PRELIMINARY ANNOUNCEMENT AND PRESENTATION

2011

BAE SYSTEMS

RESULTS IN BRIEF, FINANCIAL KEY POINTS AND OUTLOOK

RESULTS IN BRIEF

Results from continuing operations	2011	Restated[1] 2010
Sales[2]	**£19,154m**	£22,275m
Underlying EBITA[3]	**£2,025m**	£2,179m
Operating profit	**£1,580m**	£1,601m
Underlying earnings[4] per share:		
– including R&D tax benefit	**45.6p**	39.8p
– excluding R&D tax benefit	**39.7p**	39.8p
Basic earnings per share[5]	**37.0p**	27.9p
Order book[6]	**£36.2bn**	£39.5bn

Other results including discontinued operations	2011	2010
Dividend per share	**18.8p**	17.5p
Operating business cash flow[7]	**£634m**	£1,187m
Net debt (as defined by the Group)[8]	**£(1,439)m**	£(242)m

FINANCIAL KEY POINTS

– Headline sales[2] reduced by 14%

– Underlying EBITA[3] of £2,025m (2010 £2,179m) impacted by:
  – a £160m charge in the first half on the Omani Offshore Patrol Vessel (OPV) programme
  – a £125m benefit from a UK Ministry of Defence settlement agreement
  – a £60m benefit from the increase in the carrying value of the Trinidad and Tobago OPVs upon agreement of a sale to the Brazilian Navy
  – deferred recognition of sales and profit relating to the formalisation of price escalation on the Salam Typhoon programme

– Benefit of 5.9p per share from an agreement with the UK tax authorities

– Underlying earnings[4] per share broadly in line with 2010, excluding the tax agreement benefit

– Total dividend increased by 7.4% to 18.8p

– £500m market purchase of shares completed

– $1.25bn (£0.8bn) debt financing completed

OUTLOOK

Whilst little sales[2] growth can be expected for the Group in 2012 in the current market conditions, modest growth in underlying earnings[4] per share is anticipated, assuming a satisfactory conclusion to Salam negotiations in 2012 and excluding the benefit of the 2011 Research & Development tax settlement.

– Electronic Systems sales[2] in 2012 are expected to be broadly similar to those in 2011 with margins expected to be within a range of 12% to 14%.

– Mid-single digit sales[2] growth is expected for Cyber & Intelligence in 2012 with margins expected to be in the 8.5% to 9.5% range.

– In Platforms & Services (US), Land & Armaments sales[2] of around $5bn (£3.1bn) are anticipated with margins approaching 10%. Sales[2] in Support Solutions are anticipated to be similar to the 2011 level with slightly lower margins.

– Sales[2] for Platforms & Services (UK) are expected to remain broadly similar to last year's with margins anticipated to be within a 10% to 12% range.

– Significant growth in sales[2] for Platforms & Services (International) is anticipated with margins expected around the 10% level.

– HQ costs are expected to be broadly similar to 2011 and Group earnings are expected to reflect lower finance costs. An effective tax rate within a 26% to 28% range is now expected.

A higher level of operating business cash inflow[7] is planned for the Group with the anticipated benefit of cash payments related to the Salam programme in 2012.

1 Restated following the classification of the Regional Aircraft line of business as a discontinued operation (see note 4).
2 Including share of equity accounted investments.
3 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).
4 Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and non-recurring items (see note 5).
5 Basic earnings per share in accordance with International Accounting Standard 33, Earnings per Share.
6 Including share of equity accounted investments' order books and after the elimination of intra-group orders of £1.3bn (2010 £1.4bn).
7 Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.
8 See definition on page 5.

PRELIMINARY RESULTS STATEMENT

BAE Systems is operating in a difficult business environment as defence spending reduces in its largest markets, the US and UK. These market pressures have been apparent for some time. BAE Systems has moved quickly to take strategic actions it believes necessary to sustain and position the business for the future.

BAE Systems has been driving down its cost base and improving efficiencies. At the same time, the Group is developing its Services positions, investing in growth streams of business and developing international markets. The high number of export campaigns in the Group is at a level unprecedented in recent years.

In October 2011, the Group announced changes to its external reporting segments. The changes provide improved visibility of the performance of its Electronic Systems and Cyber & Intelligence businesses, and align with the Group's strategic direction.

Services-related activities represented approximately 49% of sales in 2011. These activities include the provision of Cyber & Intelligence and Military & Technical Services, the latter delivering enhanced capabilities, whilst reducing costs for its customers in the air, land and maritime defence domains.

During the year, the Group has invested in cyber and intelligence through both organic development and through a series of small, high quality acquisitions. These acquisitions included, in February 2011, L-1 Identity Solutions Inc.'s Intelligence Services Group, a leading provider of security and counter threat capabilities to the US government, and Norkom Group plc, a market-leading provider of innovative anti-money laundering solutions to counter financial crime to the global financial services industry. ETI A/S, a recognised provider of advanced security products and services to government and commercial clients worldwide, was acquired in March 2011, and stratsec.net Pty Limited, an information security company with offices in Australia, Malaysia and Singapore, was acquired in January 2011.

Growth opportunities in the cyber domain arise from both the increasing priority of governments addressing cyber threats and the rapid increase in requirements within the commercial sector.

BAE Systems also identifies and prioritises fast growth lanes within the electronics market. The Group is an industry leader in key areas of high technology electronics for both defence and commercial aerospace activities. It continues to see growth opportunities in both its commercial avionics activities and parts of its defence product portfolio. In April 2011, BAE Systems acquired the 91.3% of outstanding equity of Fairchild Imaging, Inc. not already held by the Group. Fairchild is a provider of solid-state electronic imaging components, cameras and systems.

The Group has continued to review its business portfolio and has undertaken a number of non-core business disposals. In January 2011, the Group sold its Swiss-Photonics AG group. In June 2011, the Group sold its remaining shareholding in Saab AB. In July 2011, BAE Systems sold its Regional Aircraft Asset Management and US-based Composite Structures businesses. In September 2011, the Advanced Ceramics business in California was sold. In December 2011, the Group announced an agreement for the sale of its Safety Products businesses, which is expected to complete in the first quarter of 2012.

In aggregate, approximately £0.3bn was invested in business acquisitions, net of disposals, during the year.

BAE Systems is well positioned on a number of key platforms programmes, such as Typhoon and F-35 combat aircraft, as well as in the areas of naval ships and fighting vehicles. These programmes form a large core of business with good, multi-year order book visibility. Additionally, such programmes can generate substantial Services business throughout the in-service life of the product.

The development of business across a broad international base of operations provides a robust portfolio of activity and contributes to the resilience of the business at a time when defence spending is under pressure in the US and UK markets.

The Group has also moved to capture business in non-defence markets, including commercial aerospace electronics. BAE Systems' strategy to grow its presence in the cyber and intelligence markets is proving successful, with around 7% of its business now generated in this area of activity.

BAE Systems has been quick to recognise that affordability is a priority for customers and has cut costs and improved efficiency to address reducing demand in some activities and to ensure continued value for customers. Cost reduction and efficiency actions have been underway since 2009 and, as part of these actions, there has been a need to reduce workforce across the Group. Excluding M&A activity, there has been a net headcount reduction of approximately 22,000 (including contractors) in the past three years. These cost reduction programmes will assist the Group in winning new business, managing workloads and delivering value for customers, and be of sustained benefit to the Group's performance.

The Group's customers in its principal markets of the US, UK, Saudi Arabia, Australia and India have a significant and sustained commitment to defence and security budgets across multiple domains, welcome foreign investment, and sustain a domestic industrial capability.

US

BAE Systems' US-led businesses contributed 47% of the Group's sales in 2011.

As anticipated, vehicle production and reset activity reduced significantly in the US land vehicles business reflecting the drawdown of US overseas military operations.

Delays in approving Department of Defense budgets resulted in the Group's US defence businesses operating under Continuing Resolution limitations for seven months of 2011. BAE Systems' business remained resilient through this period, with only a modest amount of sales lost or deferred as a consequence.

The Group's US-based electronics business was impacted by serious flood damage at its Johnson City facility resulting in some sales deferral to 2012.

The Group had success in winning new business in 2011, but several large contract starts were delayed due to bid protests by competitors. A contract, worth approximately $850m (£547m) over ten years, to manage, operate and maintain the Radford Army Ammunition Plant in the US was awarded to the Group in May 2011, but the programme start was delayed into early 2012 with the US Army confirming the award in January 2012. Similarly, in August 2011, the Group was one of two successful teams selected to participate in the 24-month technology development phase of the US Army's Ground Combat Vehicle programme. BAE Systems, together with Northrop Grumman, was awarded a $450m (£290m) contract, but the programme start was delayed until December 2011 while a protest by SAIC was evaluated and rejected by the General Accounting Office.

Whilst the near-term US budgetary and procurement issues have had only modest impacts on the business, there remains significant uncertainty as to the impact of both planned and potential additional deficit reduction actions on US defence budgets over coming years.

UK

Pressure on UK budgets remains, but following publication of the Strategic Defence and Security Review (SDSR) in October 2010 and resulting actions, there is now greater programme stability and alignment of funding with government defence programme commitments. The post-SDSR programme changes have reduced the Group's annual sales by some £500m. Actions were taken to mitigate the impact of these changes, including workforce reductions, facility rationalisation and contract settlement agreements.

The Group continues to work with its UK customer to help to identify further efficiency improvements.

Other principal markets
In addition to its US and UK operations, BAE Systems has established leading market positions in Saudi Arabia and Australia. In addition, the Group is pursuing its strategy, establishing India as a principal market.

In the Kingdom of Saudi Arabia, where defence spending remains a high priority and is growing, the Group is working to deliver a broad range of capabilities. The established core business, including support to Tornado aircraft in service with the Royal Saudi Air Force under the Saudi British Defence Co-operation Programme (SBDCP), continues to deliver good performance, and 24 Typhoon aircraft have been successfully introduced into service under the first phase of the Salam programme.

BAE Systems has been in discussions with its customer regarding changes to the Salam programme. The proposed changes relate to final assembly of the last 48 of the 72 Typhoon aircraft, the creation of a maintenance and upgrade facility in the Kingdom of Saudi Arabia, initial provisioning for subsequent insertion of Tranche 3 capability in respect of the last 24 aircraft of this order and formalisation of price escalation.

Good progress on these discussions has been made in 2011, with budgets approved in the Kingdom in December on all items other than the price escalation where negotiations will now continue into 2012. Budgets have also been established for the next five years of support on the core SBDCP, including an upgrade of the training environment. Formal contracts under these budgets are being progressed.

These budget approvals underpin both the Salam and SBDCP programmes.

In Australia, the Group has continued to build on its position as the leading in-country provider of equipment and support to the Australian armed forces, working with the Australian government to deliver against a clearly laid out multi-year defence and security plan.

Defence spending in India is also expected to grow substantially. The supply of Hawk aircraft continues with local assembly by Hindustan Aeronautics. A land systems joint venture with Mahindra & Mahindra has been established with significant armoured vehicle and artillery opportunities being pursued. In January 2012, the Group was notified that Typhoon had not been selected as the lowest priced compliant bid to meet the requirement for a Medium Multi-Role Combat Aircraft. The programme has a long way to go before a contract is awarded and we continue to actively support the bid.

Pension funding
In April 2011, the trustees of the Group's two largest UK pension schemes, the BAE Systems Pension Scheme and the BAE Systems 2000 Pension Plan, commenced triennial funding valuations. These have been concluded and revised funding profiles agreed.

Balance sheet and capital allocation
Pension funding is a significant obligation for BAE Systems, but it remains only a part of the allocation of capital. In addition to meeting its pension obligations, the Group expects to continue organic investment in its businesses, plans to continue to pay dividends in line with its policy of a long-term sustainable cover of around two times earnings and to make accelerated returns to shareholders when the balance sheet allows. Investment in value enhancing acquisitions will continue to be considered where market conditions are right and where they deliver on the Group's strategy.

The Group's balance sheet will continue to be managed conservatively, in line with the Group's policy to retain its investment grade credit rating, and to ensure operating flexibility.

Although we are operating in a challenging business environment, BAE Systems' continued focus on cost efficiency, together with its broad geographic base, and strong positions in defence, aerospace and security markets, are expected to sustain this resilient business.

Board
Michael Hartnall, a non-executive director, will stand down from the Board at the end of the Company's Annual General Meeting to be held on 2 May 2012.

Dividends
The Board is recommending a final dividend of 11.3p per share (2010 10.5p), bringing the total dividend for the year to 18.8p per share (2010 17.5p), an increase of 7.4%.

The total dividend for the year is covered 2.1 times by underlying earnings[1] from continuing operations (2010 2.3 times).

1 Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, non-recurring items, and the 2011 R&D tax benefit of 5.9p per share.

