

Business group reviews (continued)

HQ & Other Businesses, with 1,800 employees¹, comprises the regional aircraft asset management and support activities, head office and UK shared services activity, including research centres and property management.

HQ & Other Businesses

- Agreements reached with the majority of reinsurers under the Group's Financial Risk Insurance Programme
- Regional Aircraft fleet valuation methodology changed

	2007	2006	2005
Sales ¹	£243m	£295m	£471m
EBITA ²	£(155)m	£(147)m	£(118)m
Cash inflow/(outflow) ³	£181m	£(225)m	£(79)m
Order intake ¹	£345m	£267m	£398m
Order book ¹	£0.4bn	£0.3bn	£0.6bn

Looking forward

The leasing market for BAE Systems aircraft continues to remain challenging, with new markets likely to be dominated by higher risk customers. Support revenues are expected to remain stable but are dependent on maintaining aircraft in service. Following the charges taken in 2007 against the carrying value of the assets, future losses are expected to be reduced.

During 2007, HQ & Other Businesses reported a loss of £155m (2006 loss £147m) on sales¹ of £243m (2006 £295m) and had an operating cash inflow³ of £181m (2006 outflow £225m). Of this, the reported loss for Regional Aircraft was £101m (2006 loss £114m) with operating cash inflow of £175m (2006 outflow £66m).

The reduction in sales when compared with 2006 was due to the disposal in March 2006 of the Aerostructures business.

During the period the Regional Aircraft leasing team made significant progress securing leases for 64 aircraft, including Avro RJ Jets to CityJet of Ireland, Blue1 of Denmark and British Airways. The market continues to be challenging. Compared with last year, revenues remained stable. A freighter conversion programme for the 146 Jet was launched after the success of a similar programme for the ATP fleet.

Much of the leasing business was underpinned by the Group's Financial Risk Insurance Programme which makes good shortfalls in actual lease income against originally estimated future income for a 15-year period from 1998 to 2013. Since 2006, BAE Systems and certain of the reinsurers have been in dispute over several areas of the policy. During 2007, agreement was reached with almost all reinsurers and settlements have been paid by them based on the net present value of estimated future claims. Arbitration proceedings now continue with one remaining reinsurer. Additional details concerning these arrangements are contained in the Risk management and principal risks section on page 49.

The Regional Aircraft loss for the year includes net charges of £76m (2006 £77m) against the carrying value of the assets of the business of which £61m was taken in the first half year. These charges include the effect of a change to the Group's aircraft valuation methodology and will reduce the future depreciation charged on these aircraft.

A gain of £44m was recorded in respect of the disposal of the Group's 50% interest in the Xchanging Procurement Services and Xchanging HR Services joint ventures.

A charge of £35m was taken for an onerous lease provision following the sublease of two vacated buildings at the Group's Farnborough site.

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/(outflow) from operating activities after capital expenditure (net) and financial investment, and dividends from equity accounted investments