

# Implementing our strategy

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## Case study one

# A global leader in land systems

Business portfolio actions (addressed in this case study)					
Grow UK through-life businesses	Grow US business	Grow in the Kingdom of Saudi Arabia	Grow land systems	Grow export business	Grow global support

- 2005 acquisition of United Defense established BAE Systems' strong position in the tracked combat vehicle sector
- 2007 acquisition of Armor Holdings positioned BAE Systems as a leader in the growing military wheeled vehicle sector
- Further convergence of such tracked combat and wheeled vehicle technology will present future growth opportunities for the Group

BAE Systems is today a leader in military land systems with sales of \$7.1bn in 2007 and principal operations in the US, UK, Sweden and South Africa. This large global presence has been established over a short period. The Group embarked on a distinct and cohesive strategy to enter both the tracked and wheeled vehicle sectors, and the convergence of these capabilities is now providing significant growth opportunities.

Prior to 2004 BAE Systems' involvement in the land systems sector was limited to its RO Defence activities in the UK. In 2004 BAE Systems acquired Alvis plc, recognising the opportunity to address the market for through-life support of the UK armoured Fighting Vehicle fleet and to better address the opportunity to participate in the UK's largest projected land systems programme, the Future Rapid Effect System (FRES). Alvis included not only the principal constituents of the UK armoured vehicle capability but also the Swedish Hägglunds business and OMC in South Africa.

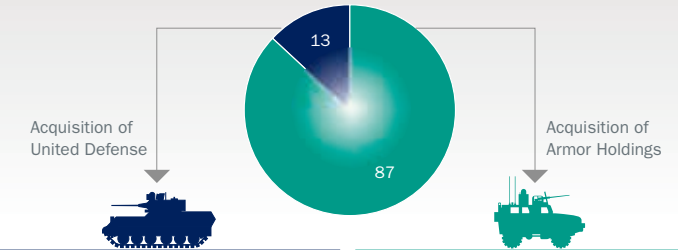
With its newly expanded land sector presence and its strategy to grow in the US market, BAE Systems targeted the good growth prospects for support and reset work in the large armoured vehicle fleets in the US. Reset is the process of taking worn vehicles out of service and refurbishing them to an 'as new' condition for return to service. BAE Systems identified United Defense, a major tracked combat vehicle business in the US, as a focus for increased reset activity and has seen substantial growth since its acquisition of that company in June 2005.

Having established a strong position in the tracked combat vehicle sector, BAE Systems looked to address the newly emerging opportunities for wheeled military vehicles. Wheeled vehicle fleets have in the past been assigned primarily to utility and support applications while the heavier combat vehicles, with their enhanced survivability, were deployed for combat operations.

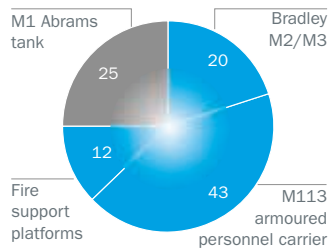
### US military vehicles

Strategic acquisitions in both the wheeled and tracked vehicle sectors have resulted in BAE Systems' leadership positions in these key growth areas. Further convergence of these two sectors will continue to create growth opportunities for the Group as it begins to focus on the development of light wheeled vehicles.

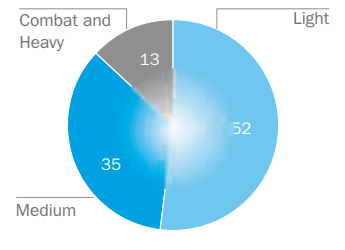
**Total US military vehicle fleet (%)**  
255,000 military vehicles (2006 inventory)



**US tracked vehicles (%)**  
Primarily combat



**US wheeled vehicles (%)**  
Primarily support



● BAE Systems  
● Others

● BAE Systems – major participation  
● BAE Systems – some participation  
● Others

Figure 1

The growth of insurgency and the terrorist threat, including the use of mines and improvised explosive devices has led to a demand for a new class of utility vehicle. These more sophisticated utility vehicles retain wheeled mobility but have the survivability characteristics of tracked combat vehicles. This evolving convergence of utility and combat vehicle capabilities led BAE Systems to acquire Armor Holdings, Inc., a leading US supplier of wheeled utility vehicles and armour protection technology. The Armor Holdings capabilities complement the tracked combat vehicle capabilities of the former United Defense business in the US (see figure 1).