PRELIMINARY RESULTS STATEMENT *(continued)*

INCOME STATEMENT – CONTINUING OPERATIONS

	2011 £m	Restated[1] 2010 £m
Sales[2]	**19,154**	22,275
Underlying EBITA[3]	**2,025**	2,179
Return on sales	**10.6%**	9.8%
(Loss)/profit on disposal of businesses	**(29)**	1
Pension accounting gains	**–**	2
Regulatory penalties	**(49)**	(18)
EBITA	**1,947**	2,164
Amortisation of intangible assets	**(239)**	(392)
Impairment of intangible assets	**(109)**	(125)
Finance costs[2]	**(106)**	(194)
Taxation expense[2]	**(233)**	(462)
Profit for the year	**1,260**	991

Exchange rates – average

£/$	**1.604**	1.545
£/€	**1.153**	1.166
£/A$	**1.553**	1.682

Segmental analysis

	Sales[2]		Underlying EBITA[3]	
	2011 £m	Restated[1,4] 2010 £m	2011 £m	Restated[1,4] 2010 £m
Electronic Systems	**2,645**	2,969	**386**	455
Cyber & Intelligence	**1,399**	1,201	**136**	108
Platforms & Services (US)	**5,305**	7,671	**478**	728
Platforms & Services (UK)	**6,258**	6,529	**658**	522
Platforms & Services (International)	**3,794**	4,325	**449**	449
HQ	**233**	209	**(82)**	(83)
Intra-group	**(480)**	(629)	**–**	–
	19,154	22,275	**2,025**	2,179

The results of the Regional Aircraft line of business and the Group's share of the results of Saab AB to the date of disposal of half of its 20.5% shareholding in June 2010 are shown within discontinued operations (see note 4).

Sales[2] reduced by 15% on a like-for-like basis primarily driven by the lower level of Bradley reset/remanufacturing activity and completed Family of Medium Tactical Vehicles (FMTV) programme in the Land & Armaments business, the impacts of the SDSR on the UK business and delay in securing some of the contract changes to the Saudi Typhoon programme.

Underlying EBITA[3] Management uses an underlying profit measure to monitor the year-on-year profitability of the Group defined as earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items.

Underlying EBITA[3], which has reduced by 6% on a like-for-like basis, includes:
– a £160m charge in the first half on the Omani Offshore Patrol Vessel (OPV) programme;
– a £125m benefit from a UK Ministry of Defence settlement agreement; and
– a £60m benefit from the increase in the carrying value of the Trinidad and Tobago OPVs upon agreement of a sale to the Brazilian Navy.

Underlying EBITA[3] in the prior year included a charge of £100m taken in respect of the terminated Trinidad and Tobago OPV contract.

Non-recurring items are defined as items that are relevant to an understanding of the Group's performance with reference to their materiality and nature. The non-recurring items, which are unchanged from the prior year, are as follows:

Loss on disposal of businesses of £29m mainly comprises losses on the disposals of the Advanced Ceramics and Swiss-Photonics businesses.

Regulatory penalties of £49m reflect the US Department of State fine. The prior year charge reflects the exchange rate movement on payment of the global settlement with the US Department of Justice.

Amortisation of intangible assets is £153m lower at £239m mainly reflecting the alignment of amortisation to the profile of vehicle deliveries under the completed FMTV contract.

Impairment of intangible assets of £109m includes charges taken for goodwill impairment on the Safety Products business within Land & Armaments (£60m) and the Surface Ships business within Platforms & Services (UK) (£34m).

Finance costs[2] were £106m (2010 £194m). The underlying interest charge, excluding pension accounting, marked-to-market revaluation of financial instruments and foreign currency movements, was £212m (2010 £191m). In 2011, the underlying interest charge includes £41m relating to the early redemption of debt in June in connection with the disposal of the Regional Aircraft Asset Management business, £28m of which would have been incurred in future years.

Taxation expense[2] reflects an effective tax rate of 14%. Excluding the benefit of an agreement with the UK tax authorities addressing a number of items, including the interpretation of the complex tax rules relating to research and development tax credits, the effective tax rate for 2011 is 26%, which is lower than the prior year rate of 30%. The calculation of the effective tax rate is shown below.

Calculation of the effective tax rate

	2011 £m	Restated[1] 2010 £m
Profit before taxation	**1,493**	1,453
Add back/(deduct):		
Loss/(profit) on disposal of businesses	**29**	(1)
Regulatory penalties	**49**	18
Goodwill impairment	**94**	84
	1,665	1,554
Taxation expense[2] (excluding UK tax agreement)	**430**	462
UK tax agreement	**(197)**	–
Taxation expense[2]	**233**	462
Effective tax rate	**14%**	30%

The underlying tax rate for 2012 is expected to be between 26% and 28%, with the final number dependent on the mix of profits between the UK and US.

EARNINGS PER SHARE – CONTINUING OPERATIONS

Underlying earnings[5] per share was 45.6p (2010 39.8p), an increase of 15%. The increase in underlying earnings[5] per share includes a 5.9p benefit relating to the tax agreement referred to above. Excluding the tax agreement benefit, underlying earnings[5] per share was 39.7p.

Basic earnings per share, in accordance with International Accounting Standard (IAS) 33, Earnings per Share, increased to 37.0p compared with 27.9p in 2010.

CASH FLOW

Reconciliation of cash inflow from operating activities to net debt (as defined by the Group)

	2011 £m	2010 £m
Cash inflow from operating activities	**951**	1,535
Capital expenditure (net) and financial investment	**(268)**	(364)
Dividends received from equity accounted investments	**88**	71
Assets contributed to Trust	**(137)**	(25)
Cash held for charitable contribution to Tanzania	**–**	(30)
Operating business cash flow	**634**	1,187
Interest	**(180)**	(173)
Income from financial assets at fair value through profit or loss	**4**	–
Taxation	**(257)**	(352)
Free cash flow	**201**	662
Acquisitions and disposals	**(256)**	(88)
Purchase of equity shares (net)	**(509)**	(520)
Equity dividends paid	**(606)**	(574)
Dividends paid to non-controlling interests	**(22)**	(32)
Cash flow from matured derivative financial instruments	**(34)**	(123)
Movement in cash collateral	**–**	11
Movement in cash received on customers' account[6]	**13**	7
Foreign exchange translation	**(20)**	(20)
Other non-cash movements	**36**	32
Total cash outflow	**(1,197)**	(645)
Opening net (debt)/cash (as defined by the Group)	**(242)**	403
Closing net debt (as defined by the Group)	**(1,439)**	(242)

Components of net debt (as defined by the Group)

	2011 £m	2010 £m
Debt-related derivative financial assets	**56**	45
Other investments – current	**–**	260
Cash and cash equivalents	**2,141**	2,813
Loans – non-current	**(2,682)**	(2,133)
Loans and overdrafts – current	**(518)**	(920)
Less: Cash received on customers' account[6]	**(3)**	(16)
Less: Assets held in Trust	**(403)**	(261)
Less: Cash held for charitable contribution to Tanzania	**(30)**	(30)
Net debt (as defined by the Group)	**(1,439)**	(242)

Operating business cash flow

	2011 £m	Restated[1,4] 2010 £m
Electronic Systems	**268**	367
Cyber & Intelligence	**123**	89
Platforms & Services (US)	**410**	967
Platforms & Services (UK)	**69**	191
Platforms & Services (International)	**80**	190
HQ	**(308)**	(671)
Discontinued operations	**(8)**	54
Operating business cash flow	**634**	1,187

Cash inflow from operating activities was £951m (2010 £1,535m), which includes contributions in excess of service costs for the UK and US pension schemes totalling £375m (2010 £554m).

The outflow from **net capital expenditure and financial investment** reduced to £268m (2010 £364m) mainly reflecting the proceeds from a number of investment property disposals.

Dividends received from equity accounted investments, primarily MBDA, Panavia and Air Astana, totalled £88m (2010 £71m).

Assets contributed to Trust comprise payments made for the benefit of the Group's main pension scheme totalling £137m (2010 £25m), including £112m following the £500m share buyback programme completed in December 2011.

Cash held for charitable contribution to Tanzania The £29.5m charitable contribution for the benefit of the people of Tanzania in connection with the global settlement of regulatory investigations with the UK's Serious Fraud Office was deducted from the Group's net debt at 31 December 2010. The amount (including interest) will be applied by the Company for the benefit of the people of Tanzania in accordance with applicable Company policies.

Taxation payments were £257m (2010 £352m). The reduction primarily reflects timing differences on US tax payments in the prior year.

Net cash outflow in respect of **acquisitions and disposals** of £256m mainly comprises the acquisition of L-1 Identity Solutions, Inc.'s Intelligence Services Group, Norkom Group plc, ETI A/S, Fairchild Imaging, Inc. and stratsec.net Pty Limited (£524m), less the net proceeds from the disposal of the Regional Aircraft Asset Management business (£98m) and the Group's residual shareholding in Saab AB (£152m). The prior year outflow of £88m mainly comprises the acquisition of Atlantic Marine and OASYS Technology (£260m), less the disposal of half of the Group's 20.5% Saab AB shareholding (£92m) and an initial payment from the former owners of the Tenix Defence business relating to the resolution of outstanding issues from the 2008 acquisition (£65m).

The **net purchase of equity shares** of £509m (2010 £520m) includes 184 million shares purchased under the buyback programme at a cost of £500m (excluding transaction costs of £3m).

As a consequence of movements in the US dollar and Euro exchange rates during the year, there has been a **cash outflow from matured derivative financial instruments** of £34m (2010 £123m) from rolling hedges on balances with the Group's subsidiaries and equity accounted investments.

Foreign exchange translation primarily arises in respect of the Group's US dollar-denominated borrowing.

In October 2011, the Group raised $1.25bn (£0.8bn) in the US bond market. A $1bn (£0.6bn) 6.4% bond was repaid in December 2011.

1 Restated following the classification of the Regional Aircraft line of business as a discontinued operation (see note 4).
2 Including share of equity accounted investments.
3 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items.
4 Restated following changes to the Group's reporting segments.
5 Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and non-recurring items (see note 5).
6 Cash received on customers' account is the unexpended cash received from customers in advance of delivery which is subject to advance payment guarantees unrelated to Group performance. It is included within trade and other payables in the consolidated balance sheet.

REPORTING SEGMENTS: ELECTRONIC SYSTEMS

Electronic Systems comprises the US- and UK-based electronics activities, including electronic warfare systems and electro-optical sensors, military and commercial digital engine and flight controls, next-generation military communications systems and data links, persistent surveillance capabilities, and hybrid electric drive systems.

OPERATIONAL KEY POINTS

- Sustained a leadership position in the electronic warfare market
- Increasing position in high growth commercial aircraft electronics market
- Winning key development contracts in the airborne persistent surveillance market
- Integration of the acquired Fairchild Imaging and OASYS businesses
- Continued focus on increasing productivity and efficiency
- Business recovery in process following disruption due to flood damage at the Johnson City facility

FINANCIAL KEY POINTS

- Order backlog[1,4] slightly increased in challenging business environment
- Sales[1] performance impacted by programme award delays due to the extended period of Continuing Resolution and Johnson City flood
- Return on sales reduced on completion of certain production programmes
- Cash flow[3] conversion of underlying EBITA[2] at 80%, before pension deficit funding

	2011	2010	2009
Order intake[1]	**£2,620m**	£2,894m	£2,811m
Order book[1]	**£3.2bn**	£3.2bn	£3.1bn
Order backlog[1,4]	**£3.6bn**	£3.5bn	n/a
Sales[1]	**£2,645m**	£2,969m	£2,899m
Underlying EBITA[2]	**£386m**	£455m	£320m
Return on sales	**14.6%**	15.3%	11.0%
Cash inflow[3]	**£268m**	£367m	£226m

Order backlog[1,4] increased to £3.6bn (2010 £3.5bn) despite some impact of contracting delays as the US administration operated federal budgets under Continuing Resolution limitations for seven months of 2011.

On a like-for-like basis, sales[1] reduced by 10% on 2010 reflecting the completed F-22 and Advanced Threat Infrared Countermeasures (ATIRCM) production programmes, the impact of the delayed programme awards, and the disruption caused by the Johnson City flood.

Underlying EBITA[2] was £386m (2010 £455m). Return on sales reduced to 14.6% (2010 15.3%) reflecting risk retirement on completion of the F-22 and ATIRCM programmes.

Operating cash inflow[3] was £268m (2010 £367m) reflecting a conversion of underlying EBITA[2] to cash flow[3] of 80%, before pension deficit funding.

In July 2011, the US-headquartered Electronic Systems business was created by combining the Electronic Solutions and Platform Solutions businesses. The new reporting segment spans the commercial and defence electronics markets, and brings together a strong portfolio of products, technology and know-how to serve its customers.

In April 2011, BAE Systems completed the acquisition of Fairchild Imaging, a company that designs and manufactures solid-state electronic imaging components, cameras and systems. The components have potential uses across diverse aerospace, industrial, medical and scientific imaging applications, including night vision systems, aerial mapping, electron microscopy and DNA mapping.

