

BAE Systems

2007 Preliminary Results

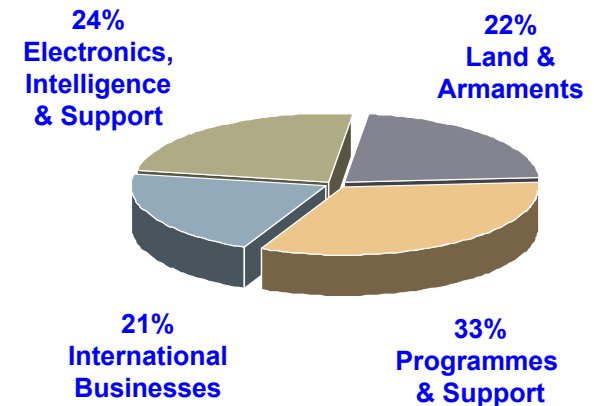
21 February 2008



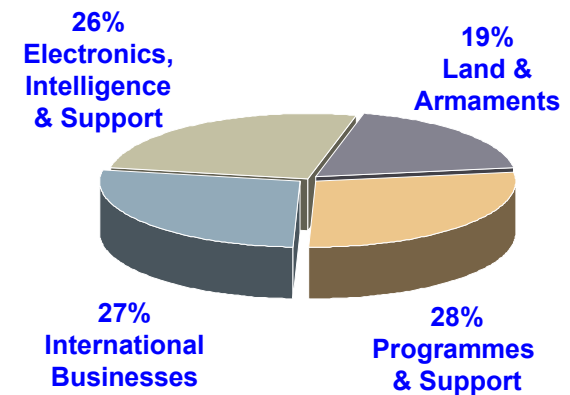
Overview - 2007

- **Company performing well**
- **Consistently applied strategy**
- **Successful transition**
 - recovery to sustainable growth
- **Excellent future visibility**
 - large order book
 - appropriate terms of trade
 - good programme execution
- **Strategy successfully differentiating us**
 - from other industries
 - from defence peers

Sales by Sector



EBITA by Sector



Unrivalled breadth and balance of market position

UK businesses

- **Successfully establishing UK through-life business**
 - military air support successes
- **Air**
 - Tornado ATTAC
 - Typhoon Tranche 3 pricing underway
- **Land**
 - excellent UoR performance supporting UK forces
 - FRES uncertainty continues
- **Naval**
 - **Type 45**
 - second and third ships launched
 - successful sea trials
 - six ship pricing and contract secured
 - **Astute**
 - First of Class launched
 - 3 + boat pricing and contracts secured
 - **Naval sector consolidation opportunity**
 - CVF
 - joint venture with VT Group



Business planning assumptions anticipate continued difficult UK defence procurement environment

US businesses - Electronics Intelligence & Support

- **Electronics & Integrated Solutions**
 - Strong demand for Electronic Warfare systems continues
 - over 100 F-22 production EW system deliveries
 - first F-35 JSF production EW system deliveries
 - over 1,000 CMWS delivered
 - Thermal Weapon Sight production over 1,500 / month
 - New hybrid drive and power systems demonstrated
- **Customer Solutions**
 - Ship Repair contracts including DDG class Destroyers and San Antonio class amphibious dock ships
 - MTC Technologies acquisition announced
 - address substantial US readiness and sustainability market



US businesses - Land & Armaments

- **Strong underlying business performance**
 - Organic growth driven by tracked vehicle reset and upgrade
 - Higher activity from UK business
 - Acquisition of Armor Holdings in second half
- **Mine Protected Vehicle programmes**
 - Substantial MRAP order intake
 - Successful RG31, RG33 and Caiman production ramp
 - RG33 selected as basis for MMPV
- **Future programmes**
 - FCS tracked ground vehicle programmes - NLOS-C
 - FMTV medium utility vehicle programme
 - JLTV light utility vehicle bidding





Kingdom of Saudi Arabia

- **Investments in-Kingdom**
 - industrialisation plan
 - new compound build
 - management relocation

