

Business group reviews (continued)

The Electronics, Intelligence & Support business group, with 30,600 employees¹ and its headquarters in the US, is a provider of defence and aerospace systems, sub-systems and services. It comprises two operating groups: Electronics & Integrated Solutions and Customer Solutions.

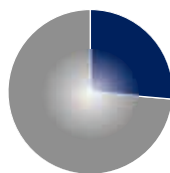
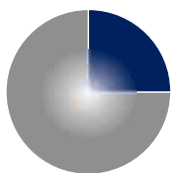
Electronics, Intelligence & Support

- Like-for-like organic sales¹ growth of 7% over 2006
- Return on sales improved to 11%

| | 2007 | 2006 | 2005 |
|---------------------------|----------------|---------|---------|
| Sales ¹ | £3,916m | £4,007m | £3,697m |
| EBITA ² | £429m | £429m | £324m |
| Return on sales | 11.0% | 10.7% | 8.8% |
| Cash inflow ³ | £302m | £273m | £323m |
| Order intake ⁴ | £4,178m | £4,311m | £3,659m |
| Order book ⁴ | £3.5bn | £3.4bn | £3.5bn |

Share of Group sales⁵ **24%**

Share of Group EBITA^{2,6} **26%**



Key points

- Continued leadership in the provision of electronic warfare systems
- New markets developing for the HybriDrive[®] propulsion systems
- Stable demand for ship repair services

Looking forward

2008 should see continued organic growth with an anticipated part-year contribution from the proposed acquisition of MTC Technologies.

Profitable growth is anticipated in the electronic warfare and other defence and aerospace electronics activities, based on the business' strong legacy technology and services positions, combined with its continued investments in key capabilities. Ship repair activity is expected to remain stable. Growth in the IT and services businesses is dependent on the near-term priorities of the US Department of Defense.

During 2007, Electronics, Intelligence & Support achieved EBITA² of £429m (2006 £429m) on sales¹ of £3,916m (2006 £4,007m) and generated operating cash inflow³ of £302m (2006 £273m).

In 2006, the return on sales benefited from a £61m pension-related accounting gain.

In 2007, US\$ translations decreased sales¹ and EBITA² when compared with 2006 by £296m and £35m respectively.

In August, BAE Systems completed the sale of its Inertial Products business for \$140m (£70m). In December, the Group agreed to sell its Surveillance and Attack business in Lansdale, Pennsylvania for a cash consideration of \$240m (£121m). Also in December, the Group announced the proposed \$448m (£225m) acquisition of MTC Technologies, Inc., a company providing technical and professional services, and equipment integration and modernisation for the US military and intelligence agencies.

Electronics & Integrated Solutions (E&IS)

E&IS designs, develops and produces electronic systems and sub-systems for a wide range of military and commercial applications. The operating group is focused on four primary capabilities: electronic warfare, commercial and military avionics, flight and engine controls, and tactical and national network systems.

During 2007, E&IS delivered its 100th F-22A electronic warfare (EW) system, the first F-35 Lightning II (Joint Strike Fighter) EW system and its 1,000th Common Missile Warning System to protect US Army helicopters and aircraft from heat-seeking missiles. E&IS continued its role with the US Department of Homeland Security to develop a commercial version of BAE Systems Directed Infrared Countermeasures (DIRCM) system, JETEYE[™], which seeks to defeat the threat of shoulder-fired anti-aircraft missiles.

The Thermal Weapon Sight (TWS) programme achieved a production rate of more than 1,500 units per month, surpassing 18,000 total deliveries by the year end. The microbolometer technology that underpins TWS was also used to secure important night vision goggle and remote weapon stations contracts.

E&IS received a contract for the production of 50 fire fielding units of the Terminal High Altitude Area Defense (THAAD) missile, supporting the transition to production of this ballistic missile defence system.

Building on its strong legacy in C4ISR⁴ systems, E&IS has begun initial deployment of its First InterComm[™] system, which enables emergency services first responders to communicate more effectively using their existing radios and frequencies.

The business received an order to build more than 1,000 helmet assemblies for Typhoon and introduced new helmet-mounted, heads-up display technology.