During the year, operations at two US sites were consolidated into larger facilities in order to maximise efficiencies and performance. Work at the affected sites, in Ontario, California, and Irving, Texas, is being transitioned to other locations.

Electronic Combat The business maintains its leadership position in electronic warfare primarily through its involvement in the F-35 Joint Strike Fighter programme as the provider of the electronic warfare suite. The F-35 programme has been aligned to support the US Defense Secretary's programme restructuring announcement in January 2011. In 2011, the business met its key milestones on the Systems Design and Development programme and was awarded a contract for Low-Rate Initial Production (LRIP) Lot 6 on the F-35 Production programme.

The US Navy has requested a proposal to extend the current technology maturation contract for the Next Generation Jammer (NGJ) until 2012. BAE Systems is one of four competitors bidding for the technology development contract to be awarded later in 2012. The NGJ will replace the ageing ALQ-99 jammer currently on certain US Navy aircraft.

In December, the Kingdom of Saudi Arabia reached agreement with the US government to purchase 84 new F-15SA aircraft and upgrade its existing fleet of 70 aircraft. Good progress has been made in the development of the Group's digital electronic warfare system for the aircraft.

Survivability & Targeting Using its Boldstroke® system technology, the business provided the US Army with a proposal for the Common Infrared Countermeasures (CIRCM) programme. The Boldstroke® system is an integrated aircraft survivability system for protecting aircraft from infrared-guided missiles and other threats. It provides increased system capability in a smaller and more energy efficient package. In early 2012, the US Army awarded the business one of two contracts to develop the CIRCM capability. The contract is worth $38m (£24m) over two years. The award is under protest and the Group is awaiting further direction from the US government.

1 Including share of equity accounted investments.
2 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).
3 Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.
4 Order backlog comprises both the order book, which includes unexecuted, funded customer orders only, and unfunded customer orders.

BAE Systems, as a subcontractor to Alliant Techsystems, is supporting a $109m (£70m) US Navy contract for the engineering and manufacturing development of the Joint and Allied Threat Awareness System (JATAS), the next-generation warning system designed to enhance aircraft survivability against man-portable air-defence systems, small-calibre weapons and rocket-propelled grenades.

In 2011, Electronic Systems was awarded a $17m (£11m) US Navy follow-on LRIP contract for an additional 600 Advanced Precision Kill Weapon Systems, bringing the total to 925 units under contract. Deliveries continue in 2012.

The 100,000th Thermal Weapon Sight was delivered to the US Army in support of military operations in Iraq and Afghanistan. Orders received in 2011 exceeded $60m (£39m). The business has been producing the sights since 2004 under contracts valued at more than $1bn (£0.6bn). The technology enables soldiers to see deep into the battlefield, and enhances their situational awareness by allowing them to see in darkness, and through smoke and fog.

The business delivered 4,000 units of the StalkIR® night vision product, a clip-on or hand-held thermal viewer device featuring a dual-band aiming laser, module rail interface and one-touch menu options. The product was developed by the OASYS Technology business acquired in 2010.

Communications & Control In defence avionics, Lockheed Martin has selected the Group's Fighter Helmet-Mounted Display, using BAE Systems' Q-Sight waveguide technology, for the F-35's Night Vision Goggle Helmet programme. Valued at $38m (£24m), this initial award continues the Group's success in helmet-mounted displays.

The contract awarded in 2010 to provide the Slovak Ministry of Defence with a mobile military communications system (MOKYS) that enables secure voice, data and internet protocol communication is nearing successful completion.

The business continues to pursue significant opportunities in the tactical radios and networking markets to meet the need for the modernisation of battlefield communication systems.

Intelligence, Surveillance & Reconnaissance The business has been selected to provide Wide Area Airborne Surveillance capability on several key development programmes for multiple US Air Force and US Army airframes, based on two wide-area, high-resolution imaging sensor systems. The Autonomous Real-time Ground Ubiquitous Surveillance – Imaging System (ARGUS-IS) was recognised by Aviation Week and Space Technology as one of the top ten new technologies for 2011. The Airborne Wide Area Persistent Surveillance System (AWAPSS) received an Army Research and Development Award in 2010. These systems provide the war fighter with the ability to observe very wide areas of interest with sufficient imagery resolution to meet intelligence and surveillance needs.

Commercial Aircraft avionics Key wins have been secured on new programmes, including high integrity flight controls for regional and transport aircraft, such as the Bombardier CSeries and Embraer KC-390. The business is well positioned to support the growth in demand for commercial aircraft.

In the year, the business has successfully renewed long-term supplier agreements with aftermarket airline customers.

General Electric has signed a memorandum of understanding with the business's joint venture, FADEC International, to develop and produce the Full-Authority Digital Electronic Control (FADEC) for CFM International's next generation engine, the LEAP-X. The fuel-efficient LEAP-X turbofan engine is designed to power future narrow body commercial aircraft. The engine has been selected for the Boeing 737 MAX, Airbus A320neo and Comac C919 aircraft.

HybriDrive® Buses powered by the HybriDrive® Series hybrid electric propulsion system have recently driven their one millionth mile of clean, reliable revenue service. Since the first of these vehicles entered service in late 2008, the environmentally friendly propulsion provided by BAE Systems has saved operators well over 126 million litres of diesel fuel and prevented the release of more than 420 tonnes of CO_2.

In September 2011, the electronics facility at Johnson City, New York, experienced severe flood damage to offices, laboratories and equipment. Whilst critical business operations have been re-established, some sales have been deferred and recovery efforts continue in 2012.

LOOKING FORWARD

Efforts to reduce the US government's budget deficit are likely to require reductions across all areas of government spend. Whilst likely funding reductions and the resultant slow-down or cancellation of ongoing and new programmes could impact the business, Electronic Systems remains well positioned with a balanced electronics portfolio that will enable it to respond to changing customer priorities.

The business expects to benefit from its incumbent positions on core platforms and from positions in areas that are forecast to grow faster than the overall market, such as Intelligence, Surveillance and Reconnaissance, commercial avionics, and electronic warfare.

The business is well positioned to benefit from the growth in commercial aviation through its engine and flight controls activities.

REPORTING SEGMENTS: CYBER & INTELLIGENCE

Cyber & Intelligence comprises the Group's cyber, secure government, and commercial and financial security activities within the US-based Intelligence & Security business, and the UK-headquartered BAE Systems Detica business.

OPERATIONAL KEY POINTS

- The US-based business continues to perform well on legacy programmes while securing strategic contract awards with existing customers
- The US-based business continues to invest in differentiating technologies, such as activity-based intelligence and cybersecurity, including a leading edge network, operations and security centre environment, to maintain the relevance of its service offerings
- Successful integration of acquired L-1 Intelligence Services Group, Norkom and ETI businesses
- Growth of commercial sales in Detica offsetting lower UK government volume
- Investment in UK Security Operations Centre

FINANCIAL KEY POINTS

- Order backlog[1,4] grown
- Increase in sales[1] of 16%
- Margin increased to 9.7%
- US sales[1] growth of 13%
- Detica decline in government business largely offset by growth in commercial
- Cash flow[3] conversion of underlying EBITA[2] at 90%

	2011	2010	2009
Order intake[1]	**£1,443m**	£1,300m	£1,286m
Order book[1]	**£0.8bn**	£0.6bn	£0.6bn
Order backlog[1,4]	**£1.1bn**	£0.9bn	n/a
Sales[1]	**£1,399m**	£1,201m	£1,302m
Underlying EBITA[2]	**£136m**	£108m	£107m
Return on sales	**9.7%**	9.0%	8.2%
Cash inflow[3]	**£123m**	£89m	£74m

Order backlog[1,4] increased to £1.1bn (2010 £0.9bn) mainly reflecting the impact of business acquisitions during the year.

Like-for-like sales[1] increased by 4% primarily reflecting higher volumes on legacy programmes in the US Global Analysis business.

Underlying EBITA[2] was £136m (2010 £108m). Return on sales increased to 9.7% (2010 9.0%), after expensing costs of integrating acquired businesses and Security Operations Centre investment.

Operating cash inflow[3] increased to £123m (2010 £89m).

Intelligence & Security
The US-based Intelligence & Security business is structured into four key business areas that each provide specific domain expertise, whilst working closely together to provide enterprise-wide support to a range of customers, and key agencies in the intelligence, defence, homeland security and civilian markets. This enables the business to provide products, people and expertise to meet customers' needs in a cost-effective way.

Information Technology & Cybersecurity Solutions develops, deploys and maintains mission applications focused on information sharing, knowledge management and enhanced enterprise mission IT solutions for the federal, civilian and defence intelligence communities. The business also provides analytics, cyber analysis and real-time network forensics.

In 2011, the business was awarded three competitive task orders under the Solutions for the Information Technology Enterprise programme Indefinite Delivery, Indefinite Quantity (IDIQ) contract worth $466m (£300m) over a five-year period. These task orders for the US Defense Intelligence Agency address requirements to transform IT service delivery worldwide. Orders totalling $122m (£78m) were received in the year under these contracts.

The business was awarded an initial task order over 18 months under the Next Generation Desktop Environment Programme IDIQ contract. This task order for the US Defense Intelligence Agency is to deploy over 12,000 analyst workstations across the intelligence community, with over 6,000 workstations successfully installed at 31 December 2011.

GEOINT-ISR develops and supports software platforms and mission applications for geospatial tasking, collection, processing, exploitation and dissemination, as well as mission planning, Intelligence Surveillance and Reconnaissance (ISR), precision targeting, and command and control for the defence and intelligence communities.

The business was awarded several key task orders under the Total Application Services for Enterprise Requirements IDIQ contract with the US National Geospatial Agency. These task orders have an awarded value of $123m (£79m) for the provision of engineering services. Programme performance is meeting the customer's expectations.

Other sensitive programmes with the National Geospatial Agency continue to provide value to this important customer.

Global Analysis provides mission-enabling analytic solutions and support to operations across the homeland security, law enforcement, defence, intelligence and counterintelligence communities.

The business has experienced significant sales growth driven by the Counter Improvised Explosive Device (C-IED) programme awarded in 2010. The C-IED programme provides mission analytical support to forward deployed defence personnel. Performance on this programme has exceeded customer criteria,

1 Including share of equity accounted investments.
2 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).
3 Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.
4 Order backlog comprises both the order book, which includes unexecuted, funded customer orders only, and unfunded customer orders.

with a highly skilled team of approximately 450 analysts deployed in Afghanistan. A follow-on option award on the C-IED programme for approximately $200m (£129m) was secured during the year.

In 2011, the business was awarded two US government IDIQ contracts for full-motion video and geospatial imagery analysis. Multiple task orders under these contracts have been awarded for a total contract value, including options, of $391m (£252m) over various performance periods, the longest being for five years. In 2011, funding of $48m (£31m) was received for these task orders.

SpecTal provides government customers with specialised security and intelligence mission support, including intelligence analysis, engineering, operations support, training and information technology development.

SpecTal was a business unit within L-1 Identity Solutions, Inc.'s Intelligence Services Group (L-1 ISG), which was acquired in February 2011.

The acquisition of L-1 ISG expands and complements the business's existing presence in the US intelligence community, and provides a greater capability base to secure upcoming re-competed contracts, whilst providing a broader, more attractive offering to meet the needs of customer missions.

The business continues to invest in capability development to ensure a market-focused evolution of its portfolio of offerings, and is advancing several core and discriminating capabilities, including:

Activity-based intelligence: Capability within GEOINT-ISR which focuses on developing solutions to predict when and where threats will strike with a high degree of probability.

Cybersecurity: A leading edge network, operations and security centre environment deployed at the gateway of BAE Systems' own 50,000 node North American network. This offers a real-time forensics toolset that places current and historical information at an analyst's fingertips, providing clarity regarding what is happening in the network.

These initiatives have contributed towards strengthening the bid pipeline and potential level of future contract awards.

BAE Systems Detica

The business continues to develop and deliver information intelligence solutions to government and commercial customers, and grow its business in the areas of cybersecurity, information assurance and information intelligence products.

The acquisitions of Norkom and ETI have strengthened the product portfolio for tackling fraud and delivering intelligence. The integration of these businesses has progressed well. Detica now has primary operations in the UK, Denmark and Ireland, and has an international reach.

Financial Crime and Compliance The Detica NetReveal® business, which has been combined with Norkom's market-leading anti-money laundering products, provides solutions used globally to reduce financial loss, fight crime, and manage risk and compliance, and received orders of £69m during the year.

Global Communications Solutions Detica has established a Global Communications Solutions business, combining ETI software products with existing products, to provide a range of communications monitoring and intercept solutions for the law enforcement communities. During the year, orders of £42m were received from customers in 22 countries for these products and services.

