

# **THE BAE SYSTEMS PLC ANNUAL GENERAL MEETING**

**WEDNESDAY 7 MAY 2008**

**SPEECH BY MIKE TURNER, CHIEF EXECUTIVE**

**BAE SYSTEMS**

Thank you Dick - good morning.

In February, at the announcement of our 2007 Results, we were pleased to be able to report on another good year.

The Company is performing well and the strategy, that has been consistently applied and executed over a number of years, has enabled the transition from recovery to long term sustainable growth to be successfully achieved.

We have a large order book which, when combined with appropriate terms of business and consistently good programme execution, gives us unprecedented future visibility.

That long term visibility sets us apart from many other areas in the wider business environment. And, in the defence domain, our strategy has differentiated us from our peers.

BAE Systems is successfully developing its business, spanning a number of the key global defence markets. We are now one of the leaders in our industry and there is no other defence prime with the breadth and balance of portfolio.

I will briefly address our development in those global Home Markets before summarising our 2007 financial results.

First the UK.

Following the establishment of fair and appropriate terms of trade for large complex weapon systems away from fixed price design, development and production contracts the transformation of our businesses in the UK market is well underway. In addition, we are establishing BAE Systems as the leading through-life capability partner for the UK's armed forces.

We are now successfully implementing the Tornado ATTAC programme, providing deep maintenance and support under an availability contract.

This success will provide the template for future programmes in all three Air, Land and Sea domains, delivering value for money to our customers and significant further long term business and growth for the Company.

On Typhoon we are seeing excellent capability evolution as the programme builds up. And we have a large order backlog of Typhoon manufacturing activity which takes us well into the next decade.

Typhoon Tranche 3 contract negotiations have now commenced, but it will be quite some time before the exact size and nature of that order is finalised.

We are continuing to invest in and sustain a world class land systems business in the UK. The Future Rapid Effects System remains a large opportunity and is key to the sustainability of land systems capability in the UK, but we have yet to see a clear way forward for the programme.

2007 was a significant year of progress for our naval businesses. We launched the second and third Type 45 Destroyers and conducted very successful sea trials on the First of Class. We concluded Type 45 contract negotiations for the 6 ship programme.

We launched the first of class Astute boat in June and concluded pricing negotiations for boats two and three. We have also started manufacture of boat four and now have some long lead funding for Boat 5.

We believe that the UK Government remains committed to the CVF Carrier programme, as announced in July last year. It is one of the factors that would enable BAE Systems to proceed with the surface ship Joint Venture with VT. We have made good progress but the transaction remains dependant upon the award of the manufacturing contract for the Carrier programme.

Given the severe defence funding constraints in the UK, that process is taking some time.

We have been fully aware of the significant budget pressures on MoD and we have planned our future UK business, as we have again with our future US business, on robust, realistic assumptions.

## Turning to the United States

Our US led businesses continue to make excellent progress, both through organic growth from our strong high-technology based product areas, and from strategically selected acquisitions in growth sectors of the market. BAE Systems, with some 44,000 people across 38 States in the US, is now a large and high performing part of the US defence industrial base.

2007 was a good year for EI&S, with continuing strong demand for sophisticated electronic warfare and protection systems. BAE Systems is a world leader in the field of electronic warfare. The Company invests to sustain this expertise, both through US government funded research and, where appropriate, through Company funded investment.

In Customer Solutions, the ship repair facilities won multiple contracts for maintenance and overhaul of US Navy ships including all DDG class Destroyers visiting or home-ported in San Diego and for the two San Antonio class amphibious dock ships.

As previously announced the proposed acquisition of MTC Technologies presents a significant opportunity to address anticipated growth in readiness and sustainment activity in the US including the maintenance, upgrade and support of existing air, land and naval platforms.

The acquisition aligns with our strategy to extend our through-life expertise and footprint in the US market.

2007 was also a very good year for Land & Armaments.

The Company's move into the land sector has been both well timed and well executed. BAE Systems today is the leading global land systems business and is performing strongly in some of the defence industry's highest growth market segments. The exceptionally strong growth and performance benefited from:

- the high level of demand for reset and upgrade of tracked vehicle programmes in the US,
- higher activity across the UK and South African Land Systems businesses, and
- the addition of the Armor Holdings business in the second half of the year.

In addition, we have had to manage the short term Mine Resistant Ambush Protected (“MRAP”), programme to meet a rapidly generated Urgent Operational Requirement. BAE Systems won a large share of this business and our people have responded superbly to the need to deliver large numbers of vehicles over a relatively short period.

We are very proud that our rapid response to this Urgent Operational Requirement has saved the lives of many service men and women on frontline operational duty. In contrast to the short term MRAP programme, we have recently been selected for the Medium Mine Protected Vehicle programme, which was the US Army’s ‘programme of record’, prior to the MRAP requirement. MMPV is based on the same RG 33 vehicle as one of our MRAP vehicles and is likely to add long term sustainability to this area of activity.

In addition to our markets in the UK and US we continue to develop our businesses in other home markets, investing for future growth.

## The Kingdom of Saudi Arabia

In Saudi Arabia, we continue to invest in both industrial infrastructure and facilities for our people. To enhance our position in this important growth market and, as part of our commitment to further increase Saudisation and develop the Kingdom's defence industrial base, we have now relocated the formerly UK based leadership team into Kingdom.

