

Business group reviews (continued)

The International Businesses business group, with 15,300 employees¹, comprises the Group's businesses in Saudi Arabia and Australia, together with a 37.5% interest in the pan-European MBDA joint venture and a 20.5% interest in Saab of Sweden.

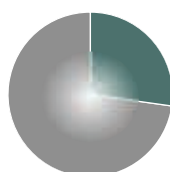
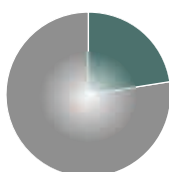
International Businesses

- Sales¹ increased by 1%, net of 2006 Atlas disposal
- Return on sales increased to 13.0%
- Cash flow³ generation of £678m, including Saudi Typhoon milestones

	2007	Restated ⁴ 2006	Restated ⁴ 2005
Sales ¹	£3,359m	£3,428m	£3,138m
EBITA ²	£435m	£415m	£400m
Return on sales	13.0%	12.1%	12.7%
Cash inflow ³	£678m	£171m	£711m
Order intake ⁴	£3,876m	£3,854m	£3,235m
Order book ⁴	£7.9bn	£7.1bn	£6.7bn

Share of Group sales⁵ **21%**

Share of Group EBITA^{2,6} **27%**



Key points

- Saudi Typhoon contract secured
- Investment in the Kingdom of Saudi Arabia continues
- Down-selection for the provision of vehicles for the Australian Defence Force
- Proposed acquisition of Tenix Defence announced in January 2008

Looking forward

The Group seeks to sustain its long-term presence in the Kingdom of Saudi Arabia through delivering on current support and investment commitments, and developing new business, and to reinforce its business in Australia as through-life capability partner to the Australian Defence Force, including land sector support.

In January 2008 the Group announced its proposed acquisition of Tenix Defence which will, on completion, be integrated with BAE Systems' Australian operations.

During 2007, International Businesses achieved EBITA² of £435m (2006 £415m) on sales¹ of £3,359m (2006 £3,428m) and generated an operating cash inflow³ of £678m (2006 £171m).

Sales¹ and EBITA² in 2006 included £99m and £2m respectively for the Atlas Elektronik business that was disposed of in August 2006.

CS&S International

BAE Systems has a major presence in the Kingdom of Saudi Arabia where it acts as prime contractor for the UK government-to-government defence agreement. Over the last two decades the programme has included the provision of aircraft, associated hardware, support, infrastructure and manpower training for the Royal Saudi Air Force (RSAF) and Royal Saudi Naval Forces (RSNF). Progress is being made on modernising the Saudi armed forces in line with the Understanding Document signed on 21 December 2005 between the UK and Saudi Arabian governments. Under the terms of the signed document, Typhoon aircraft will replace Tornado Air Defence Variant aircraft and others currently in service with the RSAF. A contract for the delivery of 72 Typhoon aircraft was agreed in the year with delivery of the first aircraft scheduled for June 2009. Discussions are ongoing with the RSAF to define and agree the support and training solutions to enable their entry into service during 2009.

Around 4,300 people are employed by the Group in the Kingdom of Saudi Arabia, of whom approximately half are Saudi nationals. The business is continuing to develop its presence in Saudi Arabia, including the relocation of staff from the UK, and is helping to develop a greater indigenous capability in the Kingdom.

The security of employees is the highest priority and progress is well advanced on new residential and office facilities as well as increased security measures. Employees are in occupation at the first new residential compound and office facility.

Through the core Saudi support programme, the business continues to provide significant support to both the RSAF and RSNF operations and their operational capability. In particular, steps are being taken with the RSAF to maintain the capability of the Tornado aircraft while extending its operational life.

BAE Systems' investment and support for infrastructure development in the Kingdom of Saudi Arabia includes the creation of training and youth welfare programmes.

In December 2007, the first 22 RSAF Tornado Technicians to undertake a new 'multi-skilled training programme', graduated. The programme, designed in partnership with the RSAF, is aimed at producing multi-skilled, rather than single-skilled, aircraft technicians.

BAE Systems also makes valuable contributions to the communities in Saudi Arabia. Youth sports partnership activities between Saudi Arabia and the United Kingdom began in 1987 with a formal Memorandum of Understanding on sports exchange. Since that time, 1,000 Saudi coaches have successfully undertaken Sports Coach UK qualification

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 restated following changes to the Group's organisational structure
 5 before elimination of intra-group sales
 6 excluding HQ & Other Businesses



Land 121 Project

BAE Systems has been selected by the Australian government as the preferred bidder for the next generation of medium and heavy tactical trucks and modular payloads.

courses. In addition, national team training camps in a range of sports have taken place annually in both Saudi Arabia and the UK.

Australia

BAE Systems Australia continues to reinforce its position as a through-life capability partner to the Australian Defence Force (ADF). Work has commenced on the Electronic Support Measures mid-life upgrade on the AP-3C aircraft, and continues under the second five-year support contract for the Australian Hawk Lead-In Fighter aircraft.

A five-year support contract, with two five-year options, has been agreed with the ADF for the ongoing upgrade, operation and support of the Jindalee over-the-horizon radar. The Nulka active missile decoy has received export approval in principle from both the US and Australian authorities. To date the Nulka active missile decoy has been fitted to over 100 ships across the Australian, Canadian and US navies.

BAE Systems has recently been down-selected by the Australian government to provide medium/heavy capability vehicles to replace the Army's wheeled tactical logistic vehicle fleet.

The business is a subcontractor to Boeing on the Wedgetail airborne, early warning and control system for the Royal Australian Air Force. The programme is behind schedule and BAE Systems is engaged jointly with Boeing and the customer to re-baseline the programme.

Saab (20.5% shareholding)

Sales rose by 9.5% to SEK23bn (£1.7bn), with export sales accounting for 65%. Operating income rose to SEK2,607m (£193m), including non-recurring items of SEK453m (£34m), producing an operating margin of 11.3%. Although reduced in comparison with 2006, order intake remained strong at SEK20.8bn (£1.5bn). This included orders from FMV to upgrade 31 Gripen fighters and helmet

mounted displays, from the Royal Australian Navy for combat and fire control management systems, from Tenix Marine for combat management systems on the Australian Navy's landing helicopter dock class ships and from the Royal Netherlands Army for a Mobile Battalion Combat Training Centre.

Saab's order book at the end of the year was SEK47.3bn (£3.7bn) which included a reduction for the Pakistan airborne surveillance system being re-negotiated to supply fewer systems than was originally recorded in 2006.

MBDA (37.5% interest)

MBDA continued to maintain strong deliveries across a number of key programmes. Key domestic deliveries included the Brimstone air-launched anti-armour weapon, Mica air-to-air missile, Storm Shadow, SCALP and Taurus cruise missiles. In the export market, key deliveries included air weapons packages to Greece and UAE and Aster and Rapier short-range air defence missiles.

Development programmes also progressed well. The six-nation Meteor beyond visual range air-to-air missile continues to meet its development milestones with the successful completion of the four key development milestones and a continuing active firing campaign. The Principal Anti-Air Missile System (PAAMS) programme for the Royal Navy is now entering firing trials in preparation for qualification while the tri-national MEADS area defence system is preparing for the critical design review phase.

MBDA is leading negotiations towards the Team Complex Weapons strategic partnering agreement under the UK's Defence Industrial Strategy.

During 2007 MBDA acquired the German rocket motor company Bayern Chemie GmbH, supplier of the ramjet for the Meteor missile.



Multi-skilled training for Royal Saudi Air Force (RSAF)

A new training programme has commenced that will produce the first multi-skilled Tornado aircraft technicians for the RSAF.