

BAE Systems

2012 Preliminary Results

21 February 2013



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Ian King
Chief Executive



Overview - 2012

Trading environment

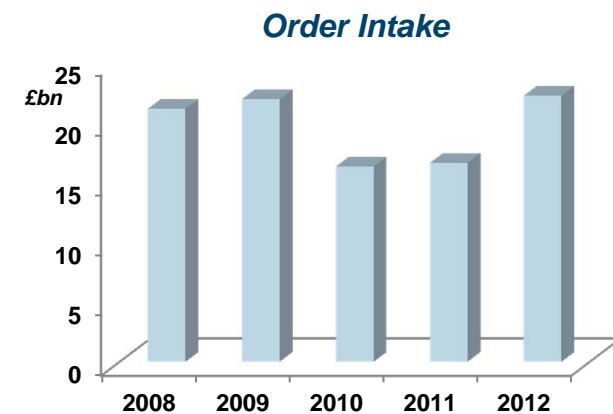
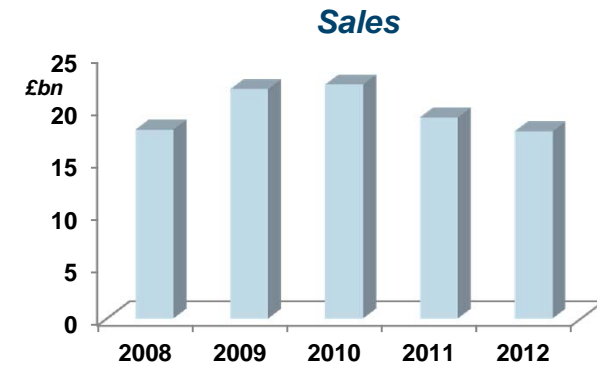
- Robust performance in difficult environment

Business performance

- Good programme execution
- Large platform programme maturity
- Disciplined cost control
- Winning new International business

Capital allocation

- Consistent dividend policy
- Accelerated returns through share re-purchases



Affordability the overriding consideration - cost is key



US defence

Current trading environment

- Reducing operations-driven activity
- Continuing Resolution invoked
- Continued good growth in commercial aerospace electronics

Market outlook

- Possibility of enduring 'CR' environment
- Sequestration deferred from 2 Jan 13 to 1 Mar 13
- Expect some pockets of resilience



Focus on costs remains key in absence of market clarity



US market - opportunities

New business development

- **Land & Armaments**
 - Bradley funded through to 2014
 - Paladin PIM low rate production proposal
 - GCV and JLTV participation continues

- **Support Solutions**
 - Radford operations contributing from mid 2012
 - US Navy T-34, T-44 and T-6 turboprop aircraft maintenance contract

- **Defence electronics**
 - Successful recovery from Johnson City flooding
 - APKWS Initial Operating Capability achieved
 - F-35 interim helmet contract extension

- **Commercial aerospace electronics**
 - Continued good demand anticipated
 - First CFM LEAP engine FADEC delivered

- **Cyber and Intelligence**
 - Significant bid decisions awaited





UK defence

Trading environment

- Budget pressures, but stable
- Good long term programme visibility
- Large order book in military air, naval ships and submarines
- Good programme execution
- Cost reduction continues

Military air


- Continued European Typhoon T2 deliveries
- Salam aircraft in-build for resumption of deliveries
- F-35 LRIP deliveries consistent with planning


Maritime


- High level of activity
- Post Carrier shipyard work load under review
- Excellent long term submarines visibility