The core, Tornado centred, support programme continues to perform strongly and activity to maintain the capability of the aircraft and extend its service life is now well underway.

Securing the contract for 72 Typhoon aircraft in Saudi Arabia last year together with the anticipated associated equipment, systems and support orders was clearly a very significant development.

It will generate profitable sales and will form an enlarged core of activity alongside Tornado for a number of future decades.

In Sweden, CV90 infantry fighting vehicle exports continue with deliveries for Denmark and the Dutch Army underway.

In South Africa our OMC business successfully increased output of its RG31 mine protected vehicles to meet a part of the US MRAP requirement. OMC has also been successful in other markets and continues to address further export opportunities.

We continue to grow our position as a leading Australian defence company. BAE Systems is now successfully establishing a strong position as a partner to the Australian Government as a provider of through-life support for their armed forces.

As previously announced the proposed acquisition of Tenix is another significant step in the implementation of our strategy to deliver sustainable growth as the premier global defence and aerospace company.

Australia is one of BAE Systems' six home markets and has attractive prospects arising from the Australian Government's policy of maintaining a strong national defence capability.

Tenix is an excellent fit with BAE Systems existing business and the combined operations will employ some 5,500 people, with annual sales of over A\$1.2 billion, some £550 million. The combination of the two companies will enable us to further strengthen our position across all three Air, Land and Naval domains and better equip and support the Australian Defence Force into the future.

Looking at the 2007 financial numbers that we presented to 'The City' in February, you can see they are a strong set of results.

Sales of £15.7 billion were up 14.1% compared to 2006.

Our earnings before interest, tax and amortisation were up 23.4% to £1.5 billion.

Our operating cash flow was strong at £2,162 million.

We closed the year with net cash of £700 million, a significantly reduced pension deficit and a record order book of £38.6 billion.

The total dividend for the year of 12.8 pence is an increase of 13.3% on 2006, endorsing our confidence in the outlook for the Group.

In summary – a very good 2007, both in the delivery of our financial results and implementation of strategy.

For 2008 the high level top 10 objectives for the executive team show where our priorities lie.

In addition to our normal financial and non financial objectives, we have introduced three new objectives.

- Partnering is a major theme of our Company. Our ambition being to work closely with our customers to encourage transparency and promote a partnering approach, for mutual benefit.
- The addition of Security is in line with our belief that, in future, countries will be willing to put more emphasis on broader security, embracing the current more narrowly perceived defence domain.

Objective no. 10 is also new and focuses on our continued commitment to safety, ethics and diversity:

- The safety of our people and products is clearly of paramount importance and the safety objectives specifically relate to ensuring a good consistent standard of safety management across all our businesses while driving longer term plans to achieve world class levels.
- We have established a four-year plan to drive our safety performance to a world class standard. We will not tolerate anything other than a safe working environment and safe working practises. We will encourage each employee to recognise the role they play in ensuring this.
- Diversity for BAE Systems is about ensuring that everyone has equal opportunity and that we have the right working environment to develop the necessary talent, and to deliver high performance.

The objectives reinforce the paramount importance of a strong and robust set of ethical business policies. We are developing a global company wide, principle based, code of ethical business conduct. This builds on our existing policies and will define a leading global level of ethical business performance for the Company. This will incorporate a number of the recommendations of the Woolf Committee. The Code of Conduct will apply to all employees and is planned to be introduced in January 2009.

Before I hand back to Dick, I would like to add my comments to those already made by the Chairman.

Nobody here today can have failed to observe the frequent reports in the press concerning the long-running attack on the Companies reputation and alleged business dealings in certain international markets.

Whether or not the reporting by some elements of the media has been fair or balanced is a matter for discussion, but the fact remains that such reporting does create in some people's mind a completely false picture of the industry generally and of our company in particular.

I want to personally assure you that we place particular emphasis on setting and ensuring we maintain high ethical standards for everyone in the business. As the Chairman said, our policy, to abide by the law, has always been clear. And we have no reason to believe that the Company has broken the law. In all aspects of doing business we will both obey the law and behave ethically. This is fundamental to the way in which we do business. We train our people extensively in our policies and we keep our policies and processes under review.

Over the last decade as our business has evolved so have our policies, processes and training

- we now take even more care when scrutinising advisers and business opportunities, for example we have put all of our international advisers through a robust review process in the last 12 months chaired by external lawyers and approved at Executive level.
- And in some cases we will not pursue opportunities that could negatively impact our reputation.

As the Chairman has outlined it was also one of the underlining reasons why we asked Lord Woolf to review and benchmark our policies and processes and as we have said we will implement all of the recommendations of Lord Woolf's report.

In summary, we will continue to embed the highest ethical standards.

Indeed it is this constant drive for improvement that has delivered the solid results over these last few years and I am confident that your management team will continue this performance in the years to come.

In summary, the company is performing well, with a good balance of long term programmes across our broad base of home markets and portfolio of businesses.

The business is being developed against the background of a consistent yet evolving strategy, enabling the Company to deliver last year's strong performance and develop a robust business plan with good visibility for growth.

Our strong business performance and outlook gives us a high degree of confidence that we will continue to move the company forward and grow to the benefit of our customers, employees and shareholders.

I doubt that there are many other companies that have the same transparency and quality of outlook.

As this is my last AGM I feel proud of the fact that I can hand over the business in such good health.

And, on behalf of myself and the team, thank you for your continued support.