- **Modernisation programme underway**
 - Tornado support
 - Typhoon contract signed



Other Home Markets

- **Sweden**
 - Danish and Dutch CV90 deliveries underway
- **South Africa**
 - RG31 vehicle exports
- **Australia**
 - Defence electronics
 - Through-life capability provision



- **A\$775m proposed acquisition of Tenix Defence**
- **Consistent with BAE Systems home market strategy**
- **Adds Naval and enhances Land systems capabilities in Australia**
- **Well positioned for provision of through-life support to ADF**
- **Expected to generate return in excess of cost of capital in first full year**



BAE Systems will become Australia's largest defence company

Top Ten Objectives - 2007

- 1. Meet 2007 financial targets and set realistic/challenging longer term plans**
 - 2. Ensure continued quality application of our mandated business processes**
 - 3. Further enhance programme execution - schedule and cost performance**
 - 4. Continue to grow our US business**
 - 5. Continue to implement the UK Defence Industrial Strategy**
 - 6. Progress business and investment in the Kingdom of Saudi Arabia**
 - 7. Develop export opportunities from each of our home markets**
 - 8. Demonstrate commitment to working together across our global businesses**
 - 9. Maximise development and growth of existing and potential new home markets**
 - 10. Demonstrate leadership at all levels in our company**
-

George Rose



Financial Highlights

• Sales - continuing	£15,710m
• Underlying EBITA - continuing *	£1,489m
• Underlying earnings per share - continuing **	31.0p
• Cash inflow from operating activities	£2,162m
• Net cash	£700m
• Order book	£38.6bn
• Dividend per share	12.8p



* earnings before amortisation and impairment of intangible assets, finance costs and taxation, and uplift in acquired inventories

** excluding amortisation and impairment of intangible assets, non-cash finance movements, and uplift in acquired inventories

Income Statement

- Continuing Operations

	2007 Underlying	2006 Underlying	2007 Reported	2006 Reported
Sales	<u>15,710</u>	<u>13,765</u>	<u>15,710</u>	<u>13,765</u>
EBITA *	<u>1,477</u>	<u>1,207</u>	<u>1,477</u>	<u>1,207</u>
Profit in acquired inventories	<u>12</u>	<u>-</u>		
Underlying EBITA	<u>1,489</u>	<u>1,207</u>		
Finance Costs	93	(174)	93	(174)
(deduct) / add back: Pension Interest	(92)	(45)		
Mark to Market	(39)	62		
Underlying Finance Costs	<u>(38)</u>	<u>(157)</u>		
Amortisation/Impairment			(297)	(139)
Tax	(381)	(280)	(373)	(248)
Minority Interests	(21)	(3)		
Profit after Tax	<u>1,049</u>	<u>767</u>	<u>900</u>	<u>646</u>

* earnings before amortisation and impairment of intangible assets, finance costs and taxation

£ millions

Balance Sheet

	31/12/07	31/12/06
Intangible fixed assets	9,559	7,595
Tangible fixed assets	1,887	1,869
Investments	787	678
Working capital	(5,481)	(4,598)
Retirement benefit obligations	(1,629)	(2,499)
Tax assets & liabilities	63	648
Financial assets & liabilities	52	6
Assets held for resale	64	-
Net cash	700	435
Net assets	6,002	4,134

£ millions

Operating Business Cash Flow

2007

Cash inflow from operating activities
 Capital expenditure (net) & financial investment
 Dividends from equity accounted investments
 Operating business cash flow

2,162
(262)
78
<hr/>
1,978

Electronics, Intelligence & Support
 Land & Armaments
 Programmes & Support
 International Businesses
 HQ & Other Businesses
 Operating business cash flow