Cybersecurity Detica continues to build a portfolio of offerings, including specialist cybersecurity and secure communications solutions. Detica's cyber business is growing rapidly across both government and commercial sectors with a range of new clients and contracts in 2011. Detica is also investing in a state-of-the-art Security Operations Centre, building on Detica Treidan®, that can detect and remediate advanced cyber attacks for both government and business. Orders were received from two customers in the UK for this service during 2011.

UK Core Mission The UK business continues to be repositioned. As the volume of consulting activity with the UK government customer declines, so growth is being generated in commercial sales from systems integration and managed services, and security solutions to the financial services, retail, energy and telecommunications sectors.

The business is investing in a new Delivery Centre to provide customers with a highly secure environment to deliver their critical business services more effectively and economically.

International Secure Government Detica has continued to develop an international consultancy, system integration and managed services business, initially focusing on the Middle East region. Detica has seen a positive response, winning its first orders in two countries.

LOOKING FORWARD

Intelligence & Security

Whilst efforts to reduce the US government's budget deficit are likely to require reductions across all areas of government spend, cybersecurity is expected to remain a priority.

Growth opportunities remain, particularly in critical, mission-focused areas, such as Full Motion Video, Multi-INT fusion (the seamless synthesis of the individual intelligence disciplines to enable more complete situational awareness), enterprise solutions for big data problems and cybersecurity.

The business seeks to grow market share in 2012 with fewer new programmes expected through its positioning to compete as a result of the structural, cost and investment actions previously taken. The Intelligence & Security market is experiencing delays in procurement awards and de-scoping of existing contracts as US government agencies look for cuts in their IT budgets. The business expects a competitive and price-sensitive market. Based on its customer intimacy, increased innovation and the ability to offer a competitive price, the business is well positioned in this challenging environment.

BAE Systems Detica

Detica expects continued demand for its intelligence and cybersecurity capabilities. In particular, Detica targets opportunities to grow in commercial markets through its cross selling of software and capability to its expanded customer base following the Norkom and ETI acquisitions.

REPORTING SEGMENTS: PLATFORMS & SERVICES (US)

Platforms & Services (US) comprises the US-headquartered Land & Armaments business, with operations in the US, UK, Sweden and South Africa, together with US-based services and sustainment activities, including ship repair and modernisation services.

OPERATIONAL KEY POINTS

- Increases in orders and sales in the Support Solutions business
- Support business awarded a ten-year contract to manage, operate and maintain the US Army's Radford Army Ammunition Plant
- Sales reduction in the land business due to lower Bradley reset/remanufacturing activity and completed Family of Medium Tactical Vehicles programme
- Continued restructuring and efficiency activity in the land business
- Participating in the technology development phase of the US Army's Ground Combat Vehicle programme
- Business disposals of Swiss-Photonics, Advanced Ceramics and Composite Structures complete, and Safety Products disposal announced

FINANCIAL KEY POINTS

- Sales[1] in:
  - Land & Armaments business decreased 40% to £3.5bn
  - Support Solutions business increased 1% to £1.8bn
- Return on sales in:
  - Land & Armaments business reduced to 9.3%
  - Support Solutions business increased to 8.4%
- Support business delivered an increase in order backlog[1,4] and strong operating cash flow[3]

	2011	2010	2009
Order intake[1]	**£5,077m**	£5,605m	£5,493m
Order book[1]	**£6.5bn**	£7.0bn	£8.7bn
Order backlog[1,4]	**£8.9bn**	£9.1bn	n/a
Sales[1]	**£5,305m**	£7,671m	£8,414m
Underlying EBITA[2]	**£478m**	£728m	£775m
Return on sales	**9.0%**	9.5%	9.2%
Cash inflow[3]	**£410m**	£967m	£566m

Like-for-like sales[1] reduced by 30%. At Land & Armaments, sales[1] reduced to £3.5bn ($5.7bn), primarily reflecting the anticipated lower level of Bradley reset/remanufacturing activity on a reduced level of military operations, and the completed Family of Medium Tactical Vehicles (FMTV) programme. Sales[1] at Support Solutions increased by 1%.

Underlying EBITA[2] was £478m (2010 £728m). Return on sales reduced to 9.0% (2010 9.5%). Return on sales at Land & Armaments was 9.3% (2010 10.2%) reflecting self-funding of the costs on the Ground Combat Vehicle (GCV) team during the award protest, and a short-term under-recovery of overheads from the delayed placement of Caiman and GCV contracts. The rationalisation programme in Land & Armaments, which commenced in 2009, has reduced net headcount (including contractors) by some 47% to date. Efforts to align the cost base to the reduced activity at Land & Armaments continue. Return on sales at the Support Solutions business increased from 7.1% to 8.4%.

Cash flow[3] conversion of underlying EBITA[2] at Land & Armaments was 84%. Conversion of underlying EBITA[2] at Support Solutions was 91%.

Support Solutions
In the maritime environment, the US Navy awarded the business $1.5bn (£1.0bn) in follow-on Multi-Ship, Multi-Option (MSMO) contracts for the planning, modernisation, maintenance and repair of vessels at Norfolk, Virginia and San Diego, California. These contracts bring the total value to approximately $3bn (£1.9bn) over five years and represent a 100% re-compete MSMO win rate for the ship repair business.

The business was selected by the US Navy under a contract valued at $148m (£95m) to provide the external communications systems for ten additional Littoral Combat Ships to be built by an Austal US-led team. The fleet will be a new generation of high-speed warships, designed to carry out a range of operations in shallow waters close to shore. The win further demonstrates the Group's position as an industry leader in systems development and integration for US Navy ships.

In April 2011, the Mobile, Alabama shipyard was contracted to finish the construction of the American Phoenix, a product chemical tanker and, in August 2011, Weeks Marine, Inc. selected BAE Systems to build an 8,500 cubic-yard capacity twin screw trailing suction hopper dredge at the shipyard.

Building on C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance) work that BAE Systems has been performing for more than 25 years, often deploying with military units overseas to ensure their readiness, the US Navy awarded the business a $132m (£85m) task order to provide C4ISR technical services for military operations around the world. This order covers the provision of maintenance, upgrades, logistics and other services for military structures, vehicles, ships and small boats.

The US Army awarded the business the contract to manage, operate and maintain the Radford Army Ammunition Plant in southwest Virginia. Valued at approximately $850m (£547m) over ten years, with an additional three five-year options, the contract represents a significant win. Following an unsuccessful protest, the US Army confirmed its award to BAE Systems in January 2012.

The Group has been selected by the US Department of Defense's Joint Improvised Explosive Device Defeat Organization to compete for task orders worth a total of $900m (£579m) for all awardees

1 Including share of equity accounted investments.
2 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).
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4 Order backlog comprises both the order book, which includes unexecuted, funded customer orders only, and unfunded customer orders.

over five years on a new Indefinite Delivery, Indefinite Quantity contract for research, analysis, training, operations support and sustainment of information technology to aid its efforts to counter the use of improvised explosive devices.

Land & Armaments

US

In August 2011, the business was awarded a $450m (£290m) contract to participate in the 24-month technology development phase of the US Army's Ground Combat Vehicle programme. An award protest by competitor SAIC, which was subsequently rejected by the US government, resulted in a temporary funded work stoppage in 2011. The programme is now moving forward.

The business advanced its Heavy Brigade Combat Team positions, supporting customer requirements across the Bradley and Paladin Integrated Management (PIM) programmes. In 2011, the business received several contracts worth $677m (£436m) to provide vehicle and survivability upgrades, and field support for the Bradley family of vehicles. The business delivered seven test vehicles on or ahead of schedule for the PIM programme and, in January 2012, received a $313m (£201m) contract modification for additional engineering design, logistics development and test evaluation support to complete the engineering and manufacturing development phase.

The business is continuing to prepare its response to a US Marine Corps Assault Amphibious Vehicle upgrade request for proposal. Submission is expected in the last quarter of 2012, with contract award in the first quarter of 2013.

In May 2011, the business's two teams completed the technology development phase of the US Army's Joint Light Tactical Vehicle programme. Both teams plan to compete for the engineering and manufacturing development phase.

The upgrade of 1,700 Caiman Multi-Terrain Vehicles under the $629m (£405m) contract awarded in 2010 continues.

The business completed its last chassis under the US Army FMTV contract in May 2011.

The business was awarded a $42m (£27m) contract to work with its Brazilian Army customer to upgrade 150 M113 armoured personnel carriers.

The business is progressing a major competitive pursuit in Canada, the Tactical Armoured Patrol Vehicle. Testing on this vehicle is complete and contract award is expected in 2012.

In naval armaments, the business received a one-year, $32m (£21m) contract to deliver 40 Mk 38 Mod 2 gun systems as part of a larger effort to secure a four-year contract, worth over $176m (£113m) for mounts, spares, and technical and professional services. The US Navy awarded four additional contracts for over $63m (£41m) to upgrade seven Mk 45 gun systems.

During the year, the business sold its Swiss-Photonics, Advanced Ceramics and Composite Structures businesses for an aggregate consideration of £30m.

UK

A new high-technology production facility was opened in Washington, UK, and the first 150 105mm forgings were successfully produced during September. In March, a new laboratory complex opened at Glascoed and a new small arms ammunition facility was completed at Radway Green in September. The business continued to perform well under its 15-year partnership with the UK Ministry of Defence (MoD) to deliver small arms ammunition.

An amendment to the Terrier armoured engineer vehicle contract was agreed with the UK MoD in March, and deliveries of production vehicles commenced in late 2011.

The US Army placed two additional M777 howitzer orders for 116 guns, bringing the total orders since product launch to 1,071 systems, worth in excess of £1.2bn.

Other markets and joint ventures

The business won a competitive selection to provide the Swedish Defence Materiel Administration, FMV, with armoured all-terrain vehicles. The initial £65m contract for 48 BvS10 vehicles and support, together with options for additional vehicles and enhanced support, was awarded in January 2012.

The contract for the supply of new and upgraded CV90 vehicles to Norway was delayed from 2011 to 2012.

The business is progressing a Canadian combat competitive pursuit, the Close Combat Vehicle. Testing is complete and contract awards are expected in 2012.

The development of the Archer 155mm self-propelled artillery gun systems for the Swedish and Norwegian armed forces has progressed through qualification testing, with production commencing in 2012.

The Sweden-based weapons business was selected to supply 57mm Mk 110 naval gun systems for the US Navy Littoral Combat Ships programme. Further options are expected through to 2015.

In South Africa, the business received mobility upgrade contracts for a total value of $193m (£124m) in support of the RG31 Mine Resistant Ambush Protected vehicle programme. The business received several contracts for RG31 and RG32M vehicles for customers in Spain, Sweden, Finland and the United Arab Emirates for a total value of $200m (£129m).

In June 2011, FNSS, a 49% owned joint venture with Nurol Group of Turkey, received and signed a $559m (£360m) agreement with DEFTECH of Malaysia for the design, development and manufacture of 257 wheeled armoured vehicles and integrated logistics support for the Malaysian armed forces.

LOOKING FORWARD

Efforts to reduce the US government's budget deficit are likely to require reductions across all areas of government spend.

In the near term, the Land & Armaments business faces a challenging market environment and a further decline in sales, specifically for completing FMTV and Caiman contracts, and lower Bradley volume. It is expected that pressures on defence budgets and shifting national priorities, combined with a reduction in military operations, will continue.

In order to offset these pressures, increased focus is placed on capturing export opportunities and key new domestic programmes. Simultaneously, the business continues to drive rationalisation, efficiencies and cost reductions in order to adapt and remain competitive.

Although budget cutbacks continue to exert downward pressure on the services market as a whole, the increasing age of US and allied government equipment is expected to lead to opportunities in the near term for lifecycle support services.

REPORTING SEGMENTS: PLATFORMS & SERVICES (UK)

Platforms & Services (UK) comprises the Group's UK-based air and maritime activities, and certain shared services activities, including the UK-based Advanced Technology Centre.

OPERATIONAL KEY POINTS

- Settlements reached on terminated Nimrod and Harrier programmes
- Rationalisation and efficiency activity ongoing within Military Air & Information
- 45 Typhoon Tranche 2 aircraft delivered to partner nations and first F-35 production aircraft accepted by the US Air Force
- Block construction continued on the first aircraft carrier and first steel cut on the second
- Fourth Type 45 destroyer accepted off contract
- Brazilian Navy to acquire the three cancelled Trinidad and Tobago Offshore Patrol Vessels (OPVs)
- Higher than planned costs to complete the Omani OPVs
- Ambush, the second Astute-class submarine, undertaking commissioning

FINANCIAL KEY POINTS

- Order book[1] reduced reflecting the continuing high level of trading on Typhoon against orders received in prior years
- 4% like-for-like reduction in sales[1] reflects the impact of the terminated Nimrod MRA4 and Harrier programmes
- Return on sales improved to 10.5%
- Cash inflow[3] of £69m in 2011 includes the anticipated utilisation of programme advances

	2011	2010	2009
Order intake[1]	**£4,355m**	£3,968m	£8,633m
Order book[1]	**£18.7bn**	£21.0bn	£24.3bn
Sales[1]	**£6,258m**	£6,529m	£6,153m
Underlying EBITA[2]	**£658m**	£522m	£661m
Return on sales	**10.5%**	8.0%	10.7%
Cash inflow[3]	**£69m**	£191m	£251m

Order intake[1] in the year of £4.4bn (2010 £4.0bn) includes a £0.9bn contract amendment on the aircraft carrier contract.