BAE Systems' commercial hybrid propulsion business continues to grow and reveal new opportunities. HybriDrive[®] propulsion technology

1 including share of equity accounted investments
 2 earnings before amortisation and impairment of intangible assets, finance costs and taxation expense
 3 net cash inflow from operating activities after capital expenditure (net) and financial investment, and dividends from equity accounted investments
 4 Command, Control, Communications, Computing, Intelligence, Surveillance and Reconnaissance
 5 before elimination of intra-group sales
 6 excluding HQ & Other Businesses



E&IS awarded new multi-year thermal weapon sight contract by US Army
E&IS's thermal imaging technology enables soldiers to see deep into the battlefield in all weather conditions, both day and night.

is in daily service on more than 1,100 transit buses in the United States and Canada, and ten prototypes are scheduled to enter the London bus fleet in 2008. Orders were received for an additional 1,500 systems in 2007 from New York City, Toronto, Ottawa and Houston.

As part of its initiative to integrate commercial and defence capabilities, E&IS demonstrated the first hybrid electric drive system for ground combat vehicles as part of the US Army's Future Combat Systems (FCS) programme and has developed and demonstrated a common modular power system to meet the increasing electric power demand onboard military vehicles.

E&IS continues to focus on through-life product and logistics support for the US military through its Readiness & Sustainment efforts. An on-site presence at Warner Robins Air Force Base and Tobyhanna Army Depot provides a first-hand perspective to forecast and develop upgrades.

Customer Solutions

Customer Solutions comprises three lines of business: BAE Systems Information Technology (IT); Technology Solutions and Services (TSS); and BAE Systems Ship Repair.

Customer Solutions integrates communications systems, builds and maintains precision tracking radars, and is one of the largest service providers to the US Navy. The business is also a leader in US air and missile defence systems.

BAE Systems IT capabilities include enterprise-wide managed IT operations, mission-critical application development and lifecycle information assurance solutions and analytical services. TSS provides services and solutions, system and sub-system integration, equipment sustainment, and operations and maintenance. BAE Systems Ship Repair is the leading non-nuclear ship repair company in the US providing conversion and modernisation services principally in the home ports of the US Navy.

BAE Systems IT operates within the large US government information technology market and continues to deliver mission-enabling support to its customers. BAE Systems ranked sixth in Computerworld's 'Best Places to Work in IT' for 2007. Contract successes include an award as a prime contractor for the General Services Administration (GSA) Alliant government-wide acquisition contract, a ten-year, \$50bn (£25bn) multiple award/indefinite-delivery indefinite-quantity (IDIQ) programme designed to provide full IT lifecycle support services in support of the US defence, intelligence and civilian government markets. The business was also awarded a competitive \$120m (£60m), five-year contract to develop applications for the US Department of Labor. A variety of contracts were secured by winning re-competes and new business to provide key services such as network implementation and operation, and lifecycle software development engineering to the US government.

In 2007, TSS won more than 98% of its re-competes, including technical support to the US Missile Defense Agency and Federal agencies, US Air Force range radar depot and engineering support work,

Helmet development
BAE Systems has developed new helmet-mounted display technology, the Q-Sight family of helmet displays and tracking products, that addresses a critical warfighter need for enhanced situational awareness.



and US Navy communications station operations and maintenance in Hawaii. TSS expanded into adjacent markets by supporting the US Army with critical personnel for the global war on terror and by obtaining the integrator role for the new US Air Force Battle Control System.

BAE Systems Ship Repair secured a five-year, multi-ship multi-option contract from the US Navy to maintain and repair all Arleigh Burke-class destroyers homeported or visiting San Diego, with a total potential value in excess of \$150m (£75m). Ship Repair also secured a three-year contract from the US Navy for work on three newly commissioned San Antonio-class amphibious transport dock ships and a contract from the US Navy for modernisation of the Ticonderoga-class guided missile cruiser USS Bunker Hill.



BAE Systems Ship Repair
With continued success in winning and delivering on its US Navy contracts and mix of other government and commercial work, BAE Systems Ship Repair is building on its market leading position in US non-nuclear ship repair, conversion and modernisation.