302
10
807
678
181
<hr/>
1,978

£ millions

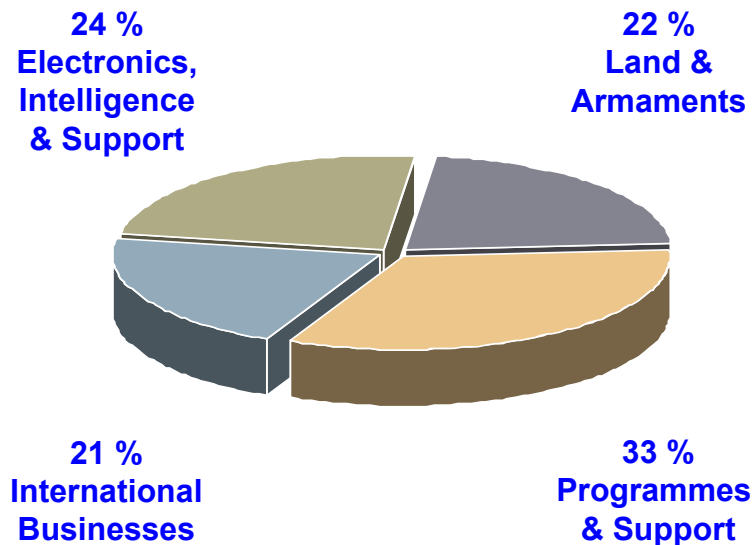
Movement in Net Cash

	2007
Net Cash 31.12.06	435
Operating business cash flow	1,978
Interest, preference dividends and taxation	(177)
Equity dividends paid	(396)
Acquisitions & disposals	(2,112)
Net issue of equity shares	603
Preference share conversion	245
Foreign exchange	36
Movement in cash on customers' account	32
Other movements	56
Net Cash 31.12.07	700

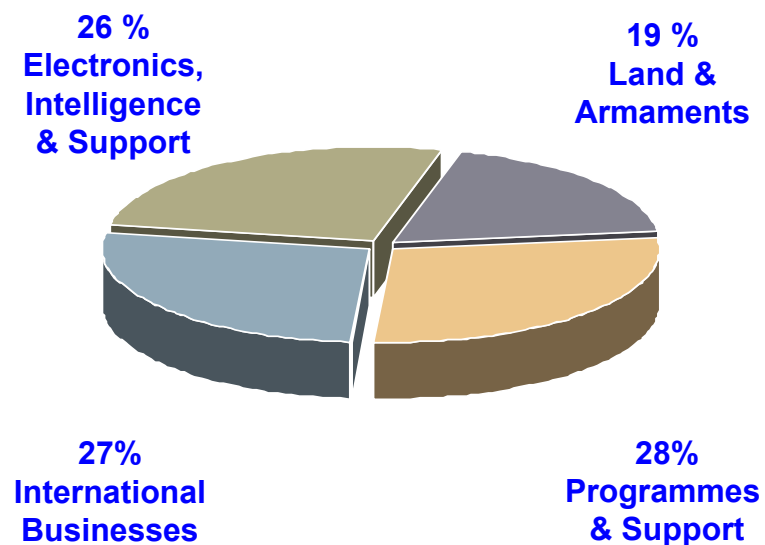
£ millions

Business Groups

**2007
Sales by Sector ***



**2007
EBITA by Sector ***

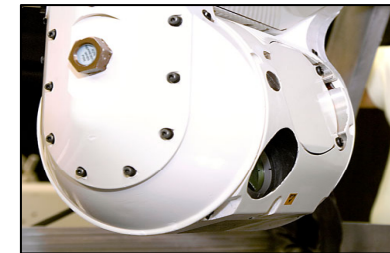


Strong performance – well balanced business

* excludes HQ & Other Businesses

Electronics, Intelligence & Support

	2007	2006
Sales	\$7,838m	\$7,387m
EBITA	\$859m	\$790m *
Margin	11.0%	10.7% *
Order book	\$6.9bn	\$6.7bn
Cash flow	\$604m	\$503m



* includes \$113m pension accounting gain

Land & Armaments

	2007	2006
Sales	\$7,082m	\$3,899m
EBITA	\$625m	\$310m
Underlying EBITA *	\$649m	\$310m
Underlying Margin	9.2%	7.9%
Order book	\$14.5bn	\$9.6bn
Cash flow	\$20m	\$253m



* earnings before amortisation and impairment of intangible assets, finance costs and taxation, and uplift in acquired inventories