Sales[1] in 2011 were £6.3bn, which, on a like-for-like basis, were 4% below 2010 reflecting the impact of the terminated Nimrod MRA4 and Harrier programmes following the Strategic Defence and Security Review (SDSR).

Underlying EBITA[2] of £658m (2010 £522m) includes:

- a £160m charge in the first half on the Omani Offshore Patrol Vessel (OPV) programme;
- a £125m benefit from a UK Ministry of Defence (MoD) settlement agreement; and
- a £60m benefit from the increase in the carrying value of the Trinidad and Tobago OPVs upon signature of a contract for sale of these vessels to the Brazilian Navy.

Underlying EBITA[2] in the prior year included a charge of £100m taken in respect of the terminated Trinidad and Tobago OPV contract.

There was an operating cash inflow[3] of £69m (2010 £191m), which includes the anticipated utilisation of programme advances.

Military Air & Information

Settlement agreements with the UK MoD were completed following changes to the programmes impacted by the SDSR in 2010, including those for the terminated Nimrod MRA4 and Harrier programmes, and recovery of rationalisation costs charged to the income statement in prior years.

In line with the continuing focus on cost reduction and efficiency, there was a net headcount reduction of 2,400 during the year. In addition, as part of these efficiency improvements, and to address programme changes, including a planned reduction in the Typhoon production rate, the business announced in September 2011 approximately 2,700 further potential job losses.

Deliveries of Typhoon Tranche 2 aircraft to the four partner nations totalled 45. The global Typhoon fleet achieved the significant milestone of 100,000 flying hours during the year.

The Group continues to support its UK customer's Typhoon aircraft and their operational commitments through the Typhoon Availability Service contract with £89m of sales in the year.

The business continued to support the operational requirements of the UK Tornado fleet under an availability-based support contract. Flying hours across the Tornado fleet are expected to reduce as additional Typhoon aircraft enter service.

During the year, Typhoon and Tornado GR4 aircraft conducted in excess of 1,000 sorties as part of Operation Ellamy in support of UNSCR 1973 authorising the use of military force to protect civilians in Libya.

Lockheed Martin, the Group's customer, delivered the first production standard F-35 aircraft to the US Air Force. The Group has delivered 21 development and production aircraft fuselage assemblies to Lockheed Martin. Funding of £162m for the fourth Low-Rate Initial Production (LRIP) contract was secured in the year and negotiations with the customer continue in respect of funding for the fifth LRIP contract.

Support continues to be provided to users of Hawk aircraft across the world and orders for Indian Hawk packages worth £133m were received in the year. The contract to supply products and services to enable 57 Hawk aircraft to be built under licence in India awarded in 2010 is now fully mobilised, with material deliveries commencing in December 2011. Initial discussions have now commenced on the technical requirements for an additional 20 aircraft.

1 Including share of equity accounted investments.
2 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).
3 Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.

In March, a Memorandum of Understanding was signed with Dassault Aviation to bid jointly for new Unmanned Aircraft Systems (UAS) for the UK and French Ministries of Defence in response to the UK-French Defence Co-operation Treaty announced in 2010. Negotiations are anticipated in 2012 regarding the initial technology requirements for a Medium-Altitude Long-Endurance UAS.

In December, the Group signed a four-year, £40m Future Combat Air System research contract with the MoD to sustain and develop the UK's critical technology and skills in UAS.

In the defence information domain, the Group was one of three companies down selected to bid for the UK's Joint Military Air Traffic Services contract and, in December, the FALCON secure deployable communication system programme for the British Army and RAF, achieved an important milestone by concluding a network build-up over a planned number of customer sites.

Maritime
The construction of the Royal Navy's new aircraft carriers continued. A number of blocks for the first ship, Queen Elizabeth, arrived at the Rosyth dockyard, and the first steel was cut in May for the second ship, Prince of Wales. A £0.9bn contract amendment was received reflecting the revised programme schedule and final pricing arrangements.

The fourth Type 45 destroyer, HMS Dragon, was accepted off contract by the Royal Navy in August and the support contract is delivering availability of the four ships now in service.

Cumulative savings to March 2011 of £194m have been reported to the MoD against commitments made under the Terms of Business Agreement (ToBA).

The arbitration process between the Group and the Government of the Republic of Trinidad and Tobago, in respect of the cancelled OPV programme, continues and the tribunal hearing is scheduled for the first half of 2012. In December 2011, the Brazilian Navy signed a contract worth £120m with BAE Systems to purchase the three OPVs. The contract also contains a Manufacturing Licence to enable further vessels of the same class to be constructed in Brazil.

Following sea trials, engineering reviews and customer discussions, the Group expects to incur significantly higher than planned costs to complete the Omani OPV programme, and took a pre-tax charge of £160m in the first half of the year. Progress is being made on the re-baselined schedule, and deliveries to the customer are expected in 2012 and 2013.

The Maritime Composite Training System (MCTS), a shore-based warfare operator training solution, was opened by the Royal Navy in August.

HMS Astute, the first of class attack submarine for the Royal Navy, continues to undertake sea trials and is making good progress, including the demonstration of Tomahawk Land Attack Missile capability. Ambush, the second of class, was launched in January 2011 and is progressing through the commissioning phase. Construction continues on the third and fourth boats, and construction of the fifth boat is now underway. Long lead procurement has commenced on the sixth boat in the anticipated seven boat programme.

The UK government has formally announced the approval to develop the Vanguard class replacement submarine. The business has agreed a contract with the UK MoD for the design and development phase.

The Advanced Radar Target Indication Situational Awareness Navigation (ARTISAN) 3D radar successfully achieved the demonstration of antenna technology progression milestone. The programme continues towards full production.

A number of combat system support contracts have been secured in the year, including a £46m long-term contract to provide in-service support to the Sampson multi-function radar. The major long-term in-service support contracts for ships, radar, torpedoes and combat mission systems continue to meet or exceed contracted performance.

The Sting Ray lightweight torpedo delivery contract for the Norwegian government is ahead of schedule with three of five batches delivered. The remaining two batches are to be delivered in 2012.

LOOKING FORWARD

Platforms & Services (UK) has a strong order book of long-term committed programmes, an enduring support business and cost reduction programmes in place.

In Military Air & Information, sales are underpinned by combat aircraft production on Typhoon and F-35, and in-service support in the UK and on export programmes for existing and legacy combat and Hawk trainer aircraft. There are a number of significant opportunities to secure future Typhoon export sales, including to Oman and Saudi Arabia.

In Maritime, sales are underpinned by the Type 45 destroyer, Queen Elizabeth class carrier and Astute class submarine manufacturing programmes, the 15-year ToBA, and the design of the Vanguard class successor submarine and Type 26 global combat ship. Additionally, such programmes can generate Services business throughout the in-service life.

REPORTING SEGMENTS: PLATFORMS & SERVICES (INTERNATIONAL)

Platforms & Services (International) comprises the Group's businesses in Saudi Arabia, Australia, India and Oman, together with its 37.5% interest in the pan-European MBDA joint venture.

OPERATIONAL KEY POINTS

- Additional budgets approved on the Salam Typhoon programme
- Salam price escalation negotiations continue into 2012
- Customer budgets established for the next five years of support on the Saudi British Defence Co-operation Programme
- First Saudi Typhoon squadron operational
- First Royal Australian Navy Landing Helicopter Dock hull launched
- New UK missile development order received by MBDA
- Typhoon not selected as lowest priced compliant bid for India
- Request for proposal from Oman for Typhoon and associated support

FINANCIAL KEY POINTS

- Order book[1] reduced pending multi-year awards in 2012
- Sales[1] reduced by 12% on maturing Tornado upgrade and core support programmes, and completed contract for Tactica vehicles
- Return on sales increased to 11.8%
- Low cash inflow[3] pending contract amendment for Salam Typhoon price escalation

	2011	2010	2009
Order intake[1]	**£3,319m**	£2,694m	£4,395m
Order book[1]	**£8.3bn**	£9.1bn	£11.0bn
Sales[1]	**£3,794m**	£4,325m	£3,658m
Underlying EBITA[2]	**£449m**	£449m	£402m
Return on sales	**11.8%**	10.4%	11.0%
Cash inflow[3]	**£80m**	£190m	£812m

Order book[1] reduced to £8.3bn (2010 £9.1bn) pending award of contracts for changes to the Salam Typhoon programme, including price escalation, and the next phase of support on the Saudi British Defence Co-operation Programme (SBDCP).

Sales[1] in 2011 were £3.8bn, which, on a like-for-like basis, were 14% lower reflecting the maturing Tornado upgrade and core support programmes, and the completed contract for Tactica vehicles.

Underlying EBITA[2] was £449m (2010 £449m). Return on sales increased to 11.8% (2010 10.4%) on strong performance and risk reduction on the Tornado upgrade and core support programmes.

Operating cash inflow[3] of £80m (2010 £190m) includes the anticipated utilisation of programme advances. A significant cash receipt expected on the Salam Typhoon programme has been deferred until ongoing negotiations regarding price escalation have been concluded.

Saudi Arabia

The business continues to develop its presence in Saudi Arabia and remains committed to developing a greater indigenous capability in the Kingdom. This strategy is being enhanced by the entry into service of Typhoon aircraft and the subsequent development of the Typhoon in-country industrial base.

Of the 72 Typhoon aircraft contracted under the Salam programme, the first squadron of 24 aircraft has now been delivered to the Royal Saudi Air Force (RSAF), including six twin-seat aircraft to allow the RSAF to conduct their own training missions. The three-year Typhoon support contract is providing increased levels of capability to the RSAF.

BAE Systems has been in discussions with its customer regarding changes to the Salam programme. The proposed changes relate to final assembly of the last 48 of the 72 Typhoon aircraft, the creation of a maintenance and upgrade facility in the Kingdom of Saudi Arabia, initial provisioning for subsequent insertion of Tranche 3 capability in respect of the last 24 aircraft of this order and formalisation of price escalation.

Good progress on these discussions has been made in 2011 with budgets approved in the Kingdom in December on all items other than the price escalation where negotiations will now continue into 2012. Customer budgets have also been established for the next five years of support on the core SBDCP, including an upgrade of the training environment. Formal contracts under these budgets are being progressed.

These budget approvals underpin both the Salam and SBDCP programmes. Salam trading performance, originally planned for 2011, relating to the formalisation of price escalation, including significant cash payment, has been deferred until ongoing negotiations have been concluded.

The upgrade of the RSAF Tornado fleet under the Tornado Sustainment Programme is currently performing ahead of schedule. A total of 61 of the contracted 81 aircraft had been delivered back into the fleet at 31 December 2011. The delivery of weapons capability under the programme, including associated storage facilities, is performing in line with expectations.

The first of the Royal Saudi Navy Al Jawf class ships entered the Naval Minehunter Mid-Life Update programme for re-fit as planned during the year.

All 200 Tactica vehicles have been accepted by the Saudi Arabia National Guard. The separate support contract for these vehicles continues to perform to plan.

1 Including share of equity accounted investments.
2 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).
3 Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.

As at the end of 2011, the customer had instructed BAE Systems to stop implementing work under the existing C4i (Command, Control, Communications, Computers and Intelligence) programme. Discussions to agree a mutually acceptable way forward are ongoing.

Australia
Construction of the superstructure blocks for the first of two Landing Helicopter Docks is now well advanced at the Williamstown shipyard, with subcontractor Navantia launching the first completed hull in Spain ahead of schedule. During the year, the business was awarded a A$115m (£76m) capability training contract.

On the Air Warfare Destroyer programme, the business has reached agreement in principle with the prime contractor for a reduction in the Group's workshare of hull block construction and orders have been received for construction work on the second ship.

In November, it was announced that the business was to be awarded a A$267m (£176m) contract to upgrade seven Royal Australian Navy ANZAC class frigates with anti-ship missile defence capability. The contract was signed in January 2012.

During the year, the business was awarded contract extensions for A$116m (£77m) on the Over-The-Horizon Radar system for five years and A$135m (£89m) for Hawk Lead-In Fighter support for two years. The business was also selected to provide interim basic flying training for a further six years under an A$87m (£57m) contract. These awards demonstrate the Group's success in identifying efficiencies in response to the Australian Strategic Reform Programme (SRP). The Over-The-Horizon Radar system contract was the first new performance-based contract negotiated under the SRP.