When BAE Systems acquired Armor Holdings the requirement in the US for Mine Resistant Ambush Protected (MRAP) vehicles was just emerging. BAE Systems has been able to respond to this urgent

**Mine Resistant Ambush Protected (MRAP) vehicle – RG33**

The MRAP programme awards reflect both the Group's industrial capacity and its ability to collaborate across sites and businesses globally.



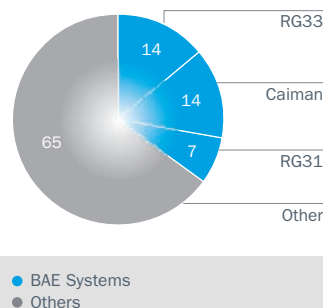
requirement, winning large orders for MRAP vehicles sourced from three of its operations: the OMC business in South Africa; the former United Defense facilities in York, Pennsylvania; and the recently acquired former Armor Holdings facilities in Sealy, Texas and Fairfield, Ohio (see figure 2).

New generation vehicle programmes are likely to emerge in response to the continuing convergence of utility and combat vehicle requirements. Near-term MRAP requirements are expected to evolve in two directions. Medium Mine Protected Vehicle (MMPV) is the US Army programme of record for future MRAP-like requirements, while the proposed Joint Light Tactical Vehicle (JLTV) programme is likely to involve the application of advanced new technologies to achieve a range of three types of light to medium vehicles of comparable size and mass to the lightweight High Mobility Multipurpose Wheeled Vehicles (HMMWV) in use by the American military (see figure 3). The requirements for the JLTV will apply lessons learned by the US military for survivable, combat-ready utility vehicles, as have been demonstrated with up-armoured HMMWVs and MRAPs. BAE Systems is approaching the JLTV requirement through the formation of two entirely separate teaming arrangements.

**Mine protected vehicles**

Demand for a new class of utility vehicle which incorporates the mobility of wheeled utility vehicles with the survivability of tracked combat vehicles has led to the development of mine protected wheeled vehicles. BAE Systems' land systems strategy and key acquisitions have ensured it is a leading player in this key growth area.

**US MRAP orders (%)**



BAE Systems has been awarded contracts for approximately one-third of the c. 12,000 MRAP vehicles ordered in the US.

In addition, the business has received contracts for over 1,000 mine protected vehicles in other markets.

Figure 2

**Wheeled utility vehicle route map**

BAE Systems has developed its land systems strategy at a time of significant growth in activity. Production of FMTV (Family of Medium Tactical Vehicles) has increased and MRAP vehicles have been in demand throughout 2007. This is likely to continue in the short term with MMPVs and JLTVs likely to become the focus. BAE Systems currently has two distinct JLTV bids underway.

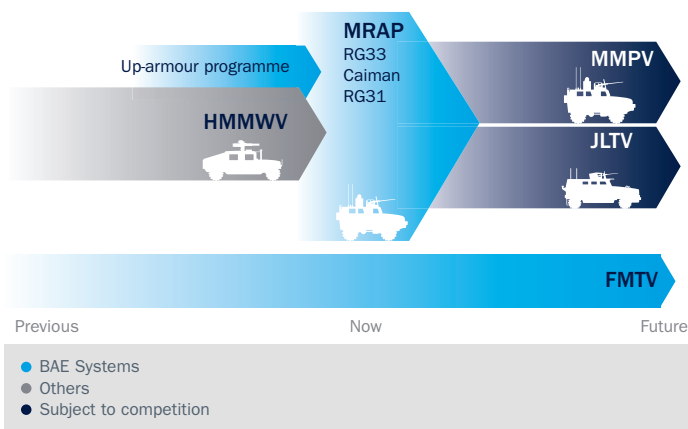


Figure 3

## Implementing our strategy (continued)

### Case study two

# Delivering benefits from partnered support

#### Business portfolio actions (addressed in this case study)

Grow UK through-life businesses	Grow US business	Grow in the Kingdom of Saudi Arabia	Grow land systems	Grow export business	Grow global support
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- BAE Systems and its predecessor companies have developed extensive support capability in the Kingdom of Saudi Arabia over several decades
- Pilot projects launched within the UK based on this experience realised significant cost and efficiency benefits
- BAE Systems' partnering approach took a significant step forward in 2006 with the UK Tornado support programme
- The partnered support model is being developed for other projects and in other markets, such as Australia

In response to customer demands BAE Systems has developed a partnered support approach which is providing cost savings and efficiencies for customers while developing a substantial and profitable stream of business for the Group.

