30 June 2011 £m
Continuing operations					
Combined sales of Group and share of equity accounted investments	2		**8,334**		9,229
Less: share of sales of equity accounted investments	2		**(497)**		(549)
Revenue	2		**7,837**		8,680
Operating costs			**(7,195)**		(8,009)
Other income			**120**		52
Group operating profit			**762**		723
Share of results of equity accounted investments			**24**		34
Underlying EBITA[1]		**939**		968	
Non-recurring items[2]		**18**		(55)	
EBITA		**957**		913	
Amortisation		**(101)**		(126)	
Impairment		**(63)**		(22)	
Financial income of equity accounted investments	3	**2**		4	
Taxation expense of equity accounted investments		**(9)**		(12)	
Operating profit	2		**786**		757
Financial income		**593**		826	
Financial expense		**(724)**		(892)	
Finance costs	3		**(131)**		(66)
Profit before taxation			**655**		691
Taxation expense			**(177)**		(191)
Profit for the period – continuing operations			**478**		500
Profit/(loss) for the period – discontinued operations	4		**4**		(16)
Profit for the period			**482**		484
Attributable to:					
Equity shareholders			**474**		478
Non-controlling interests			**8**		6
			482		484
Earnings per share	5				
Basic earnings per share			**14.6p**		14.0p
Diluted earnings per share			**14.6p**		14.0p
Earnings per share – continuing operations	5				
Basic earnings per share			**14.5p**		14.5p
Diluted earnings per share			**14.5p**		14.5p

1 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items.
2 Non-recurring items comprises profit on disposal of businesses £18m (2011 loss £6m) and regulatory penalties £nil (2011 £49m).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2012			Six months ended 30 June 2011		
	Other reserves £m	Retained earnings £m	Total £m	Other reserves £m	Retained earnings £m	Total £m
Profit for the period	–	482	482	–	484	484
Other comprehensive income						
Items that will not be reclassified to the income statement:						
Net actuarial losses on defined benefit pension schemes:						
Subsidiaries	–	(684)	(684)	–	(228)	(228)
Equity accounted investments	–	(26)	(26)	–	(16)	(16)
Tax on items that will not be reclassified to the income statement[1]	–	170	170	–	42	42
Items that may be reclassified to the income statement:						
Currency translation on foreign currency net investments:						
Subsidiaries	(43)	–	(43)	(58)	–	(58)
Equity accounted investments	(21)	–	(21)	33	–	33
Reclassification of cumulative currency translation reserve on disposal	(13)	–	(13)	–	–	–
Amounts charged to hedging reserve	(34)	–	(34)	–	–	–
Fair value movements on available-for-sale investments	–	–	–	–	1	1
Reclassification of fair value movements on available-for-sale investments	–	–	–	–	(5)	(5)
Tax on items that may be reclassified to the income statement	11	–	11	–	–	–
Total other comprehensive income for the period (net of tax)	(100)	(540)	(640)	(25)	(206)	(231)
Total comprehensive income for the period	(100)	(58)	(158)	(25)	278	253
Attributable to:						
Equity shareholders	(100)	(66)	(166)	(25)	272	247
Non-controlling interests	–	8	8	–	6	6
	(100)	(58)	(158)	(25)	278	253

1 The UK current tax rate was reduced from 26% to 24% with effect from 1 April 2012, creating a charge of £38m included within the credit of £170m for tax on items that will not be reclassified to the income statement. Included within the £42m credit in 2011 is a charge of £26m arising on the reduction of the UK current tax rate from 28% to 26% with effect from 1 April 2011.

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NOTES TO THE CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

1. PREPARATION

Basis of preparation and statement of compliance

These condensed consolidated half-yearly financial statements of BAE Systems plc (the Group) have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. The annual consolidated financial statements of the Group are prepared in accordance with EU-endorsed International Financial Reporting Standards (IFRSs). These condensed consolidated half-yearly financial statements do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006, and should be read in conjunction with the Annual Report 2011. The comparative figures for the year ended 31 December 2011 are not the Group's statutory accounts for that financial year. Those accounts have been reported upon by the Group's auditors and delivered to the registrar of companies. The report of the auditors was unqualified, 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 statements under section 498 (2) or (3) of the Companies Act 2006.

