

## Business group reviews (continued)

The Land & Armaments business group, with 20,700 employees<sup>1</sup> and its headquarters in the US, is a leader in the design, development, production, through-life support and upgrade of armoured combat vehicles, tactical wheeled vehicles, naval guns, missile launchers, artillery systems and intelligent munitions.

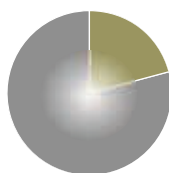
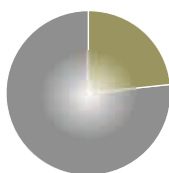
### Land & Armaments

- Like-for-like organic sales growth of 41% over 2006
- Post-acquisition sales of \$1.5bn from Armor Holdings
- Success in wheeled vehicle market
- Order book growth on core products and urgent operational requirements

	2007	2006	2005
Sales <sup>1</sup>	<b>£3,538m</b>	£2,115m	£1,270m
EBITA <sup>2</sup>	<b>£312m</b>	£168m	£42m
Return on sales	<b>8.8%</b>	7.9%	3.3%
Cash inflow <sup>3</sup>	<b>£10m</b>	£137m	£168m
Order intake <sup>1</sup>	<b>£4,535m</b>	£2,964m	£1,541m
Order book <sup>1</sup>	<b>£7.3bn</b>	£4.9bn	£4.4bn

Share of Group sales<sup>4</sup> **22%**

Share of Group EBITA<sup>2,5</sup> **19%**



#### Key points

- High volume of vehicle reset and upgrade activity
- UK business returned to profitability
- Wheeled armoured vehicle successes
- Good progress in next-generation combat vehicle programmes

#### Looking forward

Further organic growth is anticipated in 2008 together with a full year's contribution from the former Armor Holdings business.

In the near term, US Land & Armaments operations are expected to continue to benefit from operational requirements in Iraq and Afghanistan and the Group's investment made in the wheeled vehicle market. In the longer term, the outlook will be dependent on the land sector continuing to be a priority area of spend for the US and the UK.

UK operations will continue their emphasis on performance improvements, seeking to secure an integrator role on the Future Rapid Effect System (FRES) programme and on reaching resolution on a mutually beneficial, sustainable munitions contract with the UK MoD.

The businesses in Sweden and South Africa aim to deliver growth through both new domestic government business and building on their track record of securing export orders.

During 2007, Land & Armaments achieved EBITA<sup>2</sup> of £312m (2006 £168m) on sales<sup>1</sup> of £3,538m (2006 £2,115m) and generated operating cash inflow<sup>3</sup> of £10m (2006 £137m). The 2007 results showed strong organic growth on core products in addition to success in winning new business in the mine-protected vehicle market. The results include five months of operations from the former Armor Holdings, Inc. business.

At the end of July, BAE Systems completed the \$4.5bn acquisition of Armor Holdings, Inc. This acquisition has enhanced the Land & Armaments global land systems business, most notably in the increasingly important tactical wheeled vehicle sector, together with technology in the vital areas of armour and survivability. Sales and EBITA<sup>2</sup> from the acquired business amounted to \$1,452m (£725m) and \$155m (£77m) respectively.

#### United States

During the year, US Army contracts were secured for the refurbishment and upgrade of Bradley, M88 Hercules improved recovery vehicles and M113 fighting vehicles totalling \$2.3bn (£1.2bn).

As expected, during the first half of 2007, the US Army announced its intention to terminate the M113 fighting vehicle programme. Sales of M113 vehicles in 2007 totalled \$105m (£52m).

BAE Systems is one of several companies providing the US Army and Marine Corps with new Mine Resistant Ambush Protected (MRAP) wheeled vehicles. In February 2007, the US business received an initial order for 94 MRAP vehicles. Following evaluation and testing, follow-on awards have been received for 3,485 MRAP vehicles with a total value of \$2.2bn (£1.1bn). MRAP vehicles are produced as 4x4 and 6x6 wheeled vehicles including the Heavy Armed Ground Ambulance and Special Operation variants. BAE Systems has been awarded approximately 35% of all MRAP vehicle orders placed to date.

