

Land & Armaments

The Land & Armaments operating group, with 21,300 employees¹ and headquartered in the US, is a global 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 munitions.

Financial highlights

- Like-for-like organic sales¹ growth of 38% over 2007
- UK business secured a 15-year munitions partnering agreement with growth potential to £3bn
- Ex-Armor Holdings business performing ahead of expectations

Performance

	2008	2007	2006
Sales ¹	£6,407m	£3,538m	£2,115m
Underlying EBITA ² (restated)	£566m	£324m	£168m
Return on sales	8.8%	9.2%	7.9%
Cash inflow ³	£467m	£10m	£137m
Order intake ¹	£8,568m	£4,535m	£2,964m
Order book ¹	£11.5bn	£7.3bn	£4.9bn

Key points

- High volume of vehicle reset and upgrade activity
- Successfully addressed US mine protected vehicle requirements
- 15-year UK munitions partnering agreement secured
- Wheeled armoured vehicle successes
- Joint Light Tactical Vehicle down select

Looking forward

After a period of significant growth primarily driven by deliveries on the short-term Mine Resistant Ambush Protected programme, demand in the medium term is expected to be influenced by the tempo of operations in Iraq and Afghanistan.

Land & Armaments will continue to pursue opportunities globally leveraging leadership positions in Tracked Combat Systems, Medium Tactical Vehicles, Mine Resistant Vehicles, Armour and Survivability Technologies and Artillery Systems.

In 2008, Land & Armaments achieved underlying EBITA² of £566m (2007 £324m) on sales¹ of £6,407m (2007 £3,538m) and generated operating cash inflow³ of £467m (2007 £10m). The 2008 results included sales¹ of \$3.1bn (£1.7bn) from the largely completed Mine Resistant Ambush Protected (MRAP) programme. The results include a full year of operations from the former Armor Holdings, Inc. business acquired in July 2007.

United States

The MRAP vehicle programme was largely completed in 2008, with global production of 4,714 mine protected vehicles.

In addition to the MRAP programmes, continued growth was secured in the area of vehicle armour protection, most notably for the High Mobility Multi-purpose Wheeled Vehicles (HMMWV) and individual soldier protection. The business was also awarded a \$3.7bn (£2.6bn) contract for the production of 20,000 Family of Medium Tactical Vehicles (FMTVs).

The sole-sourced Medium Mine Protected Vehicle (MMPV) programme was awarded with orders in 2008 totalling \$110m (£76m). The MMPV contract envisions production of up to 2,500 vehicles at a potential value of \$2.2bn (£1.5bn) through to 2015.

BAE Systems continued to serve as the premier support agency for the US Army Heavy Brigade Combat Team, providing remanufacturing and reset for key brigade components, including the Bradley Fighting Vehicle, as well as unveiling mortar and ambulance variants of the Bradley.

BAE Systems secured two technology development contracts for the US multi-service Joint Light Tactical Vehicle (JLTV). These 27-month contracts are the next step in selecting a new generation of tactical vehicles.

In the year, BAE Systems unveiled the first Non-Line-of-Sight Cannon (NLOS-C) for the US Army's Future Combat Systems Manned Ground Vehicles programme. Two vehicles are undergoing firing and mobility tests at Army testing facilities, with four additional vehicles undergoing integration. Along with the NLOS-C deliveries, successful test firing continued for the NLOS-C mortar platform.

BAE Systems' 57mm Mk 110 Naval Gun System was selected for the National Security Cutter and Littoral Combat Ship programmes, the gun systems entering into service in August and November, respectively.

¹ Including share of equity accounted investments.

² Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding profit/(loss) on disposal of businesses and uplift on acquired inventories. Restated to exclude profit/(loss) on disposal of businesses. See page 29.

³ Net cash inflow from operating activities after capital expenditure (net) and financial investment, and dividends from equity accounted investments.

United Kingdom

The munitions business secured a 15-year partnering agreement with growth potential to £3bn from the UK Ministry of Defence (MoD) in August covering the supply of approximately 80% of general munitions consumed by UK Armed Forces, including small arms and medium-calibre ammunition, mortar bombs, tank ammunition and artillery shells. Under the contract, BAE Systems will invest over £120m in new, highly-automated facilities.

The Weapons & Vehicles business secured significant work supporting operations in Iraq and Afghanistan, particularly in carrying out urgent upgrades to vehicles such as Bulldog, CVR(T), Warrior and Panther to protect against rapidly-evolving threats. The commitment and support given by the business to finding innovative solutions for Urgent Operational Requirements (UORs) in very tight timescales has been recognised by the customer on several occasions and 15 employees were awarded campaign medals by the MoD for their support in theatre.

Production of the M777 155mm lightweight howitzer programme continues, with 168 guns delivered in 2008 and a total of 737 guns ordered to date, to the US and Canadian armed forces. The M777 system has been deployed in operations in both Iraq and Afghanistan.

Requirements and schedule changes on the challenging Terrier armoured tractor programme have now been agreed with the customer. The programme has been rebaselined, and includes further improvements to protection levels and the robustness of the vehicle. Pre-production and proving of the Terrier will commence in 2009.

Sweden

The Swedish business underwent two restructuring measures in the year in order to better position the business to match future strategic demands.

A contract for 20 BvS10 VIKING amphibious armoured all-terrain vehicles was received from the UK MoD, bringing the total number of vehicles ordered by the MoD to 149.

BAE Systems is partnered with Raytheon on the Excalibur artillery programme, the next generation family of guided projectiles for the US Army and Marine Corps artillery.

The 155mm Archer self-propelled Artillery System has been selected by Sweden and Norway with contracts to be awarded for up to 48 systems.

South Africa

The South African business benefited significantly in the year from support to the US MRAP programme as well as the growing international requirement for mine-protected wheeled vehicles. A total of 475 RG31s were delivered to customers worldwide in 2008 bringing the total of RG31s sold to over 2,200. The business acquired IST Dynamics in August 2008, building on its systems integration capability, particularly in the areas of Turret Systems and Fire-Control Systems.

Non-Line-of-Sight Cannon (NLOS-C)

The NLOS-C is an indirect fire support component of the Manned Ground Vehicle family. It is a self-propelled howitzer with a two-man crew. It will provide networked, extended-range, responsive and sustained precision attack of point and area targets in support of the Future Combat System programme. The first NLOS-C prototype debuted on Capitol Hill during the summer of 2008.



Family of Medium Tactical Vehicles (FMTV)

FMTV provides the US Army's backbone for tactical unit mobility and logistics support throughout the battlefield. More than 48,000 FMTV trucks and trailers are in service with the US Army. An added measure of success in 2008 was the award of a contract and the exercise of an option for a total of 20,000 FMTV vehicles by the US Department of Defense.