Programmes & Support

	2007	2006
Sales	£5,327m	£4,615m
EBITA	£456m	£342m
Margin	8.6%	7.4%
Order book	£20.9bn	£17.0bn
Cash flow	£807m	£449m



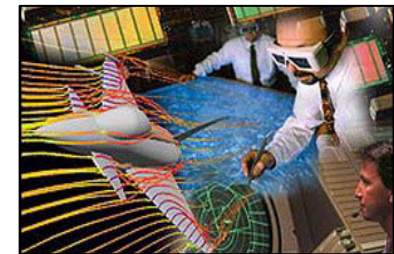
International Businesses

	2007	2006
Sales	£3,359m	£3,428m
EBITA	£435m	£415m
Margin	13.0%	12.1%
Order book	£7.9bn	£7.1bn
Cash flow	£678m	£171m



HQ & Other Businesses

	2007	2006
Sales	£243m	£295m
EBITA	£(155)m	£(147)m
Cash flow	£181m	£(225)m



Financial Summary

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• Underlying earnings per share - continuing **	31.0p
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• Net cash	£700m
• Order book	£38.6bn
• Dividend per share	12.8p



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Mike Turner

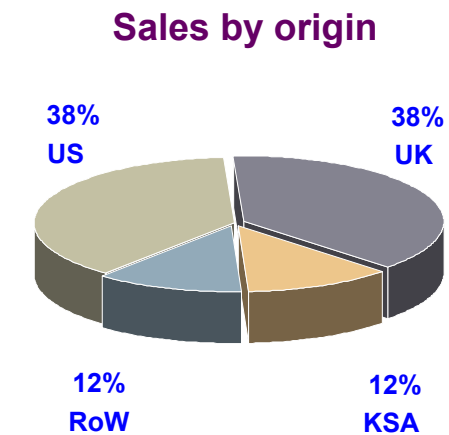


Top Ten Objectives - 2008

- 1. Meet 2008 financial targets and set challenging/realistic longer term plans**
 - 2. Develop partnering approach to meet customers' capability requirements**
 - 3. Ensure continued quality application of our mandated business processes**
 - 4. Further enhance programme execution - schedule and cost performance**
 - 5. Progress development of security capabilities in our home markets**
 - 6. Grow our US business including execution of planned investments**
 - 7. Progress industrialisation plan and further business in Kingdom of Saudi Arabia**
 - 8. Continue to implement the UK Defence Industrial Strategy**
 - 9. Progress export opportunities from each of our home markets**
 - 10. Continue to drive performance in Safety, Ethics and Diversity**
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Summary

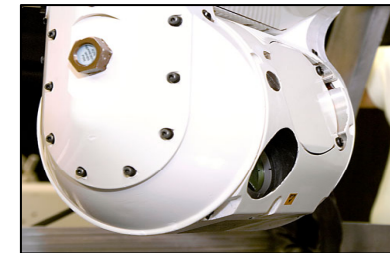
- **The company is performing well**
- **Broad base of programmes and markets**
- **Benefiting from consistently applied strategy**
 - Delivering performance now
 - Providing visibility to a strong outlook
- **Further growth opportunities to exploit**
 - Organic stretch
 - Acquisitions



Handouts

Electronics, Intelligence & Support

	2007	2006
Sales	£3,916m	£4,007m
EBITA	£429m	£429m *
Margin	11.0%	10.7% *
Order book	£3.5bn	£3.4bn
Cash flow	£302m	£273m



* includes £61m pension accounting gain

Land & Armaments

	2007	2006
Sales	£3,538m	£2,115m
EBITA	£312m	£168m
Underlying EBITA *	£324m	£168m
Underlying Margin	9.2%	7.9%
Order book	£7.3bn	£4.9bn
Cash flow	£10m	£137m



* earnings before amortisation and impairment of intangible assets, finance costs and taxation, and uplift in acquired inventories