BAE Systems continued to make substantial progress on the Manned Ground Vehicles of the Future Combat Systems programme. Land & Armaments delivered the Non-Line-of-Sight Mortar (NLOS-M) prototype firing platform in early 2007. Test firing of the Non-Line-of-Sight Cannon (NLOS-C) continues at the Yuma Proving Ground with the first pre-production prototype delivery scheduled for May 2008. October saw the opening of a temporary facility as well as the commencement of construction for a 150,000 square foot NLOS-C integration facility in Elgin, Oklahoma. The new facility will be adjacent to the US Army Field Artillery School at Fort Sill and is targeted for completion in early 2009.

Development of the 155mm Advanced Gun System (AGS) and the Long Range Land Attack Projectile for the US Navy's DDG-1000 programme continues, with design, integration and production awards secured totalling \$386m (£194m). Land & Armaments conducted a successful interim baseline review in August of AGS and production is ramping-up at a new production site in Alabama. Land & Armaments is designing and testing a Vertical Launching System that will enable the US Navy's DDG-1000 to launch a wide range of missiles.

<sup>1</sup> including share of equity accounted investments

<sup>2</sup> earnings before amortisation and impairment of intangible assets, finance costs and taxation expense

<sup>3</sup> net cash inflow from operating activities after capital expenditure (net) and financial investment, and dividends from equity accounted investments

<sup>4</sup> before elimination of intra-group sales

<sup>5</sup> excluding HQ & Other Businesses



Land & Armaments is also providing a 57mm medium-calibre gun for the DDG-1000, the US Navy's Littoral Combat Ship and the Coast Guard's Deepwater programme.

### United Kingdom

The British Army's operations in Afghanistan and Iraq have resulted in numerous urgent operational requirement orders to enhance FV430 and Warrior vehicles and many small and medium-calibre ammunition orders in excess of £400m.

Full rate production of the M777 lightweight howitzer is on track with delivery of an initial 151 guns to the US Army completed. An additional award for 173 guns was received in December. The M777 system has also been deployed in Afghanistan by the Canadian Army.

Engineering Tank Systems production continues with a total of 33 bridge-laying Titan vehicles and 33 Trojan obstacle-clearing vehicles being delivered to the British Army. The Panther programme completed Reliability Qualification Testing in August and is scheduled to deliver 408 vehicles by May 2009. The Terrier armoured tractor programme is experiencing delays and a revised programme baseline is under discussion with the customer.

In order to provide long-term savings to the customer and deliver a sustainable munitions business, discussions continue with the UK MoD aimed at agreeing a revised long-term contractual arrangement for the Munitions Acquisition Supply Solution.

Land & Armaments continues to compete for the vehicle integrator role on the Future Rapid Effect System (FRES) programme. BAE Systems is the UK partner and Design Authority for much of the UK Armoured Fighting Vehicle fleet.

### Sweden

BAE Systems received a funding contract for £24m on the Archer self-propelled artillery programme demonstrating Sweden and Norway's joint commitment to continue the final phase of the development programme.



### Archer

Archer is the next generation, highly mobile, self-propelled artillery system for Sweden and Norway. Archer is scheduled to be delivered to the Swedish Armed Forces starting in 2008.

### Bradley armoured fighting vehicle

Further contracts for the refurbishment and upgrade of the Bradley armoured fighting vehicle have been secured in the year.



### Upgrade contract

The British Army's FV430 Bulldog and Warrior armoured infantry vehicles will be upgraded by BAE Systems over the next two years.

Deliveries of CV9035 armed vehicles to the Netherlands and Denmark commenced during the fourth quarter of the year, under a multi-year contract to provide 229 vehicles through to 2010.

In the area of intelligent munitions for artillery and mortar systems, the 155mm Excalibur supplied to the US Army performed well in theatre.

In November, Land & Armaments acquired Pitch Technologies, an innovative computer-based training and research simulation technologies company for £5m. The combination of BAE Systems and Pitch creates a world-class capability in enterprise-level simulation interoperability and solutions for training and simulation.

### South Africa

The growing international requirement for mine-protected wheeled vehicles continues to generate new orders for the RG31 and RG32 vehicles built by OMC, Land & Armaments' South African subsidiary. Land & Armaments received an initial award in February 2007 from the prime contractor, General Dynamics, for the production of 24 RG31 MRAP vehicles for the US Marine Corps. This was followed by a further order in August for 600 vehicles, of which 305 are being produced by OMC in South Africa.