In adjacent markets, the business successfully secured a position as one of the Department of Defense Chief Information Officer's Group (CIOG) Preferred Industry Partners on the Applications Managed Services Partnership Arrangement (AMSPA) panel. The business will act as lead for the Warfighter and Intelligence domain. The AMSPA arrangement is for at least five years, with potential extensions to 15 years, and represents a key change in the way CIOG will engage with industry to fast track the delivery of Information Communications Technology projects.

The business has successfully integrated stratsec.net, which was acquired to expand the Group's cybersecurity capabilities in the Asia Pacific region.

MBDA
Order intake with domestic customers was strong with new development orders received, including for the Future Local Area Air Defence System in the UK air defence sector and for the Milan successor programme in the combat surface sector. However, there was disappointment on the MEADS air-defence programme with the decision in the US not to pursue the development order beyond the Memorandum of Understanding ending in 2014. In the export market, a significant order was received from India in early 2012 for MICA air-to-air missiles as part of their Mirage 2000 upgrade.

Key deliveries during the year included Aster surface-to-air missiles, Mistral short-range ground-to-air missiles, Eryx anti-armour missiles, Exocet anti-ship missiles, Dual-Mode Brimstone air-to-ground missiles and Spada air defence systems.

Development programmes continue to progress well, with key milestones being passed on the MEADS air-defence programme, MdCN-Scalp naval stand-off missile programme, Meteor beyond visual range air-to-air missile and Aster air-defence programme, with six successful firings on the Aster programme, including one against a ballistic missile target.

India
Typhoon was down selected in 2011 by the Indian government as one of two remaining competitors for the Medium Multi-Role Combat Aircraft Programme. Subsequently, the Group's competitor has been advised that it is the lowest priced compliant bidder and, on this basis, it is expected that contract negotiations will be initiated with that bidder. The Group is continuing to support the Indian customer and its evaluation process which is expected to take some time to complete.

In Defence Land Systems India, the Group's 26% joint venture with Mahindra & Mahindra, sales of the first new vehicle, the Mine Protected Vehicle India, commenced in 2011. The joint venture awaits the results of the competition to be one of the design authorities for the Future Infantry Combat Vehicle programme.

The Group continues to pursue an opportunity to supply M777 howitzers to the Indian Army.

During the year, the Group commenced the establishment of homeland security and technology operations in India to expand local capability, and support indigenous research and development activity. These operations are expected to develop during 2012.

Oman
Activity continues towards securing a contract award for the supply of Typhoon aircraft and associated support to the Royal Air Force of Oman. A request for proposal was received in January 2012 and contract award is expected during 2012.

LOOKING FORWARD

In the Kingdom of Saudi Arabia, the Group seeks to sustain its long-term presence through delivering current programmes and industrialisation, and developing new business in support of the Saudi military and paramilitary forces. The budgets approved in the Kingdom in December 2011 underpin both the SBDCP and Salam programmes.

In Australia, the Group will continue to support the Department of Defense in its efforts to achieve its Strategic Reform Programme by delivering cost and service improvements across all contracts as well as targeting further growth opportunities in the security services market. It is also exploring expansion into adjacent maritime markets, including commercial sustainment, and offshore oil and gas industry support and fabrication services.

In India, significant armoured vehicle and artillery opportunities are being pursued.

In Oman, the Group is making good progress towards capturing significant opportunities to address the future requirements of customers, in new product and support activities.

In MBDA, whilst domestic budgetary pressures continue, export markets are anticipated to grow, potentially benefiting from significant platform procurements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December

	Notes	2011 £m	2011 Total £m	Restated[1] 2010 £m	Restated[1] 2010 Total £m
Continuing operations					
Combined sales of Group and share of equity accounted investments	2		**19,154**		22,275
Less: share of sales of equity accounted investments	2		**(1,384)**		(1,295)
Revenue	2		**17,770**		20,980
Operating costs			**(16,478)**		(19,662)
Other income			**157**		152
Group operating profit			**1,449**		1,470
Share of results of equity accounted investments			**131**		131
Underlying EBITA[2]		**2,025**		2,179	
Non-recurring items[3]		**(78)**		(15)	
EBITA		**1,947**		2,164	
Amortisation		**(239)**		(392)	
Impairment		**(109)**		(125)	
Financial income/(expense) of equity accounted investments		**8**		(2)	
Taxation expense of equity accounted investments		**(27)**		(44)	
Operating profit	2		**1,580**		1,601
Financial income		**1,294**		1,355	
Financial expense		**(1,408)**		(1,547)	
Finance costs	3		**(114)**		(192)
Profit before taxation			**1,466**		1,409
Taxation expense			**(206)**		(418)
Profit for the year – continuing operations			**1,260**		991
(Loss)/profit for the year – discontinued operations	4		**(4)**		90
Profit for the year			**1,256**		1,081
Attributable to:					
Equity shareholders			**1,240**		1,052
Non-controlling interests			**16**		29
			1,256		1,081
Earnings per share	5				
Basic earnings per share			**36.9p**		30.5p
Diluted earnings per share			**36.7p**		30.3p
Earnings per share – continuing operations					
Basic earnings per share			**37.0p**		27.9p
Diluted earnings per share			**36.8p**		27.7p

1 Restated following the classification of the Regional Aircraft line of business as a discontinued operation (see note 4).
2 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items.
3 Non-recurring items comprises loss on disposal of businesses £29m (2010 profit £1m), pension curtailment gains £nil (2010 £2m) and regulatory penalties £49m (2010 £18m).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

	2011			2010		
	Other reserves £m	Retained earnings £m	Total £m	Other reserves £m	Retained earnings £m	Total £m
Profit for the year	–	1,256	1,256	–	1,081	1,081
Other comprehensive income						
Net actuarial (losses)/gains on defined benefit pension schemes	–	(1,522)	(1,522)	–	874	874
Currency translation on foreign currency net investments	(19)	–	(19)	160	–	160
Recycling of cumulative currency translation reserve on disposal	(14)	–	(14)	(17)	–	(17)
Amounts charged to hedging reserve	(56)	–	(56)	(84)	–	(84)
Recycling of cumulative net hedging reserve on disposal	–	–	–	(4)	–	(4)
Fair value movements on available-for-sale investments	–	5	5	–	14	14
Recycling of fair value movements on available-for-sale investments	–	(21)	(21)	–	–	–
Share of other comprehensive income of equity accounted investments	(17)	(45)	(62)	(6)	40	34
Tax on other comprehensive income	17	387	404	22	(274)	(252)
Total other comprehensive income for the year (net of tax)	(89)	(1,196)	(1,285)	71	654	725
Total comprehensive income for the year	(89)	60	(29)	71	1,735	1,806
Attributable to:						
Equity shareholders	(89)	44	(45)	71	1,706	1,777
Non-controlling interests	–	16	16	–	29	29
	(89)	60	(29)	71	1,735	1,806

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NOTES TO THE ACCOUNTS – INCOME STATEMENT

1. PREPARATION

The consolidated financial statements of BAE Systems plc have been prepared in accordance with EU-endorsed International Financial Reporting Standards (IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS.

There were no changes in accounting policies in the year.

The consolidated financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest million. They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and other relevant financial assets and financial liabilities (including derivative instruments).

2. SEGMENTAL ANALYSIS

The Group has revised its reporting segments to align with the Group's strategic direction and improve visibility in areas of recent development of the business, notably its Cyber & Intelligence activities and in Electronic Systems.

Sales and revenue by reporting segment

	Combined sales of Group and share of equity accounted investments		Less: sales by equity accounted investments		Add: sales to equity accounted investments		Revenue	
	2011 £m	Restated[2,3] 2010 £m	**2011 £m**	Restated[3] 2010 £m	**2011 £m**	Restated[3] 2010 £m	**2011 £m**	Restated[2,3] 2010 £m
Electronic Systems	**2,645**	2,969	**(49)**	(49)	**49**	49	**2,645**	2,969
Cyber & Intelligence	**1,399**	1,201	**–**	–	**–**	–	**1,399**	1,201
Platforms & Services (US)	**5,305**	7,671	**(52)**	(42)	**2**	–	**5,255**	7,629
Platforms & Services (UK)	**6,258**	6,529	**(1,476)**	(1,445)	**1,374**	1,339	**6,156**	6,423
Platforms & Services (International)	**3,794**	4,325	**(1,039)**	(1,012)	**–**	–	**2,755**	3,313
HQ	**233**	209	**(233)**	(209)	**–**	–	**–**	–
	19,634	22,904	**(2,849)**	(2,757)	**1,425**	1,388	**18,210**	21,535
Intra-group sales/revenue	**(480)**	(629)	**3**	21	**37**	53	**(440)**	(555)
	19,154	22,275	**(2,846)**	(2,736)	**1,462**	1,441	**17,770**	20,980

Reporting segment result

	Underlying EBITA[1]		Non-recurring items[4]		Amortisation of intangible assets		Impairment of intangible assets		Reporting segment result	
	2011 £m	Restated[2,3] 2010 £m	**2011 £m**	Restated[3] 2010 £m	**2011 £m**	Restated[3] 2010 £m	**2011 £m**	Restated[3] 2010 £m	**2011 £m**	Restated[2,3] 2010 £m
Electronic Systems	**386**	455	**–**	2	**(15)**	(8)	**–**	–	**371**	449
Cyber & Intelligence	**136**	108	**–**	–	**(64)**	(28)	**–**	(11)	**72**	69
Platforms & Services (US)	**478**	728	**(29)**	–	**(118)**	(293)	**(75)**	(30)	**256**	405
Platforms & Services (UK)	**658**	522	**–**	1	**(32)**	(38)	**(34)**	(77)	**592**	408
Platforms & Services (International)	**449**	449	**–**	–	**(10)**	(25)	**–**	(7)	**439**	417
HQ	**(82)**	(83)	**(49)**	(18)	**–**	–	**–**	–	**(131)**	(101)
	2,025	2,179	**(78)**	(15)	**(239)**	(392)	**(109)**	(125)	**1,599**	1,647
Financial income/(expense) of equity accounted investments									**8**	(2)
Taxation expense of equity accounted investments									**(27)**	(44)
Operating profit									**1,580**	1,601
Finance costs									**(114)**	(192)
Profit before taxation									**1,466**	1,409
Taxation expense									**(206)**	(418)
Profit for the year – continuing operations									**1,260**	991

1 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).
2 Restated following the classification of the Regional Aircraft line of business as a discontinued operation (see note 4).
3 Restated following changes to the Group's reporting segments.
4 Non-recurring items comprises loss on disposal of businesses £29m (2010 profit £1m), pension curtailment gains £nil (2010 £2m) and regulatory penalties £49m (2010 £18m).

3. FINANCE COSTS

	2011 £m	Restated[1] 2010 £m
Interest income	**30**	37
Income from financial assets at fair value through profit or loss	**4**	–
Expected return on pension scheme assets	**989**	916
Recycling of fair value movements on available-for-sale investments	**21**	–
Gain on remeasurement of financial instruments at fair value through profit or loss[2]	**174**	176
Foreign exchange gains	**76**	226
Financial income	**1,294**	1,355
Interest expense on bonds and other financial instruments[3]	**(217)**	(203)
Facility fees	**(7)**	(4)
Net present value adjustments	**(33)**	(26)
Interest charge on pension scheme liabilities	**(965)**	(996)
Loss on remeasurement of financial instruments at fair value through profit or loss	**(163)**	(225)
Foreign exchange losses	**(23)**	(93)
Financial expense	**(1,408)**	(1,547)
Net finance costs	**(114)**	(192)

Additional analysis

	2011 £m	Restated[1] 2010 £m
Net finance costs:		
Group	**(114)**	(192)
Share of equity accounted investments	**8**	(2)
	(106)	(194)
Analysed as:		
Underlying interest (expense)/income:		
Group	**(223)**	(196)
Share of equity accounted investments	**11**	5
	(212)	(191)
Other:		
Group:		
Net financing credit/(charge) on pensions	**24**	(80)
Market value and foreign exchange movements on financial instruments and investments	**85**	84
Share of equity accounted investments	**(3)**	(7)
	(106)	(194)

1 Restated following the classification of the Regional Aircraft line of business as a discontinued operation (see note 4).
2 Includes a £17m fair value gain (2010 £26m) in respect of the remaining 10.25% shareholding in Saab AB, which was sold in June 2011.
3 Includes £41m relating to the early redemption of debt in June 2011 in connection with the disposal of the Regional Aircraft Asset Management business in July 2011, £28m of which would have been incurred in future years.

NOTES TO THE ACCOUNTS – INCOME STATEMENT *(continued)*

4. DISCONTINUED OPERATIONS

Regional Aircraft
On 15 July 2011, the Group sold its Regional Aircraft Asset Management business.

The Group's Regional Aircraft Support & Engineering business is expected to be sold in the first half of 2012 and has been classified as held for sale at 31 December 2011.