For several decades BAE Systems and its predecessor companies have been developing a deep relationship in support of the armed forces in Saudi Arabia, principally the Royal Saudi Air Force. This highly successful relationship has provided a basis on which to develop support solutions programmes into other markets, most notably with the armed forces in the UK.

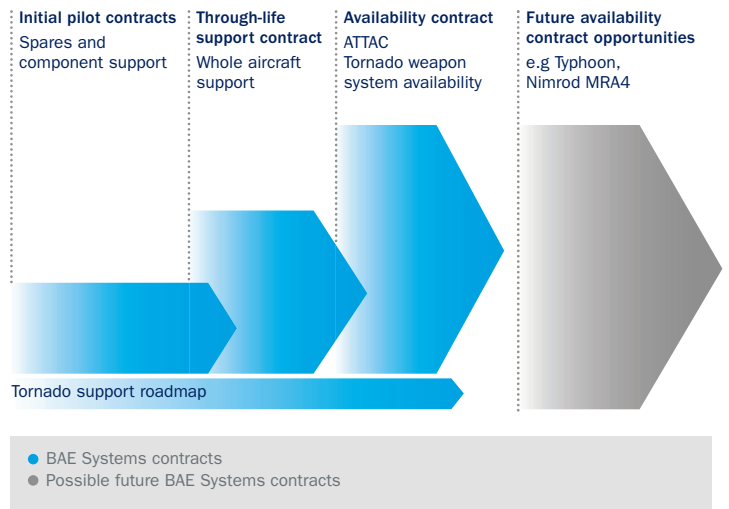
Initial pilot projects were established, identifying components of the UK's military aircraft fleet where industry could bring enhanced efficiency to the management of parts, repair and overhaul. In an environment of severe cost restraint the benefits quickly became apparent, delivering reduced costs together with the operational benefit of enhanced availability.

Progressively, BAE Systems' deeper involvement in support of the Royal Air Force (RAF) has been expanded across larger airframe assemblies and sub-systems leading to contracts to manage the maintenance and support of whole aircraft fleets. A combined maintenance and upgrade facility was established at RAF Cottesmore for the UK's Harrier fleet, co-locating the RAF and Royal Navy engineering activities with those of BAE Systems.

The similar concept now in place for the larger fleet of Tornado aircraft in the UK enabled aircraft down-time for maintenance to be optimised to facilitate modifications and systems upgrade to take place concurrently. Combined maintenance and upgrade has reduced traditional maintenance manhours by 50%. Highlighting the success of this programme, the UK government's National Audit Office reported in 2007 that these arrangements had contributed to savings of £1.3bn over the past five years on Tornado support, with a 51% reduction in Tornado flying hour costs.

### Tornado support roadmap

BAE Systems' UK Tornado support programme is a key example of how the Group is meeting customer demands for 'through-life' capability and support. Initially the Group piloted projects with the UK military aircraft fleet, which have now culminated in the Tornado ATTAC programme. This model can now be followed for other projects both within the UK and other export markets.



At the end of 2006 the Group's partnership approach to supporting the UK's armed forces took a further major step forward with the signing of the ATTAC (Availability Transformation: Tornado Aircraft Contract) agreement. ATTAC is potentially worth £1.5bn and includes on-aircraft maintenance of the Tornado GR4 aircraft fleet, spares support, technical support and training. Under the ATTAC agreement, BAE Systems has taken responsibility for deep support at RAF Marham and combines this with a capability development and sustainment service as a structured and cost-effective approach to inserting new capability into the aircraft, so as to maintain its war-fighting effectiveness throughout its service life. ATTAC is an availability contract where BAE Systems is responsible for ensuring the required aircraft, at an agreed capability, are provided to the front-line when they are required.

Similar opportunities exist across a number of areas, including new platforms such as Typhoon and those due to enter service, such as the MRA4 Nimrod. In addition, similar partnered support arrangements are being developed across the UK's armoured fighting vehicle fleets and in UK naval support.