Underlying Earnings per Share

Continuing Operations

BAE SYSTEMS

	2007	2006
EBITA	1,477	1,207
- add back fair value on acquired inventories	12	-
	1,489	1,207
Interest	93	(174)
- exclude pension financing credit	(92)	(45)
- exclude market value movements on derivatives	(39)	62
	(38)	(157)
Tax	(373)	(248)
- impact of fair value on acquired inventories	(3)	-
- impact of pension financing credit	24	12
- impact of market value movements on derivatives	10	(16)
- exclude tax on intangibles	(39)	(28)
	(381)	(280)
Minority interests	(21)	(3)
	1,049	767
Underlying earnings	1,049	767
Weighted average number of shares in issue	3,386	3,225
Underlying earnings per share	31.0p	23.8p

£ millions

Retirement Benefit Obligations

	2007
Deficit in defined benefit pension plans at 31.12.06	(3,167)
Decrease in liabilities due to changes in assumptions	952
Actual return on assets below expected returns	(156)
Contributions over service cost	290
Transfers arising on acquisitions	(22)
Other movements	104
Deficit in defined benefit pension plans at 31.12.07	(1,999)
US Healthcare plans	(21)
Total IAS 19 deficit	(2,020)
Allocated to EAls and other participating employers	450
Group's share of IAS 19 deficit * (pre-tax)	(1,570)
Group's share of IAS 19 deficit (post-tax)	(1,048)

* Balance Sheet classification : £59m within Receivables, £(1,629)m Retirement Benefit Obligations

£ millions

Operating Cash Flow

	2007
EBITA	1,477
Less share of equity accounted investments	(142)
Add depreciation & impairment	313
Gain on disposal of fixed assets & investments	(52)
Gain on disposal of businesses	(40)
Cost of equity-settled employee share schemes	34
Movements in retirement benefit obligations	(233)
Movements in provisions	52
Movements in inventories	(188)
Movements in trade and other receivables	(271)
Movements in trade and other payables	1,212
Cash inflow from operating activities	<u>2,162</u>

£ millions

Working Capital Movements

Reconciliation to Cash Flow

BAE SYSTEMS

	31/12/07	31/12/06	Mvt	Acq/Dis *	F/X	Other	Cash Flow
Inventories (A)	701	395	(306)	119	3	(4)	(188)
Receivables - current	2,933	2,253					
Receivables – non-current	322	569					
Total receivables (B)	3,255	2,822	(433)	126	15	21	(271)
Payables - current	(8,245)	(6,717)					
Payables – non-current	(413)	(465)					
Total payables ** (C)	(8,658)	(7,182)	1,476	(209)	(47)	(8)	1,212
Liability provisions - current	(410)	(424)					
Liability provisions – non-current	(399)	(271)					
Total liability provisions (D)	(809)	(695)	114	(52)	-	(10)	52
Working capital per cash flow	(5,511)	(4,660)	851				
Cash on customers' account (E)	30	62	32				
Working capital per balance sheet ***	(5,481)	(4,598)	883				

* includes assets held for resale

** includes cash on customers' account

*** equals A+B+C+D+E

£ millions

2007 Performance by Business Group

	Sales	Underlying EBITA
Electronics, Intelligence & Support	3,916	429
Land & Armaments	3,538	324
Programmes & Support	5,327	456
International Businesses	3,359	435
HQ & Other Businesses	243	(155)
Intra-group	(673)	-
Total	<u>15,710</u>	<u>1,489</u>

£ millions

2007 growth

	Sales			EBITA		
	2007	2006	Growth	2007	2006	Growth
Continuing Businesses	15,710	13,765	+14.1%	1,489	1,207	+23.4%
Foreign Exchange:						
USD		(404)			(47)	
Other		10			1	
Adjusted for foreign exchange	15,710	13,371	+17.5%	1,489	1,161	+28.3%
Transactions:						
Armor Holdings	(725)	-		(89)	-	
Other	(55)	(267)		(46)	(26)	
Adjusted for f/x and transactions	14,930	13,104	+13.9%	1,354	1,135	+19.3%
Pension accounting gain					(61)	
	14,930	13,104	+13.9%	1,354	1,074	+26.1%

£ millions