Except as described below, the accounting policies adopted in the preparation of these condensed consolidated half-yearly financial statements to 30 June 2012 are consistent with the accounting policies applied by the Group in its consolidated financial statements as at, and for the year ended, 31 December 2011 as required by the Disclosure and Transparency Rules of the UK's Financial Services Authority.

Changes in accounting policies

The Group has early adopted amendments to IAS 1, Presentation of Financial Statements, which requires items within Other Comprehensive Income that may be reclassified to the income statement to be grouped together. This amendment is concerned with disclosure only and has no impact on the reported results or financial position of the Group.

NOTES TO THE CONDENSED HALF-YEARLY FINANCIAL STATEMENTS – CONDENSED CONSOLIDATED INCOME STATEMENT

2. SEGMENTAL ANALYSIS

In 2011, the Group revised its reporting segments to align with its strategic direction and improve visibility in areas of recent development of the business, notably Cyber & Intelligence and Electronic Systems.

Sales and revenue by reporting segment

	Combined sales of Group and share of equity accounted investments		Less: sales by equity accounted investments		Add: sales to equity accounted investments		Revenue	
	Six months ended 30 June 2012 £m	Restated[1] Six months ended 30 June 2011 £m	**Six months ended 30 June 2012 £m**	Restated[1] Six months ended 30 June 2011 £m	**Six months ended 30 June 2012 £m**	Restated[1] Six months ended 30 June 2011 £m	**Six months ended 30 June 2012 £m**	Restated[1] Six months ended 30 June 2011 £m
Electronic Systems	**1,181**	1,221	**(26)**	(23)	**26**	23	**1,181**	1,221
Cyber & Intelligence	**714**	651	**–**	–	**–**	–	**714**	651
Platforms & Services (US)	**2,254**	2,685	**(23)**	(14)	**–**	–	**2,231**	2,671
Platforms & Services (UK)	**2,651**	3,052	**(736)**	(642)	**709**	600	**2,624**	3,010
Platforms & Services (International)	**1,573**	1,756	**(337)**	(421)	**–**	–	**1,236**	1,335
HQ	**123**	106	**(123)**	(106)	**–**	–	**–**	–
	8,496	9,471	**(1,245)**	(1,206)	**735**	623	**7,986**	8,888
Intra-group sales/revenue	**(162)**	(242)	**–**	13	**13**	21	**(149)**	(208)
	8,334	9,229	**(1,245)**	(1,193)	**748**	644	**7,837**	8,680

Reporting segment result

	Underlying EBITA[2]		Non-recurring items[3]		Amortisation of intangible assets		Impairment of intangible assets		Reporting segment result	
	Six months ended 30 June 2012 £m	Restated[1] Six months ended 30 June 2011 £m	**Six months ended 30 June 2012 £m**	Restated[1] Six months ended 30 June 2011 £m	**Six months ended 30 June 2012 £m**	Restated[1] Six months ended 30 June 2011 £m	**Six months ended 30 June 2012 £m**	Restated[1] Six months ended 30 June 2011 £m	**Six months ended 30 June 2012 £m**	Restated[1] Six months ended 30 June 2011 £m
Electronic Systems	**164**	172	**–**	–	**(9)**	(7)	**(2)**	–	**153**	165
Cyber & Intelligence	**54**	55	**–**	–	**(26)**	(30)	**–**	–	**28**	25
Platforms & Services (US)	**189**	256	**18**	(6)	**(48)**	(69)	**(61)**	–	**98**	181
Platforms & Services (UK)	**420**	310	**–**	–	**(14)**	(16)	**–**	(22)	**406**	272
Platforms & Services (International)	**161**	211	**–**	–	**(4)**	(4)	**–**	–	**157**	207
HQ	**(49)**	(36)	**–**	(49)	**–**	–	**–**	–	**(49)**	(85)
	939	968	**18**	(55)	**(101)**	(126)	**(63)**	(22)	**793**	765
Financial income of equity accounted investments									**2**	4
Taxation expense of equity accounted investments									**(9)**	(12)
Operating profit									**786**	757
Finance costs									**(131)**	(66)
Profit before taxation									**655**	691
Taxation expense									**(177)**	(191)
Profit for the period – continuing operations									**478**	500

