

# Programmes & Support

## Financial highlights

- Sales<sup>1</sup> reduced over 2007 on Brunei OPV completion and transition to Typhoon Tranche 2 deliveries
- Return on sales<sup>1</sup> improved to 10.6%
- Typhoon Tranche 2 pricing agreed

## Performance

	2008	2007	2006
Sales <sup>1</sup>	<b>£4,638m</b>	£5,327m	£4,615m
Underlying EBITA <sup>2</sup> (restated)	<b>£491m</b>	£456m	£331m
Return on sales	<b>10.6%</b>	8.6%	7.2%
Cash inflow <sup>3</sup>	<b>£651m</b>	£807m	£449m
Order intake <sup>1</sup>	<b>£4,195m</b>	£9,091m	£5,178m
Order book <sup>1</sup>	<b>£19.8bn</b>	£20.9bn	£17.0bn

## Key points

- Successful transition to start of Typhoon Tranche 2 deliveries
- BVT naval joint venture formed
- Manufacturing contract for Future Carriers secured
- Detica acquisition completed
- First Type 45 successfully delivered off contract

## Looking forward

Programmes & Support is driven by its existing order book and the level of future UK MoD funding to meet current UK armed forces operational requirements and delivery of the Defence Industrial Strategy.

The BVT joint venture is underpinned by the six ship Type 45 programme, the manufacturing phase of the Future Aircraft Carrier (CVF) programme and export contracts.

Detica's position in the UK market means that it is well-positioned to benefit from increasing government focus on intelligence, security and resilience.

The Programmes & Support operating group, with 30,200 employees<sup>1</sup>, comprises the Group's UK-based air and naval activities, the activities of the acquired Detica security business and the Integrated System Technologies business.

During 2008, Programmes & Support achieved underlying EBITA<sup>2</sup> of £491m (2007 £456m) on sales<sup>1</sup> of £4,638m (2007 £5,327m) and generated an operating cash inflow<sup>3</sup> of £651m (2007 £807m). The lower sales<sup>1</sup> in 2008 reflect the transition from Typhoon Tranche 1 deliveries to Tranche 2 and completion in 2007 of the Brunei Offshore Patrol Vessel (OPV) contract. The acquisition of Detica in September contributed sales<sup>1</sup> and underlying EBITA<sup>2</sup> of £55m and £9m, respectively.

## Military Air Solutions

Military Air Solutions is responsible for delivering a range of military programmes including Typhoon, Hawk, Nimrod MRA4, F-35 Lightning II and autonomous air vehicles. In addition, it is responsible for through-life support to Harrier, Hawk, Tornado, Nimrod MR2, E-3D Sentry and VC-10 aircraft.

The business made good progress during 2008 in delivering on its programme commitments. Work continues with the UK MoD to explore whether a long-term partnering agreement (LTPA) in the air sector may provide mutual value to both parties.

Delivery of Typhoon aircraft to the four partner nations continues with a cumulative total of 57 aircraft delivered to the UK and 97 to the other European partner nations. All Tranche 1 aircraft have now been delivered and Tranche 2 deliveries commenced. In October, the first flight of a Typhoon aircraft for the Saudi customer took place marking the start of the flight test programme.

In the UK, Royal Air Force (RAF) Typhoons are operational in Air Defence and Quick Reaction Alert roles, and have a full multi-role capability. Discussions to establish a long-term, availability-based support contract are progressing. Work has also commenced on further air-to-ground capability enhancements. Discussions regarding the Tranche 3 requirements of each of the four partner nations are ongoing.

On the Hawk contract for India, 23 of the UK-built aircraft have been accepted by the customer and have been inducted to the Indian Air Force. Customer acceptance of the last of the 24 Hawk aircraft for South Africa took place in November.

The first five South African Gripen aircraft have been accepted by the customer to plan.

Aircraft acceptances of the Hawk Mk128 Advanced Jet Trainer for the RAF are expected to commence in early 2009, with RAF pilots then starting their Mk128 conversion flying programme. Support under the Hawk Integrated Operational Support programme, and provision of synthetic training to RAF fast jet pilots, continues at RAF Valley.

The current Nimrod MRA4 aircraft development programme is progressing with completion of the flight test programme and qualification of the aircraft systems expected during 2009. All nine production standard aircraft are in manufacture.

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.

The contracts for VC-10, Sentry and Nimrod MR2 aircraft support continue, and a contract expansion for much of the on-base engineering, logistics and technical support for the VC-10 has been secured.

The Tornado availability programme, ATTAC, is in full service and continues to perform in line with contractual milestones.