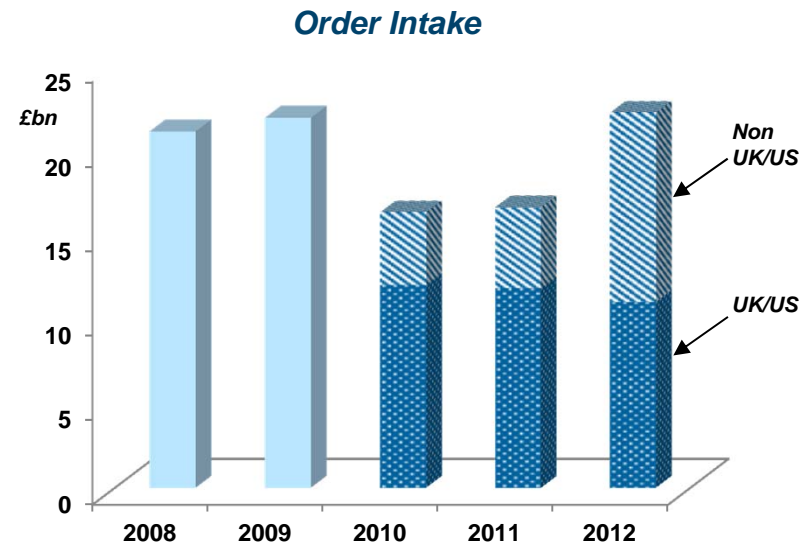
International Markets

- 
 - Norway
 - £0.5bn CV90 contract signed

- 
 - India
 - M777 opportunity progressing
 - Continued Hawk order intake

- 
 - Oman
 - £2.5bn Typhoon and Hawk contracts

- 
 - KSA
 - High level of planning and contracting activity





Kingdom of Saudi Arabia

▪ Saudi-British Defence Co-operation Programme - SBDCP

- Five year follow-on contract
- Upgraded training environment (incl. Hawk, PC21)

Orders agreed 2012 year end

£1.6bn contract award in May 12

▪ Tornado Sustainment Programme - TSP

- Upgrade embodiment
- New weapons provision

Aircraft deliveries completed

Deliveries ramped through H2 2012

▪ Salam - Typhoon aircraft and support

- First 24 aircraft
- Revised final assembly plan for next 48 aircraft
- In-Kingdom maintenance and upgrade facility
- Provision for Tranche 3 capability insertion
- Formalisation of price escalation
- Follow-on support contract