1 Restated following changes to the Group's reporting segments.
2 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items.
3 Non-recurring items comprises profit on disposal of businesses £18m (2011 loss £6m) and regulatory penalties £nil (2011 £49m).

NOTES TO THE CONDENSED HALF-YEARLY FINANCIAL STATEMENTS – CONDENSED CONSOLIDATED INCOME STATEMENT *(continued)*

3. FINANCE COSTS

	Six months ended 30 June 2012 £m	Six months ended 30 June 2011 £m
Net finance costs:		
Group	**(131)**	(66)
Share of equity accounted investments	**2**	4
	(129)	(62)
Analysed as:		
Underlying interest (expense)/income:		
Group[1]	**(98)**	(110)
Share of equity accounted investments	**7**	6
	(91)	(104)
Other:		
Group:		
Net financing (charge)/credit on pensions	**(33)**	12
Market value and foreign exchange movements on financial instruments and investments	**–**	45
Charges relating to early redemption of debt	**–**	(13)
Share of equity accounted investments	**(5)**	(2)
	(129)	(62)

1 Underlying interest expense for the six months ended 30 June 2011 restated to exclude £13m of pre-tax charges relating to early redemption of debt, with £28m that would have been incurred in future years remaining within underlying interest.

4. DISCONTINUED OPERATIONS

Regional Aircraft

The Asset Management and Support & Engineering businesses comprised the Group's Regional Aircraft line of business within the HQ reporting segment.

In July 2011, the Group sold the Asset Management business.

The Support & Engineering business is classified as held for sale at 30 June 2012 (see note 6).

5. EARNINGS PER SHARE

	Six months ended 30 June 2012 £m	Six months ended 30 June 2012 Basic pence per share	Six months ended 30 June 2012 Diluted pence per share	Six months ended 30 June 2011 £m	Six months ended 30 June 2011 Basic pence per share	Six months ended 30 June 2011 Diluted pence per share
Profit for the period attributable to equity shareholders	**474**	**14.6**	**14.6**	478	14.0	14.0
Represented by:						
Continuing operations	**470**	**14.5**	**14.5**	494	14.5	14.5
Discontinued operations	**4**	**0.1**	**0.1**	(16)	(0.5)	(0.5)
Add back/(deduct):						
(Profit)/loss on disposal of businesses	**(18)**			6		
Regulatory penalties	**–**			49		
Net financing charge/(credit) on pensions, post tax	**26**			(9)		
Market value movements on derivatives, post tax	**2**			(32)		
Charges relating to early redemption of debt, post tax[1]	**–**			10		
Amortisation and impairment of intangible assets, post tax	**91**			93		
Impairment of goodwill	**39**			22		
Underlying earnings, post tax	**614**	**18.9**	**18.9**	617	18.1	18.0
Represented by:						
Continuing operations	**610**	**18.8**	**18.8**	633	18.6	18.5
Discontinued operations	**4**	**0.1**	**0.1**	(16)	(0.5)	(0.5)
	614	**18.9**	**18.9**	617	18.1	18.0

	2012 Millions	2012 Millions	2011 Millions	2011 Millions
Weighted average number of shares used in calculating basic earnings per share	**3,240**	**3,240**	3,411	3,411
Incremental shares in respect of employee share schemes		**9**		13
Weighted average number of shares used in calculating diluted earnings per share		**3,249**		3,424

1 Restated for the six months ended 30 June 2011 to exclude the add back of £28m of pre-tax charges that would have been incurred in future years and, therefore, remain within underlying earnings.

