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To all BAE Shareholders

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Newsletter No. 2

Saudi Arabia Contract Pricing Still Not Agreed

On Wednesday BAE Systems issued an announcement stating that pricing on the contract to supply 72 Typhoon aircraft to the Kingdom of Saudi Arabia had still not been agreed. This was interpreted by some newspapers as a profit warning. Indeed the announcement said that if no agreement is reached before the Group's full year results announcement (which was in mid February last year) then it might reduce earnings per share by about 3p. Previous analysts' forecasts were for slightly over 40p in 2012.

Oddly enough they have already delivered 24 aircraft so it would seem that analysts were relying on revenue being booked in the current year based on pricing which has not yet been agreed. It surely reinforces the point that BAE is still a business with some problems in the current tight market for defence expenditure. The outcome of the US "fiscal cliff" discussions, which are still unresolved, could have a major impact on future US orders for BAE.

Indeed an article in the Financial Times this morning suggests that BAE is "heading towards a cliff" based on the comments of one senior defence company executive who suggested that its large platforms will have difficulty finding new markets and the order book is not growing.

However on Friday there was the more positive news of a contract for the supply of Typhoon and Hawk aircraft to Oman worth approximately £2.55bn although delivery is scheduled for 2017 onwards.

Yours sincerely

Roger Lawson
Chairman

More background information about the campaign on the BAE Systems campaign is present on this web page where further news will be posted as it becomes available:

www.sharesoc.org/campaigns4.html