## Case study three

# A home market strategy in the Kingdom of Saudi Arabia

### Business portfolio actions (addressed in this case study)

Grow UK through-life businesses	Grow US business	Grow in the Kingdom of Saudi Arabia	Grow land systems	Grow export business	Grow global support
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- Moving from an export programme to a home market
- Focus on investment and training within Saudi Arabia

Saudi Arabia has been an important market for BAE Systems for a number of decades. The Group continues to strengthen this market relationship, creating new opportunities for the future and the development of Saudi Arabia as a home market.

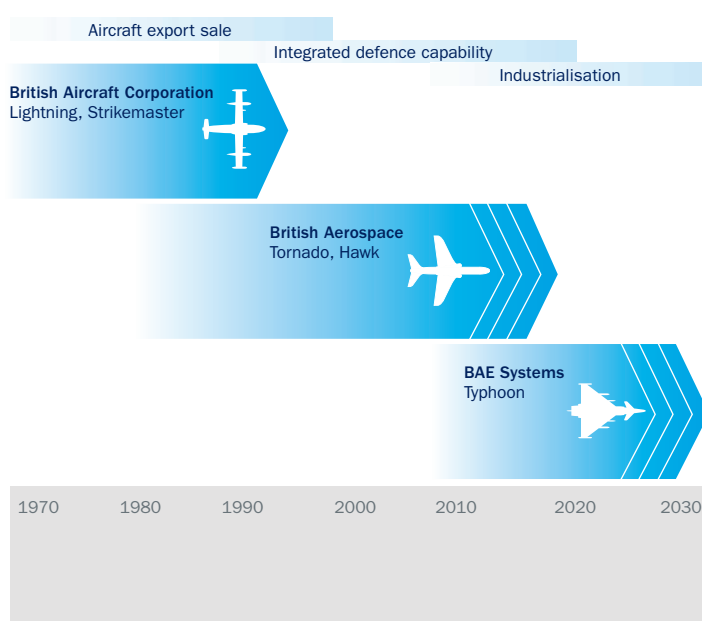
BAE Systems can trace the roots of its relationship with the Kingdom of Saudi Arabia back through its predecessor companies to the supply of Lightning and Strikemaster aircraft in the late 1960s. The initial aircraft deliveries were followed by the provision of extensive support arrangements. In 1985 agreement was reached between the UK government and the Kingdom of Saudi Arabia for a substantial enhancement to the capability of the Royal Saudi Air Force (RSAF) and Royal Saudi Naval Forces (RSNF) through the purchase of Tornado aircraft and associated training systems and support, and supply of ships. As with the Lightning programme, Tornado was initially a UK export programme supported by a large expatriate workforce.

Over time, BAE Systems and the RSAF have worked to substantially increase the number of Saudi nationals employed on the programme. Well-trained and highly skilled Saudi nationals have progressively replaced a high proportion of the expatriate workforce and the capability to undertake major maintenance and upgrade activity has been established in Saudi Arabia. The Group employs approximately 2,300 Saudi nationals. BAE Systems has made significant investments into Saudi Arabia, both in new facilities for its people and in companies through which aerospace work is undertaken in support of the programme. The Group's commitment to Saudi Arabia as one of its key home markets includes the recent relocation of the divisional management team to the Kingdom.

In December 2005 the UK government and the Kingdom of Saudi Arabia signed an agreement to modernise the Saudi Arabian armed forces. This programme, Salam, includes the supply of Typhoon aircraft, a contract for which was signed in 2007. Importantly, the agreement sets out a plan that will further enhance both Saudi Arabia's indigenous capability and BAE Systems' position as a major constituent of the Saudi Arabian defence industrial base and a major local employer. Further investment in industrial facilities is already underway to facilitate the modernisation of the RSAF and support the introduction of Typhoon aircraft under the Salam programme.

### Kingdom of Saudi Arabia programme evolution

BAE Systems' relationship with Saudi Arabia can be traced back to the late 1960s through its predecessor companies. Today this has developed into a successful home market with the Salam programme to supply Typhoon aircraft signed in 2007.



**Saudi Arabia**  
BAE Systems' home market strategy in Saudi Arabia is focused on the in-country development of industrial capability.