The Asset Management and Support & Engineering businesses comprised the Group's Regional Aircraft line of business within the HQ reporting segment. It has been presented within discontinued operations for the current and prior years.

Saab AB
In June 2010, the Group sold half of its 20.5% shareholding in Saab AB. Following the loss of significant influence over the company, the Group discontinued the use of the equity method. Accordingly, the profit on this disposal, together with the Group's share of the results of Saab AB to the date of this disposal, are shown within discontinued operations in the prior year.

Results from discontinued operations

	2011 £m	2010 £m
Revenue	84	128
Operating costs[1,2]	(104)	(110)
Other income[3]	10	17
Group operating (loss)/profit	(10)	35
Share of results of equity accounted investments	–	2
Operating (loss)/profit	(10)	37
Financial income	–	3
Financial expense	(3)	(3)
(Loss)/profit before taxation	(13)	37
Taxation (expense)/credit	(5)	1
(Loss)/profit for the year	(18)	38
Profit on disposal of discontinued operations	14	52
(Loss)/profit for the year – discontinued operations	(4)	90
Regional Aircraft	(4)	36
Saab AB	–	54
(Loss)/profit for the year – discontinued operations	(4)	90

1 Includes depreciation and impairment of £56m (2010 £48m). The 2011 charge includes £40m in respect of the carrying value of the Regional Aircraft Asset Management business.
2 Operating costs in 2010 include fees paid to the Company's auditor of £0.1m.
3 Includes profit on disposal of property, plant and equipment of £9m (2010 £11m).

Profit on disposal of discontinued operations

	£m	£m
Cash consideration	117	
Transaction costs	(4)	
Amount receivable in respect of sales price adjustments	3	
Proceeds		116
Net assets disposed:		
Property, plant and equipment	(95)	
Inventories	(7)	
Trade and other receivables	(10)	
Deferred tax assets	(16)	
Cash and cash equivalents	(15)	
Trade and other payables	17	
Current tax payable	6	
Provisions	4	
		(116)
Cumulative currency translation gain		14
Profit on disposal of discontinued operations		14

The net assets were measured at fair value less costs to sell at disposal.

5. EARNINGS PER SHARE

	2011 £m	2011 Basic pence per share	2011 Diluted pence per share	Restated[1] 2010 £m	Restated[1] 2010 Basic pence per share	Restated[1] 2010 Diluted pence per share
Profit for the year attributable to equity shareholders	**1,240**	**36.9**	**36.7**	1,052	30.5	30.3
Represented by:						
Continuing operations	**1,244**	**37.0**	**36.8**	962	27.9	27.7
Discontinued operations	**(4)**	**(0.1)**	**(0.1)**	90	2.6	2.6
Add back/(deduct):						
Loss/(profit) on disposal of businesses	**29**			(1)		
Pension curtailment gains, post tax	**–**			(1)		
Regulatory penalties	**49**			18		
Net financing (credit)/charge on pensions, post tax	**(18)**			59		
Market value movements on derivatives, post tax	**(61)**			(57)		
Charges relating to early redemption of debt, post tax[2]	**10**			–		
Amortisation and impairment of intangible assets, post tax	**188**			307		
Impairment of goodwill	**94**			84		
Underlying earnings, post tax	**1,531**	**45.5**	**45.3**	1,461	42.4	42.1
Represented by:						
Continuing operations	**1,535**	**45.6**	**45.4**	1,371	39.8	39.5
Discontinued operations	**(4)**	**(0.1)**	**(0.1)**	90	2.6	2.6
	1,531	**45.5**	**45.3**	1,461	42.4	42.1

	2011 Millions	2011 Millions	2010 Millions	2010 Millions
Weighted average number of shares used in calculating basic earnings per share	**3,365**	**3,365**	3,451	3,451
Incremental shares in respect of employee share schemes		**17**		20
Weighted average number of shares used in calculating diluted earnings per share		**3,382**		3,471

1 Restated following the classification of the Regional Aircraft line of business as a discontinued operation (see note 4).
2 Excludes £28m of charges that would have been incurred in future years and, therefore, remain within underlying earnings.

Underlying earnings per share is presented in addition to that required by IAS 33, Earnings per Share, to align the adjusted earnings measure with the performance measure reviewed by the directors. The directors consider that this gives a more appropriate indication of underlying performance.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December

	Notes	2011 £m	2010 £m
Profit for the year		**1,256**	1,081
Taxation expense		**211**	417
Share of results of equity accounted investments		**(131)**	(133)
Net finance costs		**117**	192
Depreciation, amortisation and impairment		**751**	899
Profit on disposal of property, plant and equipment		**(17)**	(13)
Profit on disposal of investment property		**(21)**	–
Loss/(profit) on disposal of businesses		**15**	(53)
Cost of equity-settled employee share schemes		**68**	58
Movements in provisions		**(148)**	101
Decrease in liabilities for retirement benefit obligations		**(287)**	(452)
(Increase)/decrease in working capital:			
Inventories		**(85)**	318
Trade and other receivables		**191**	183
Trade and other payables		**(969)**	(1,063)
Cash inflow from operating activities		**951**	1,535
Interest paid		**(212)**	(221)
Taxation paid		**(257)**	(352)
Net cash inflow from operating activities		**482**	962
Dividends received from equity accounted investments		**88**	71
Interest received		**32**	48
Income from financial assets at fair value through profit or loss		**4**	–
Purchases of property, plant and equipment, and investment property		**(359)**	(408)
Purchases of intangible assets		**(24)**	(19)
Proceeds from sale of property, plant and equipment, and investment property		**115**	70
Purchase of subsidiary undertakings (net of cash acquired)		**(532)**	(179)
Purchase of equity accounted investments		**–**	(2)
Equity accounted investment funding		**(1)**	(7)
Proceeds from sale of subsidiary undertakings (net of cash disposed)		**124**	–
Proceeds from sale of equity accounted investments		**–**	93
Proceeds from sale of financial assets at fair value through profit or loss		**152**	–
Proceeds from sale of other investments		**1**	–
Net proceeds from sale/(purchase) of other deposits/securities		**265**	(40)
Net cash outflow from investing activities		**(135)**	(373)
Capital element of finance lease rental payments		**–**	(7)
Proceeds from issue of share capital		**–**	6
Purchase of treasury shares		**(503)**	(503)
Purchase of own shares		**(6)**	(23)
Equity dividends paid	7	**(606)**	(574)
Dividends paid to non-controlling interests		**(22)**	(32)
Cash outflow from matured derivative financial instruments		**(34)**	(123)
Cash inflow from movement in cash collateral		**–**	11
Cash inflow from loans		**2,693**	1,317
Cash outflow from repayment of loans		**(2,541)**	(1,576)
Net cash outflow from financing activities		**(1,019)**	(1,504)
Net decrease in cash and cash equivalents		**(672)**	(915)
Cash and cash equivalents at 1 January		**2,802**	3,678
Effect of foreign exchange rate changes on cash and cash equivalents		**6**	39
Cash and cash equivalents at 31 December		**2,136**	2,802
Comprising:			
Cash and cash equivalents[1]		**2,141**	2,813
Overdrafts		**(5)**	(11)
Cash and cash equivalents at 31 December		**2,136**	2,802

1 Includes £403m (2010 £1m) of cash held in Trust for the benefit of the Group's main pension scheme (see note 6).

CONSOLIDATED BALANCE SHEET
as at 31 December

	Notes	2011 £m	2010 £m
Non-current assets			
Intangible assets		11,465	11,216
Property, plant and equipment		2,496	2,714
Investment property		130	134
Equity accounted investments		783	787
Other investments		5	11
Other receivables		314	282
Other financial assets		118	110
Deferred tax assets		1,409	1,160
		16,720	16,414
Current assets			
Inventories		716	644
Trade and other receivables including amounts due from customers for contract work		3,369	3,559
Current tax		60	51
Other investments		–	260
Other financial assets		77	289
Cash and cash equivalents		2,141	2,813
Assets of disposal group held for sale		18	–
		6,381	7,616
Total assets		23,101	24,030
Non-current liabilities			
Loans		(2,682)	(2,133)
Trade and other payables		(571)	(694)
Retirement benefit obligations	6	(4,673)	(3,456)
Other financial liabilities		(74)	(255)
Deferred tax liabilities		(26)	(6)
Provisions		(501)	(425)
		(8,527)	(6,969)
Current liabilities			
Loans and overdrafts		(518)	(920)
Trade and other payables		(8,531)	(9,352)
Other financial liabilities		(284)	(109)
Current tax		(468)	(625)
Provisions		(453)	(652)
Liabilities of disposal group held for sale		(21)	–
		(10,275)	(11,658)
Total liabilities		(18,802)	(18,627)
Net assets		4,299	5,403
Capital and reserves			
Issued share capital		90	90
Share premium		1,249	1,249
Other reserves		5,381	5,470
Accumulated losses		(2,480)	(1,477)
Total equity attributable to equity holders of the parent		4,240	5,332
Non-controlling interests		59	71
Total equity		4,299	5,403

Approved by the Board on 15 February 2012 and signed on its behalf by:

I G King
Chief Executive

P J Lynas
Group Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

	Attributable to equity holders of the parent						
	Issued share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2011	90	1,249	5,470	(1,477)	5,332	71	5,403
Profit for the year	–	–	–	1,240	1,240	16	1,256
Total other comprehensive income for the year	–	–	(89)	(1,196)	(1,285)	–	(1,285)
Share-based payments	–	–	–	68	68	–	68
Share options:							
Purchase of own shares	–	–	–	(6)	(6)	–	(6)
Purchase of treasury shares	–	–	–	(503)	(503)	–	(503)
Ordinary share dividends	–	–	–	(606)	(606)	(22)	(628)
Other	–	–	–	–	–	(6)	(6)
At 31 December 2011	**90**	**1,249**	**5,381**	**(2,480)**	**4,240**	**59**	**4,299**
At 1 January 2010	90	1,243	5,399	(2,141)	4,591	72	4,663
Profit for the year	–	–	–	1,052	1,052	29	1,081
Total other comprehensive income for the year	–	–	71	654	725	–	725
Share-based payments	–	–	–	58	58	–	58
Share options:							
Proceeds from shares issued	–	6	–	–	6	–	6
Purchase of own shares	–	–	–	(23)	(23)	–	(23)
Purchase of treasury shares	–	–	–	(503)	(503)	–	(503)
Ordinary share dividends	–	–	–	(574)	(574)	(32)	(606)
Other	–	–	–	–	–	2	2
At 31 December 2010	90	1,249	5,470	(1,477)	5,332	71	5,403

NOTES TO THE ACCOUNTS – BALANCE SHEET

6. RETIREMENT BENEFIT OBLIGATIONS

	UK £m	US and other £m	Total £m
Total IAS 19 deficit at 1 January 2011	(3,438)	(665)	**(4,103)**
Actual return on assets below expected return	(305)	(117)	**(422)**
Increase in liabilities due to changes in assumptions and experience	(1,192)	(213)	**(1,405)**
Additional contributions	129	–	**129**
Recurring contributions in excess of service cost	184	62	**246**
Past service cost	(45)	(2)	**(47)**
Net financing (charge)/credit	(9)	31	**22**
Exchange translation	–	(10)	**(10)**
Movement in US healthcare plans	–	5	**5**
Total IAS 19 deficit at 31 December 2011	(4,676)	(909)	**(5,585)**
Allocated to equity accounted investments and other participating employers	965	–	**965**
Group's share of IAS 19 deficit excluding Group's share of amounts allocated to equity accounted investments and other participating employers at 31 December 2011	(3,711)	(909)	**(4,620)**
Represented by:			
Pension prepayments (within trade and other receivables)	–	53	**53**
Retirement benefit obligations	(3,711)	(962)	**(4,673)**
	(3,711)	(909)	**(4,620)**

Certain of the Group's equity accounted investments participate in the Group's defined benefit plans as well as Airbus SAS, the Group's share of which was disposed of in 2006. As these plans are multi-employer plans, the Group has allocated an appropriate share of the IAS 19, Employee Benefits, pension deficit to the equity accounted investments and Airbus SAS based upon a consistent allocation method intended to reflect a reasonable approximation of their share of the deficit. The Group's share of the IAS 19 pension deficit allocated to the equity accounted investments is included in the balance sheet within equity accounted investments. In the event that an employer who participates in the Group's pension schemes fails or cannot be compelled to fulfil its obligations as a participating employer, the remaining participating employers are obliged to collectively take on its obligations. The Group considers the likelihood of this event arising as remote.

The Group's share of the IAS 19 deficit excluding the Group's share of amounts allocated to equity accounted investments and other participating employers is £3.4bn (31 December 2010 £2.4bn) after tax.

