

## Business group reviews (continued)

The Programmes & Support business group, with 29,100 employees<sup>1</sup>, comprises the Group's UK-based air, naval and underwater systems activities and the Integrated System Technologies business.

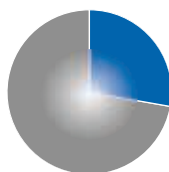
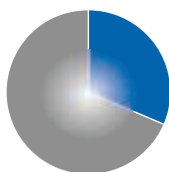
### Programmes & Support

- Sales<sup>1</sup> growth of 15%
- Return on sales improved to 8.6%
- Order book<sup>1</sup> at a new high of £20.9bn

	2007	Restated <sup>4</sup> 2006	Restated <sup>4</sup> 2005
Sales <sup>1</sup>	£5,327m	£4,615m	£4,660m
EBITA <sup>2</sup>	£456m	£342m	£261m
Return on sales	8.6%	7.4%	5.6%
Cash inflow <sup>3</sup>	£807m	£449m	£441m
Order intake <sup>1</sup>	£9,091m	£5,178m	£4,186m
Order book <sup>1</sup>	£20.9bn	£17.0bn	£16.8bn

Share of Group sales<sup>5</sup> **33%**

Share of Group EBITA<sup>2,6</sup> **28%**



#### Key points

- RAF Typhoons now operational
- Full six ship Type 45 destroyer contract awarded
- Launch of first of class Astute submarine
- Orders received for second and third Astute Class submarines
- Offshore Patrol Vessel arbitration settled

#### Looking forward

The future of Programmes & Support is linked to MoD funding in order to meet current UK armed forces operational requirements and delivery of the Defence Industrial Strategy.

In the air sector, short-term growth is dependent both upon production execution and in-service support performance in the UK and on export deliveries.

The naval sector expects the creation of the joint venture, BVT Surface Fleet Limited. Growth prospects for the joint venture include the UK's Future Carrier (CVF) programme and the Military Afloat Reach and Sustainability programme. The six ship Type 45 programme underpins the business for the next few years.

The Submarines business is focused on the Astute programme and securing concept design work on the Future Submarine programme. Securing orders for Astute Boats 4 to 7 is key in retaining the necessary skill base in order to design and build the next generation nuclear deterrent submarine.

During 2007, Programmes & Support achieved EBITA<sup>2</sup> of £456m (2006 £342m) on sales<sup>1</sup> of £5,327m (2006 £4,615m) and generated an operating cash inflow<sup>3</sup> of £807m (2006 £449m).

Return on sales benefited by 0.8% arising from one-off gains recorded in the first half of 2007, including completion of the Offshore Patrol Vessel arbitration process.

Order intake includes the appropriate work share of the award of the Saudi Typhoon contract.

#### Military Air Solutions

Military Air Solutions is responsible for delivering five major programmes: Typhoon, Hawk, Nimrod MRA4, F-35 Lightning II (Joint Strike Fighter), and Autonomous Systems & Future Capability. In addition, it is responsible for through-life support for these programmes as well as for the UK's Royal Air Force (RAF) fleets of Harrier, Tornado, Nimrod MR2 and VC-10 aircraft.

The business made strong progress during 2007; both on delivering its programme commitments and working in partnership with its customers to enhance their military capability. Work continues towards the creation of an air sector Long-Term Partnering Agreement (LTPA) as envisaged in the Defence Industrial Strategy, published in December 2005. A foundation contract, setting out the partnering principles and providing a framework for detailed negotiations, was agreed in March. This has enabled the Group to generate a shared view of the business and is helping to direct investment.

Delivery of Typhoon aircraft to the four partner nations continues with a total of 53 aircraft delivered to the UK and 84 across the other European partner nations as at 31 December 2007. Five of the 15 contracted aircraft for Austria were also delivered during the year.

In the UK, RAF Typhoons are operational in air defence and Quick Reaction Alert roles. Discussions to establish long-term integrated logistics support contracts are progressing well. Tranche 2 aircraft are now in final assembly with the first delivery planned for 2008. Work has also commenced on further air-to-ground capability enhancements.

Good progress is being made on development and production of the UK RAF Hawk Advanced Jet Trainer, where the first production aircraft is now structurally complete.

On the Hawk contract for India, ten aircraft have been accepted by the customer during the year. Twenty Hawk aircraft for South Africa have been delivered, with the remaining aircraft due for delivery in the first half of 2008. In March, the 200th T-45 Goshawk aircraft was delivered to the US Navy and the ongoing T-45 production programmes continue to schedule.