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.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	**Six months ended 30 June 2012 £m**	Six months ended 30 June 2011 £m
Profit for the period		**482**	484
Taxation expense		**177**	196
Share of results of equity accounted investments		**(24)**	(34)
Net finance costs		**131**	69
Depreciation, amortisation and impairment		**320**	366
Profit on disposal of property, plant and equipment		**(3)**	(9)
Profit on disposal of investment property		**(3)**	(2)
(Profit)/loss on disposal of businesses		**(19)**	6
Cost of equity-settled employee share schemes		**28**	25
Movements in provisions		**(143)**	(185)
Decrease in liabilities for retirement benefit obligations		**(203)**	(98)
(Increase)/decrease in working capital:			
Inventories		**(110)**	(53)
Trade and other receivables		**(147)**	(67)
Trade and other payables		**424**	(522)
Cash inflow from operating activities		**910**	176
Interest paid		**(99)**	(129)
Taxation paid		**(56)**	(117)
Net cash inflow/(outflow) from operating activities		**755**	(70)
Dividends received from equity accounted investments		**16**	6
Interest received		**31**	33
Income from financial assets at fair value through profit or loss		**–**	4
Purchases of property, plant and equipment, and investment property		**(173)**	(162)
Purchases of intangible assets		**(25)**	(7)
Proceeds from sale of property, plant and equipment, and investment property		**9**	23
Purchase of subsidiary undertakings (net of cash acquired)	9	**(5)**	(537)
Proceeds from sale of subsidiary undertakings (net of cash disposed)		**23**	3
Proceeds from sale of financial assets at fair value through profit or loss		**–**	152
Purchase of other deposits/securities		**–**	(13)
Net cash outflow from investing activities		**(124)**	(498)
Purchase of own shares		**(16)**	(11)
Equity dividends paid	8	**(367)**	(359)
Dividends paid to non-controlling interests		**(11)**	(18)
Cash (outflow)/inflow from matured derivative financial instruments		**(49)**	38
Cash outflow from movement in cash collateral		**–**	(3)
Cash inflow from loans		**1,457**	592
Cash outflow from repayment of loans		**(1,326)**	(741)
Net cash outflow from financing activities		**(312)**	(502)
Net increase/(decrease) in cash and cash equivalents		**319**	(1,070)
Cash and cash equivalents at 1 January		**2,136**	2,802
Effect of foreign exchange rate changes on cash and cash equivalents		**(4)**	(21)
Cash and cash equivalents at end of period		**2,451**	1,711
Comprising:			
Cash and cash equivalents[1]		**2,464**	1,727
Cash and cash equivalents (included within assets of disposal groups held for sale)		**–**	15
Overdrafts		**(13)**	(31)
Cash and cash equivalents at end of period		**2,451**	1,711

1 Includes £428m (30 June 2011 £13m) of cash held in Trust for the benefit of the BAE Systems Pension Scheme and BAE Systems 2000 Pension Plan (see note 7).

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2012 £m	31 December 2011 £m
Non-current assets			
Intangible assets		**11,231**	11,465
Property, plant and equipment		**2,456**	2,496
Investment property		**137**	130
Equity accounted investments		**750**	783
Other investments		**5**	5
Other receivables		**271**	314
Other financial assets		**105**	118
Deferred tax assets		**1,511**	1,409
		16,466	16,720
Current assets			
Inventories		**794**	716
Trade and other receivables including amounts due from customers for contract work		**3,499**	3,369
Current tax		**14**	60
Other financial assets		**71**	77
Cash and cash equivalents		**2,464**	2,141
Assets of disposal groups held for sale	6	**105**	18
		6,947	6,381
Total assets		**23,413**	23,101
Non-current liabilities			
Loans		**(3,054)**	(2,682)
Trade and other payables		**(636)**	(571)
Retirement benefit obligations	7	**(5,173)**	(4,673)
Other financial liabilities		**(78)**	(74)
Deferred tax liabilities		**(19)**	(26)
Provisions		**(451)**	(501)
		(9,411)	(8,527)
Current liabilities			
Loans and overdrafts		**(265)**	(518)
Trade and other payables		**(8,826)**	(8,531)
Other financial liabilities		**(248)**	(284)
Current tax		**(475)**	(468)
Provisions		**(380)**	(453)
Liabilities of disposal groups held for sale	6	**(34)**	(21)
		(10,228)	(10,275)
Total liabilities		**(19,639)**	(18,802)
Net assets		**3,774**	4,299
Capital and reserves			
Issued share capital		**90**	90
Share premium		**1,249**	1,249
Other reserves		**5,281**	5,381
Accumulated losses		**(2,901)**	(2,480)
Total equity attributable to equity holders of the parent		**3,719**	4,240
Non-controlling interests		**55**	59
Total equity		**3,774**	4,299