Contributions

The Group contributions made to the defined benefit plans in the year ended 31 December 2011 were £515m (2010 £695m) excluding those amounts allocated to equity accounted investments and participating employers of £70m (2010 £71m). This includes contributions of £20m into the UK schemes relating to the share buyback programme (2010 £157m). In 2011, the Group paid an additional £112m into Trust relating to the share buyback programme and expects to pay £25m into Trust in 2012 in respect of the BAE Systems 2000 Pension Plan, taking total contributions for the 2011 share buyback to £157m. In 2012, the Group expects to make regular contributions at a similar level to those made in 2011.

The Group incurred a charge in respect of the cash contributions of £119m (2010 £110m) paid to defined contribution plans for employees.

During the year, the Group contributed an additional £137m, including £112m relating to the share buyback programme, into Trust for the benefit of the Group's main pension scheme (2010 £25m). The cumulative contributions totalling £387m, plus fair value gains of £16m, are reported within cash and cash equivalents (£403m) at 31 December 2011. The use of these assets is restricted under the terms of the Trust. The Group considers these contributions to be equivalent to the other lump sum contributions it makes into the Group's pension schemes and, accordingly, presents below a definition of the pension deficit including them.

	2011 £m	2010 £m
Group's share of IAS 19 deficit, net	**(4,620)**	(3,407)
Assets held in Trust	**403**	261
Pension deficit (as defined by the Group)	**(4,217)**	(3,146)

NOTES TO THE ACCOUNTS – OTHER INFORMATION

7. DIVIDENDS

Equity dividends

	2011 £m	2010 £m
Prior year final 10.5p dividend per ordinary share paid in the year (2010 9.6p)	**359**	335
Interim 7.5p dividend per ordinary share paid in the year (2010 7.0p)	**247**	239
	606	574

After the balance sheet date, the directors proposed a final dividend of 11.3p. The dividend, which is subject to shareholder approval, will be paid on 1 June 2012 to shareholders registered on 20 April 2012. The ex-dividend date is 18 April 2012.

Shareholders who do not at present participate in the Company's Dividend Reinvestment Plan and wish to receive the final dividend in shares rather than cash should complete a mandate form for the Dividend Reinvestment Plan and return it to the registrars no later than 11 May 2012.

8. ACQUISITION OF SUBSIDIARIES

Subsidiaries acquired during 2011

The Group has acquired L-1 Identity Solutions, Inc.'s Intelligence Services Group (L-1 ISG), Norkom Group plc (Norkom) and ETI A/S (ETI) in the Cyber & Intelligence reporting segment. The Group also acquired Fairchild Imaging, Inc. (Fairchild) in the Electronic Systems reporting segment and stratsec.net Pty Limited (stratsec), an Australian information security company, in the Platforms & Services (International) reporting segment.

If the acquisitions had occurred on 1 January 2011, combined sales of Group and share of equity accounted investments would have been £19.2bn, revenue £17.8bn and profit £1,252m from continuing operations for the year ended 31 December 2011.

For all acquisitions made in the year, fair values remain provisional, but will be finalised within 12 months of acquisition.

Summary

Acquisition	Description	Acquisition date	Percentage share acquired	Total consideration Currency	Total consideration £m
L-1 ISG	Leading provider of security and counter threat capabilities to the US government	15 February 2011	100%	$291m[1]	180
Norkom	Market-leading provider of innovative anti-money laundering solutions to counter financial crime to the global financial services industry	18 February 2011	100%	€209m	177
ETI	Recognised provider of advanced security products and services to government and commercial clients worldwide	21 March 2011	100%	DKK1.2bn	135
Fairchild	Provider of solid-state electronic imaging components, cameras, and systems for aerospace, industrial, medical and scientific imaging applications	1 April 2011	91.3%	$88m	55
stratsec	Australian information security company supplying government and commercial customers	14 January 2011	100%	A$25m	16

1 Total consideration is $297m, less a working capital adjustment of $6m.

IFRS 3, Business Combinations, disclosures are provided individually for the L-1 ISG, Norkom and ETI acquisitions below. The acquisitions of Fairchild and stratsec are neither individually nor collectively material.

8. ACQUISITION OF SUBSIDIARIES *(continued)*

Material acquisitions

Acquisition	Support for residual goodwill[1]	Consolidated results for the period from acquisition to 31 December 2011 Revenue £m	EBITA[2] £m	Loss after tax[3] £m
L-1 ISG	– Complements Intelligence & Security's existing security and intelligence capabilities; – Enhances existing knowledge and expertise, and better positions the Group to compete for future upgrades and new contracts; – Increases penetration of target markets through existing sales, marketing and in-service support capabilities; and – Provides a skilled assembled workforce with high level security clearance.	112	8	(2)
Norkom	– Complements Detica's existing enterprise fraud products, particularly Detica NetReveal®; – The combination of two of the sector's strongest technologies creates a market-leading offering to compete for new customers in new geographies; – Creates opportunities for cost synergies; and – Provides a skilled assembled workforce.	42	9	(3)
ETI	– Complements Detica's existing communications and interception businesses; – Creates a stronger end-to-end solution and a top tier market competitor, which enhances the Group's ability to compete for new customers in new geographies; and – Provides a skilled assembled workforce with high level security clearance.	39	5	(9)

1 Goodwill recognised is attributable to specific opportunities and synergies which do not translate into separately identifiable intangible assets, but represent a proportion of the assessed value within each acquired entity.
2 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense excluding integration costs.
3 Loss after tax includes amortisation charges on acquired intangible assets totalling £39m.

The post-acquisition results above exclude acquisition-related costs of £6m incurred by the Group on the L-1 ISG (£1m), Norkom (£4m) and ETI (£1m) acquisitions. These expenses relate to external legal fees and due diligence costs, and are included in operating costs.

Fair values

The acquisitions had the following effect on the Group's assets and liabilities:

	L-1 ISG £m	Norkom £m	ETI £m	Other £m	Total £m
Intangible assets	63	99	79	29	270
Property, plant and equipment	–	1	7	2	10
Equity accounted investments	–	1	–	–	1
Inventories	–	–	10	6	16
Trade receivables	13	8	4	7	32
Other receivables	10	7	–	1	18
Deferred tax assets	–	2	8	–	10
Trade and other payables	(15)	(24)	(22)	(6)	(67)
Current tax payable	–	–	(8)	–	(8)
Deferred tax liabilities	–	(20)	(22)	(3)	(45)
Provisions	–	–	(2)	(1)	(3)
Cash and cash equivalents	–	37	5	1	43
Net assets acquired	**71**	**111**	**59**	**36**	**277**
Goodwill	109	66	76	40	291
Less: Fair value of existing interest in Fairchild	–	–	–	(5)	(5)
Total consideration	**180**	**177**	**135**	**71**	**563**
Add: Amounts receivable in respect of purchase price adjustments	4	–	–	–	4
Add: Net amounts paid in respect of prior year acquisitions	–	–	–	8	8
Cash consideration	**184**	**177**	**135**	**79**	**575**

The cumulative remeasurement to fair value of the Group's existing 8.7% interest in Fairchild was a gain of £5m, which has been recycled from retained earnings to financial income during the period. There was no material change in the fair value from 1 January 2011 to the date of acquisition of the remaining 91.3% interest.

During the year, the Group paid $22m (£13m) of deferred consideration in respect of the acquisition of OASYS Technology, LLC (OASYS) in 2010 and $6m (£4m) relating to purchase price adjustments in respect of the acquisition of Atlantic Marine Holding Company (Atlantic Marine) also in 2010. The Group received A$15m (£9m) from the former owners of the Tenix Defence business acquired in 2008 following resolution of outstanding acquisition issues in 2010.

The goodwill expected to be deductible for tax purposes is £109m relating to L-1 ISG.

NOTES TO THE ACCOUNTS – OTHER INFORMATION *(continued)*

8. ACQUISITION OF SUBSIDIARIES *(continued)*

Intangible assets

Acquisition	Customer relationships £m	Software £m	Trade names/ trademarks £m	Other £m	Total £m
L-1 ISG	62	–	1	–	63
Norkom	74	21	3	1	99
ETI	22	48	5	4	79
Other					29
					270

Trade receivables

Acquisition	Gross contractual amounts due £m	Unrecoverable amount £m	Fair value £m
L-1 ISG	13	–	13
Norkom	8	–	8
ETI	7	(3)	4
Other			7
			32

Subsidiaries acquired during 2010

In 2010, the Group acquired Atlantic Marine and OASYS. If the acquisitions had occurred on 1 January 2010, combined sales of Group and share of equity accounted investments would have been £22.4bn[1], revenue £21.1bn[1] and profit £986m[1] from continuing operations for the year ended 31 December 2010.

For all acquisitions made during 2010, fair values were finalised during 2011.

1 Restated following the classification of the Regional Aircraft line of business as a discontinued operation (see note 4).

Summary

Acquisition	Description	Acquisition date	Percentage share acquired	Total consideration Currency	Total consideration £m
Atlantic Marine	US naval services and marine fabrication business	13 July 2010	100%	$372m	245
OASYS	US manufacturer of electro-optical systems and sub-assemblies	19 October 2010	100%	$53m	33

IFRS 3 disclosures are provided individually for the Atlantic Marine acquisition below. The acquisition of OASYS is not material.

Material acquisitions

		Consolidated results for the period from acquisition to 31 December 2010	
Acquisition	Support for residual goodwill[2]	Revenue £m	Profit after tax £m
Atlantic Marine	– Complements existing ship repair and upgrade capabilities servicing the US Navy, and strategy to address anticipated growth in Services activity; – Operates two facilities in deep water ports along some of the busiest trade routes in the US; and – Operates a facility at the second largest home port of US Navy surface combatants on the East and Gulf coasts, and proposed as the new home port for an aircraft carrier in the 2010 Quadrennial Defense Review.	74	3

2 Goodwill recognised is attributable to specific opportunities and synergies which do not translate into separately identifiable intangible assets, but represent a proportion of the assessed value within the acquired entity.

The post-acquisition results above exclude acquisition-related costs of £5m related to external legal fees and due diligence costs, which are included in operating costs.

8. ACQUISITION OF SUBSIDIARIES *(continued)*

Fair values

The acquisitions had the following effect on the Group's assets and liabilities:

	Atlantic Marine £m	Other £m	Total £m
Intangible assets	37	4	41
Property, plant and equipment	113	–	113
Inventories	1	4	5
Receivables	14	1	15
Deferred tax assets	1	–	1
Payables	(15)	(5)	(20)
Deferred tax liabilities	(41)	–	(41)
Provisions	(16)	–	(16)
Cash and cash equivalents	18	1	19
Net assets acquired	**112**	**5**	**117**
Goodwill[1]	133	28	161
Total consideration	**245**	**33**	**278**
Less: Deferred consideration payable	–	(18)	(18)
Less: Amounts received in respect of purchase price adjustments	–	(65)	(65)
Add: Purchase of non-controlling interests	–	3	3
Cash consideration	**245**	**(47)**	**198**

1 In accordance with IFRS 3, the Group has adjusted the fair values attributable to the Atlantic Marine acquisition during 2011. The net increase in goodwill from £133m to £138m mainly reflects £4m of additional consideration payable. This has not had a material impact on the consolidated accounts and, as such, the Group has not restated the balance sheet at 31 December 2010.

The intangible assets acquired as part of the acquisition of Atlantic Marine of £37m primarily relate to customer relationships.

Total consideration in respect of the acquisition of OASYS includes $29m (£18m) contingent upon the achievement of certain revenue targets for 2010 and 2011.

Outstanding issues concerning the acquisition of the Tenix Defence business in 2008, including the completion accounting process, were resolved successfully with agreement of contingent payments totalling A$127.5m (£74m, net of legal fees) from the former owners of the business. In September 2010, the Group received a payment of A$112.5m (£65m, net of legal fees) with the remainder received in 2011. These payments reduced goodwill in 2010 by £64m (£74m, less £10m deferred tax).

NOTES TO THE ACCOUNTS – OTHER INFORMATION *(continued)*

9. RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its directors and key management personnel, equity accounted investments and pension plans.

Transactions occur with the equity accounted investments in the normal course of business, are priced on an arm's-length basis and settled on normal trade terms. The more significant transactions are disclosed below:

	31 December 2011 £m	31 December 2010 £m
Sales to related parties	**1,462**	1,444
Purchases from related parties	**317**	424
Amounts owed by related parties	**234**	307
Amounts owed to related parties	**1,161**	1,232

10. ANNUAL GENERAL MEETING

This year's Annual General Meeting will be held on 2 May 2012. Details of the resolutions to be proposed at that meeting will be included in the notice of Annual General Meeting that will be sent to shareholders at the end of March 2012.

11. OTHER INFORMATION

The financial information for the year ended 31 December 2011 contained in this preliminary announcement was approved by the Board on 15 February 2012. This announcement does not constitute statutory accounts of the Company within the meaning of section 435 of the Companies Act 2006, but is derived from those accounts.

Statutory accounts for the year ended 31 December 2010 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2011 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The auditors have reported on those accounts. Their reports were not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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