The Nimrod MRA4 aircraft development programme is progressing and the production programme continues to perform to the contractual milestones. A Stability Augmentation System has now been embodied into the aircraft.

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



#### Partnering

Progress has been made towards establishing a partnered through-life availability support solution for the RAF Typhoon.

The support contracts for the VC-10 and Nimrod MR2 aircraft continue and VC-10 fleet maintenance has now been extended to 2013.

The Tornado availability programme, ATTAC, is fully effective and a contract expansion has been agreed. This increases the scope of ATTAC to include the remaining areas of the Tornado aircraft.

The Harrier GR9 aircraft has transitioned successfully into service. Harrier has supported UK military operations with high recognition for the capability it is providing.

Military Air Solutions is partnered with Lockheed Martin and Northrop Grumman on the F-35 Lightning II programme, with responsibility for the design and manufacture of the rear fuselage, empennage and delivery of a number of key aircraft systems. Three aircraft variants are in development; Carrier, Conventional Take-Off and Landing (CTOL) and Short Take-Off and Vertical Landing (STOVL). The Carrier variant completed its final Critical Design Review successfully in June and manufacture and assembly has now commenced. All three aircraft variants are now in various stages of manufacture and assembly.

Successful trials of a highly autonomous medium-altitude long-endurance unmanned air system, HERTI, took place in 2007.

The Taranis unmanned combat air vehicle technology demonstration programme continues on plan and to cost with the first metal cut of the demonstration vehicle in September. Taranis is a key enabler to the UK MoD's evaluation of future capability requirements.

In-country flight testing of the first South African Gripen is proceeding to plan.

#### Surface Fleet Solutions

In August, the Type 45 six ship contract was signed, capturing the remaining scope of work to complete all six destroyers and establishing a jointly managed risk profile against a robust schedule, that met the MoD's cost aspirations.

The second and third ships, Dauntless and Diamond, were launched in January and November 2007 respectively, whilst the first of class, HMS Daring, commenced sea trials in July.

The final vessel of the Bay Class Landing Ship Dock (Auxiliary), RFA Lyme Bay, was handed over to the customer in June – two months ahead of the contract date.

Two of the three ex-Royal Navy Type 23 frigates for the Chilean Navy completed their reactivation and were delivered to the customer. The third ship is planned to be handed over to the Chilean Navy in May 2008.

The CVF programme passed the UK MoD Main Gate Review in 2007. Contracts for the manufacturing phase are now in the final stages of negotiation.

The arbitration process in respect of the Offshore Patrol Vessels was settled and title to all three vessels transferred to the customer in April 2007.

The naval joint ventures continue to perform to plan. Upon creation of the new maritime sector joint venture, BVT Surface Fleet Limited, BAE Systems will sell its share of Flagship Training Limited to VT Group, and Fleet Support Limited will become wholly owned by BVT Surface Fleet Limited.

#### Submarine Solutions

The first of class boat, HMS Astute, was launched in June 2007 and has completed Trim & Basin Trials successfully. The boat is on schedule for delivery to the November 2008 contracted date. Construction activities on Boats 2 and 3 are also progressing well. Agreement of pricing of Boats 2 and 3 was reached and an order received to allow the start of production on Boat 4.

#### Integrated System Technologies (Insyte) and Underwater Systems

The Sampson Radar, the Combat Management System and Long Range Radar programmes for the Type 45 destroyers continue to meet all key milestones. The first of class radar has been successfully installed onto HMS Daring.

The Seawolf Mid-Life Update Tracker completed all of its trials at the shore-based facility, HMS Collingwood.

The Falcon programme continues to progress to schedule and will provide the UK Armed Forces with a new tactical communications network, providing a secure information infrastructure capability.

The Sting Ray lightweight torpedo main production order remains on schedule with the third batch accepted in October 2007.

The Archerfish mine disposal system has successfully passed initial qualification trials as the Common Neutraliser for sea mines with the US Navy.

Talisman, the company-funded Unmanned Underwater Vehicle, has been developed further, reducing the size, unit cost and the underwater drag while retaining the payload capacity. It has undertaken exercises with the US Navy.



#### Type 45

The first of class Type 45, HMS Daring, successfully completed her stage one sea trials on schedule in August 2007.