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						
	Issued share capital £m	Share premium £m	Other reserves[1] £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2012	90	1,249	5,381	(2,480)	4,240	59	4,299
Profit for the period	–	–	–	474	474	8	482
Total other comprehensive income for the period	–	–	(100)	(540)	(640)	–	(640)
Share-based payments	–	–	–	28	28	–	28
Purchase of own shares	–	–	–	(16)	(16)	–	(16)
Ordinary share dividends	–	–	–	(367)	(367)	(11)	(378)
Other	–	–	–	–	–	(1)	(1)
At 30 June 2012	**90**	**1,249**	**5,281**	**(2,901)**	**3,719**	**55**	**3,774**
At 1 January 2011	90	1,249	5,470	(1,477)	5,332	71	5,403
Profit for the period	–	–	–	478	478	6	484
Total other comprehensive income for the period	–	–	(25)	(206)	(231)	–	(231)
Share-based payments	–	–	–	25	25	–	25
Purchase of own shares	–	–	–	(11)	(11)	–	(11)
Ordinary share dividends	–	–	–	(359)	(359)	(18)	(377)
Other	–	–	–	–	–	(2)	(2)
At 30 June 2011	90	1,249	5,445	(1,550)	5,234	57	5,291

1 The net decrease in other reserves in 2012 of £100m comprises translation reserve (£77m) and hedging reserve (£23m). The net decrease in other reserves in 2011 of £25m comprises translation reserve.

NOTES TO THE CONDENSED HALF-YEARLY FINANCIAL STATEMENTS – CONDENSED CONSOLIDATED BALANCE SHEET

6. DISPOSAL GROUPS HELD FOR SALE

Regional Aircraft
The Support & Engineering business is expected to be sold in the next 12 months and is classified as held for sale at 30 June 2012.

Safariland
On 2 May 2012, the Group announced that it had agreed the sale of its Safariland business to a newly formed acquisition vehicle affiliated with Kanders & Company, Inc. for cash consideration of approximately $114m (£73m) before closing adjustments and transaction costs. The disposal subsequently completed on 27 July 2012. Accordingly, the business has been classified as held for sale at 30 June 2012. An impairment charge of £48m was taken upon classification of the business as held for sale.

Assets and liabilities of disposal groups held for sale

	30 June 2012 £m	31 December 2011 £m
Safariland:		
Intangible assets	23	–
Property, plant and equipment	15	–
Inventories	18	–
Trade and other receivables	21	–
Deferred tax assets	2	–
Regional Aircraft – Support & Engineering	26	18
Assets of disposal groups	**105**	18
Safariland:		
Trade and other payables	(11)	–
Regional Aircraft – Support & Engineering	(23)	(21)
Liabilities of disposal groups	**(34)**	(21)