Deliveries 2008 to 2011

Contract for deliveries to recommence from H1 2013 into 2017

Budget agreed

Contracted

Negotiations continue

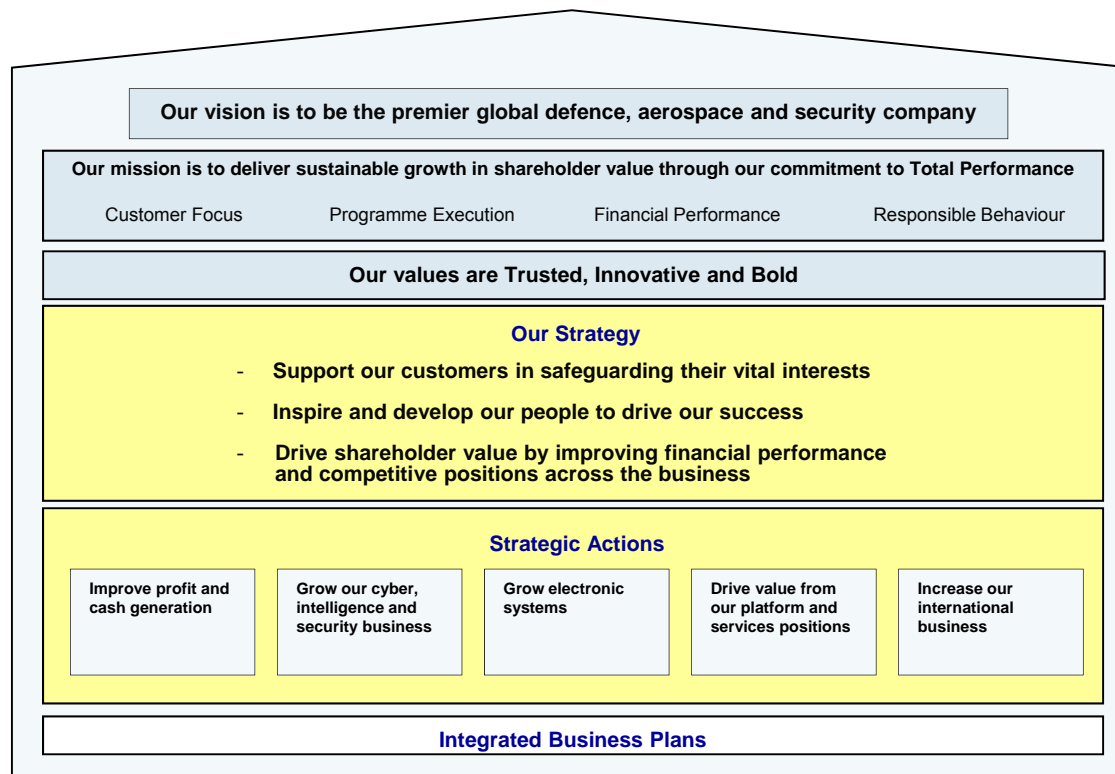
Negotiations continue

International - business development

- **KSA**
 - DEWS contracts for RSAF F-15 upgrades
 - Pursuing Bradley opportunities
- **Oman, Indonesia and Iraq**
 - F-16 support and test equipment
- **RoK**
 - Down-selected for F-16 upgrade programme
- **UAE and Malaysia**
 - Typhoon opportunities
- **Sweden**
 - RG32 patrol vehicle contract
- **Australia**
 - M777 follow-on buy
- **Denmark**
 - CV90 follow-on opportunity
- **Canada**
 - CV90 bid for Close Combat Vehicle requirement



Group Strategic Framework - 2013



A well defined strategy

- **Financial performance**
- **Cyber, intelligence and security**
- **Electronic systems**
- **Value from**
 - **broad base of Platforms**
 - **strong Services positions**
- **International business**

Capital Allocation and M&A

Capital allocation

- **Good 2012 cash flow benefitting from increased International order intake**
 - Address pension obligations
 - Sustain organic investment
 - Dividends
 - Accelerated returns
 - M&A

Dividends and share repurchases totalled over £2.8bn 2010 - 2012

M&A

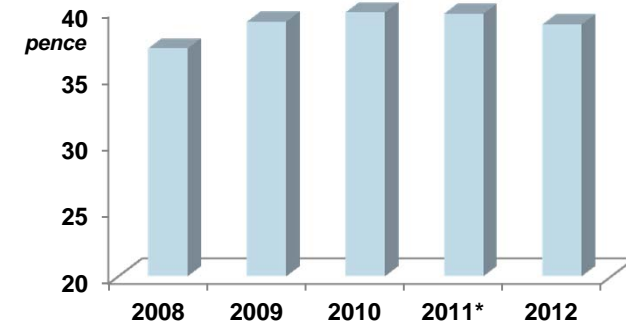
- **Disposals**
 - Three Land & Armaments disposals completed in 2012 (total proceeds \$154m)
- **Acquisitions**
 - Marine Hydraulics International for approx. \$69m (pending)

Disposals totalled £0.5bn 2010 - 2012

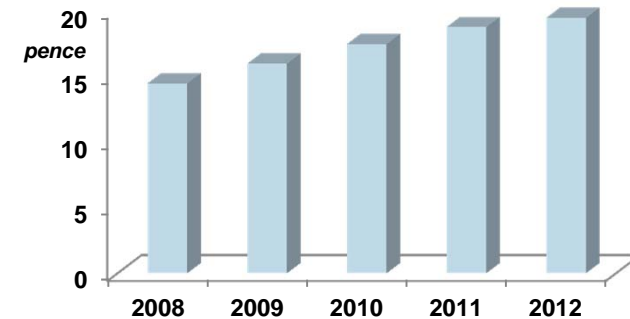
Summary

- **Robust performance in a difficult environment**
- **US environment**
 - Continued sequestration risk
 - Budget reductions anticipated
- **UK environment**
 - Market pressures but stable
 - Good programme execution
- **Strong International order intake**
 - Delivering well against objectives
 - Building a robust base for future growth
- **Cost reduction measures continue**