The Harrier GR9 upgrade programme is on schedule. The Harrier aircraft is currently providing close air support to UK military operations overseas. Discussions are progressing on contracting for a Harrier availability service.

All three F-35 Lightning II aircraft variants, Carrier, Conventional Take-Off and Landing, and Short Take-Off and Vertical Landing (STOVL), are now in various stages of manufacture and assembly. The STOVL variant had its maiden flight in June. Low-rate initial production continues under contract from Lockheed Martin.

BAE Systems continues to leverage its expertise in Unmanned Aircraft Systems (UAS) and position itself in this growth market. In addition to the existing Taranis programme, which is a key enabler to the UK MoD's evaluation of future requirements, BAE Systems has entered into a jointly funded UK MoD Mantis advanced technology demonstrator programme. The aim of this programme is to demonstrate the potential of a large unmanned system to support future operational needs. The UAS portfolio also includes the HERTI surveillance system. The pre-production HERTI unmanned air system has been operating at fully active overseas customer airbases integrated with manned platform operations.

The redundancy programme announced in April affecting over 600 jobs at the Brough and Woodford sites is progressing towards its 2010 completion.

#### **BVT Surface Fleet Limited (BVT) (55% interest)**

The joint venture between BAE Systems and VT Group (VT) was formed on 1 July 2008, creating the UK's leading provider of surface warship building and through-life support operations. Following formation, BVT signed the manufacturing contract for the Future Aircraft Carrier (CVF) and has assumed overall responsibility for delivery of the programme, including project management, engineering, shipbuild and integration. BVT is also responsible

## **Autonomous systems**

The need to avoid exposing individuals to dangerous or difficult environments has driven the development of unmanned and autonomous systems. The pre-production HERTI unmanned air system has been operating at fully active overseas customer airbases integrated with manned platform operations.



for the engineering and build of blocks 2 and 4. The cutting of steel for the first ship is planned for spring 2009.

The programme to build six Type 45 Destroyers has progressed well during the year with all key milestones being achieved, including the successful completion of sea trials and acceptance off contract by the customer of the first of class ship, HMS Daring.

Both contracts to build three Ocean Patrol Vessels for the Royal Navy of Oman and three Offshore Patrol Vessels for the Trinidad and Tobago Coastguard are projected to incur significant losses. Consistent with estimates provided by BVT management, loss provisions of £96m (£53m at our 55% share) have been recorded through fair value accounting. As a result of a review of these export contracts, which were contributed by VT into BVT, BAE Systems is in negotiation with VT regarding a possible injection of capital by VT into the BVT business.

In September 2008, a contract was received to support the construction of two further Fast Attack Craft for the Hellenic Navy, building on the successful contract for the previous five vessels.

The last of the three ex-Royal Navy Type 23 frigates for the Chilean Navy completed its reactivation and was handed over to the customer.

In January 2009, VT announced that it has decided to exercise its put option to sell its interest in BVT to BAE Systems and that it expects to be in a position to exercise that option by 1 July 2009.

#### **Submarine Solutions**

In a challenging year for the Astute programme, HMS Astute, the first of class, is now scheduled for delivery to the customer at the end of 2009. Orders have been received to continue the build of boat 4 and for long lead items on boat 5.

#### **Detica**

BAE Systems acquired Detica, a leading UK consultancy servicing the counter-threat agenda, in September 2008. Detica employs 1,400 staff. Detica helps its clients tackle terrorism and serious crime by helping them collect, manage and exploit information to reveal actionable intelligence. Services range from business and technology consulting, system integration and support to the sale of proprietary hardware and software.

Detica assists clients with initiatives in areas such as counter-terrorism, serious and organised crime, and immigration and border control, as well as fraud detection and identity management through its sales of Detica NetReveal® software. Its financial services business remains challenged by current market conditions.

Detica's sales for the full year increased by 20% on 2007 reflecting higher sales to the UK government and, in particular, growth in sales of Detica NetReveal® software.

#### **Integrated System Technologies (Insyte)**

Following the successful sea trials of the first of class Type 45 destroyer, HMS Daring, during 2008, the Sampson Radar, Combat Management System and Long Range Radar are all now fitted to the next three ships.

The Seawolf Mid-Life Update system has now passed successful system harbour trials and is undertaking sea trials on the Type 23 HMS Sutherland.

The establishment of the Maritime Composite Training Systems, state-of-the-art training facilities at HMS Collingwood and Royal Naval Base Devonport, will be achieved in 2009.

The Sting Ray lightweight torpedo programme remains ahead of schedule with the fourth batch of production weapons accepted by the customer in November 2008. Progress on securing an export order for this torpedo is well advanced.