NOTES TO THE CONDENSED HALF-YEARLY FINANCIAL STATEMENTS – CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

7. RETIREMENT BENEFIT OBLIGATIONS

	UK £m	US and other £m	**Total £m**
Total IAS 19 deficit at 1 January 2012	(4,676)	(909)	**(5,585)**
Actual return on assets above expected return	13	105	**118**
Increase in liabilities due to changes in assumptions and experience	(810)	(240)	**(1,050)**
Additional contributions	146	–	**146**
Recurring contributions above/(below) service cost	73	(8)	**65**
Past service cost	(16)	–	**(16)**
Curtailment gains	–	26	**26**
Net financing (charge)/credit	(60)	15	**(45)**
Exchange translation	–	7	**7**
Movement in US healthcare plans	–	11	**11**
Total IAS 19 deficit at 30 June 2012	(5,330)	(993)	**(6,323)**
Allocated to equity accounted investments and other participating employers	1,196	–	**1,196**
Group's share of IAS 19 deficit excluding Group's share of amounts allocated to equity accounted investments and other participating employers at 30 June 2012	(4,134)	(993)	**(5,127)**
Represented by:			
Pension prepayments (within trade and other receivables)	–	46	**46**
Retirement benefit obligations	(4,134)	(1,039)	**(5,173)**
	(4,134)	(993)	**(5,127)**

The increase in liabilities due to changes in assumptions and experience reflects, in the UK, a 0.2 percentage point reduction in the real discount rate to 1.7% and, in the US, a 0.6 percentage point reduction in the nominal discount rate to 4.4%.

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 in 2006. As these plans are multi-employer plans, the Group has allocated an appropriate share of the IAS 19, Employee Benefits, pension deficit to the equity accounted investments and Airbus SAS based upon a 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.

During the period, the Group contributed £25m into Trust for the benefit of the BAE Systems 2000 Pension Plan (2000 Plan). Cumulative contributions into Trust of £412m for the benefit of both the BAE Systems Pension Scheme and 2000 Plan, plus fair value gains of £16m, are reported within cash and cash equivalents (£428m) at 30 June 2012. The use of these assets is restricted under the terms of the Trusts. 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.

	30 June 2012 £m	31 December 2011 £m
Group's share of IAS 19 deficit, net	**(5,127)**	(4,620)
Assets held in Trust	**428**	403
Pension deficit (as defined by the Group)	**(4,699)**	(4,217)

The pension deficit (as defined by the Group) is £3.3bn (31 December 2011 £3.0bn) after tax.

NOTES TO THE CONDENSED HALF-YEARLY FINANCIAL STATEMENTS – OTHER INFORMATION

8. EQUITY DIVIDENDS

	Six months ended 30 June 2012 £m	Six months ended 30 June 2011 £m
Prior year final 11.3p dividend per ordinary share paid in the period (2010 10.5p)	**367**	359

The directors have declared an interim dividend of 7.8p per ordinary share (2011 7.5p), totalling £253m (2011 £247m). The dividend will be paid on 30 November 2012 to shareholders registered on 19 October 2012. The ex-dividend date is 17 October 2012.

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 9 November 2012.

9. ACQUISITION OF SUBSIDIARIES

During the half year ended 30 June 2012, the Group paid $7m (£5m) of deferred consideration in respect of the acquisition of OASYS Technology, LLC in 2010.

During the half year ended 30 June 2011, the Group acquired L-1 Identity Solutions, Inc.'s Intelligence Services Group, Norkom Group plc, ETI A/S, Fairchild Imaging, Inc. and stratsec.net Pty Limited. Certain of the fair values assigned to the net assets at the dates of acquisition were provisional and, in accordance with IFRS 3, Business Combinations, the Group has subsequently finalised these values with no material impact on goodwill.

10. RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its directors and key management personnel, equity accounted investments, and 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:

	Six months ended 30 June 2012 £m	Six months ended 30 June 2011 £m
Sales to related parties	**748**	644
Purchases from related parties	**53**	159

	30 June 2012 £m	31 December 2011 £m
Amounts owed by related parties	**274**	234
Amounts owed to related parties	**1,047**	1,161

FOR MORE INFORMATION

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Registered in England and Wales No. 1470151

07.12.HYRP.OPC.01