

2007: A year of delivery



“2007 has been another successful year for BAE Systems. The Group has again delivered a strong financial performance and has achieved much success in pursuit of its strategic objectives.”

Dick Olver Chairman

2007 was another successful year for BAE Systems. The Group has again delivered a strong financial performance and has achieved much success in pursuit of its strategic objectives.

Our multi-home market strategy continues to generate opportunities for growth.

In the UK, an increased emphasis on through-life business support is being addressed successfully. Similarly, the Group's strategy to develop an enhanced industrial presence in the Kingdom of Saudi Arabia has underpinned the winning of substantial new business that will provide future growth in that market.

In the US, we continue to see the benefits of a well-executed acquisition strategy.

Our global strategy will continue to develop. The Group's focus on business in its six home markets is delivering good returns and consideration is now being given to establish a presence in new home markets.

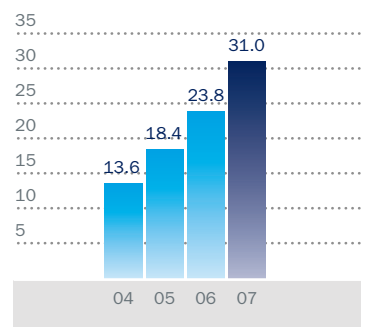
A more global footprint brings with it responsibility to a wider, more diverse stakeholder base. As we grow internationally, it becomes increasingly important to keep pace with evolving customer and stakeholder expectations – both in programme delivery and the methods by which we deliver our business. We seek to nurture a culture within the Group of continuous improvement – in all aspects of business performance. This includes ethical awareness as we work

to achieve the highest standards of governance in the conduct of our day-to-day business.

As part of that drive, the Board agreed to undertake an expert and independent audit of our ethical business conduct, to measure where we stand today and to provide a point of reference with which to measure our progress over time. In June 2007, the Board appointed an independent committee, chaired by Lord Woolf, the former Lord Chief Justice of England and Wales. The Woolf Committee will report on the status of ethics and governance in the Group and make recommendations on improving areas of weakness that may be found. The report will be published and the Board has undertaken to act on all such recommendations of the Committee. We have taken this bold step because we are committed to being the industry leader in business ethics. The Woolf Committee report will be a valuable tool in our pursuit of this objective.

During the year, further changes were made in the composition of the Board. With a ratio of eight

Underlying earnings¹ per share from continuing operations (pence)



1 earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and uplift on acquired inventories (see note 10 to the Group accounts)

independent non-executive directors to four executive directors, excluding myself as Chairman, we have a strong Board with a wealth of experience in both our own industry and international business generally. During the year we welcomed Andy Inglis, who has a strong background in global programme execution, to the Board. Also, I am pleased to report that Ravi Uppal will be joining the Board in April as a non-executive director. He is currently President, Global Markets for ABB Limited and has first hand experience of managing engineering and technology businesses in Europe, the Middle East and India. One of our current non-executive directors, Peter Weinberg, will be standing down and not seeking re-election at this year's Annual General Meeting in May. He leaves us to dedicate more time to his business interests as a partner in the rapidly growing financial services firm, Perella Weinberg Partners. I wish him well for the future.

Ulrich Cartellieri, Steve Mogford and Chris Geoghegan retired from the Board during the year and my sincere thanks go to them for their dedicated service to the Group.

Succession planning is vital to the wellbeing of a company, and BAE Systems has a well-defined and rigorous process for ensuring the continuity of high quality management appointments throughout the Group. The announcement setting out the timetable for the appointment of a successor to Mike Turner as Chief Executive, when he steps down in August 2008, is a key part of that planning process. Mike has made an outstanding contribution across his 42 years with the Group, starting as an apprentice and culminating as Chief Executive of the highly successful company that BAE Systems is today.

Mike leads a highly skilled workforce of some 97,500 people who have delivered excellent performance during the year by providing outstanding capability and support for the armed forces and all the customers in the countries we serve. I extend my thanks to each of them for their contribution to the Group's success.

The Board is recommending an increased final dividend of 7.8p making a total of 12.8p for the year, an increase of 13.3% over 2006 endorsing our outlook for the Group. At this level the annual dividend is covered 2.4 times by underlying earnings (2006 2.1 times). Subject to shareholder approval at the 2008 Annual General Meeting, the dividend will be paid on 2 June 2008 to holders of ordinary shares registered on 18 April 2008.



Dick Oliver Chairman

The Woolf Committee

In June 2007 the Board appointed Lord Woolf to lead an independent expert committee to study and publish a report on the Group's ethical policies and processes. It is chaired by Lord Woolf.

Members of the Committee

- The Rt. Hon. The Lord Woolf of Barnes (Chairman), former Lord Chief Justice of England and Wales.
- Sir David Walker, Senior Adviser and former Chairman of Morgan Stanley International Ltd.
- Philippa Foster Back OBE, Director of the Institute of Business Ethics.
- Douglas N. Daft, AC, former Chairman and Chief Executive of the Coca-Cola Company.
- Dr Richard Jarvis (Secretary to the Committee), former Secretary to the Committee on Standards in Public Life.

Summary terms of reference

- The Committee was appointed to:
- review the Group's ethical policies and processes, and to review the Group's adherence to applicable anti-corruption legislation, including relevant international treaty obligations;
 - reach a judgement as to how the Group's policies and procedures benchmark against industry standards, whether they are sufficiently robust to ensure compliance with its ethical business policies generally and in particular to detect and prevent violations of anti-corruption laws; and
 - to make recommendations for any remedial actions it believes the Group should take.



The full terms of reference can be found on the Woolf Committee website at <http://www.woolfcommittee.com/>