Underlying earnings per share



Dividend per share



Year	Dividend cover
2008	2.6
2009	2.4
2010	2.3
2011	2.1
2012	2.0

* excluding R&D tax benefit

Peter Lynas
Group Finance Director



2012 Financial Summary

		Yr-on-Yr
Sales ⁽¹⁾	£17,834m	- 7%
Underlying EBITA ^(1,2)	£1,895m	- 6%
Underlying Finance Costs ^(1,3)	£(204)m	
Underlying Earnings per Share ^(1,4)	38.9p	- 2%
Operating Business Cash Flow	£2,692m	
Net Cash	£387m	
Order Backlog	£42.4bn	+ 8%
Dividend per Share	19.5p	+ 4%

(1) Continuing operations

(2) Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items

(3) Finance costs excluding pension interest, mark-to-market revaluation and foreign currency movements

(4) Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements and non-recurring items

Balance Sheet

(£m)

	31 Dec 12	31 Dec 11	Movements:
Intangible fixed assets	10,928	11,465	FX, amortisation and disposals
Tangible fixed assets	2,407	2,626	FX, pension funding
Investments	270	788	£424m MBDA one-off dividend
Working capital	(6,557)	(5,677)	advances and provision utilisation
Pension deficit	(4,560)	(4,217)	discount rates
Tax assets & liabilities	951	975	pension deficit, lower UK CT rate
Financial assets & liabilities	(50)	(219)	
Net cash / (debt)	387	(1,439)	
Business held for sale	(2)	(3)	
Net assets	3,774	4,299	

Pension Deficit (IAS 19)

(£bn)

	31 Dec 12	30 Jun 12	31 Dec 11
Assets *	19.6	18.6	18.1
Liabilities	(25.3)	(24.5)	(23.3)
Pension Deficit	(5.7)	(5.9)	(5.2)
Group share of deficit, pre-tax	(4.6)	(4.7)	(4.2)
UK - real discount rate	1.6%	1.7%	1.9%
bond yields	4.5%	4.4%	4.8%
inflation rate	2.9%	2.7%	2.9%
US - bond yields	4.1%	4.4%	5.0%

* 30 Jun 12 and 31 Dec 11 include assets held in Reservoir Trust, contributed into the pension schemes in 2012

Net Cash / (Debt)

(£m)

Opening Net Debt	(1,439)																		
Operating business cash flow	2,692	→	<table border="1"> <tr> <td>Electronic Systems</td> <td>256</td> </tr> <tr> <td>Cyber & Intelligence</td> <td>113</td> </tr> <tr> <td>Platforms & Services (US)</td> <td>314</td> </tr> <tr> <td>Platforms & Services (UK)</td> <td>1,719</td> </tr> <tr> <td>Platforms & Services (Int'l)</td> <td>506</td> </tr> <tr> <td>HQ</td> <td>(214)</td> </tr> <tr> <td>Discontinued Operations</td> <td>(2)</td> </tr> <tr> <td></td> <td><u>2,692</u></td> </tr> </table>	Electronic Systems	256	Cyber & Intelligence	113	Platforms & Services (US)	314	Platforms & Services (UK)	1,719	Platforms & Services (Int'l)	506	HQ	(214)	Discontinued Operations	(2)		<u>2,692</u>
Electronic Systems	256																		
Cyber & Intelligence	113																		
Platforms & Services (US)	314																		
Platforms & Services (UK)	1,719																		
Platforms & Services (Int'l)	506																		
HQ	(214)																		
Discontinued Operations	(2)																		
	<u>2,692</u>																		
Interest & Tax	(262)																		
Equity dividends paid	(620)																		
Acquisitions & disposals	96																		
Other, including foreign exchange	(80)																		
Closing Net Cash	<u>387</u>																		

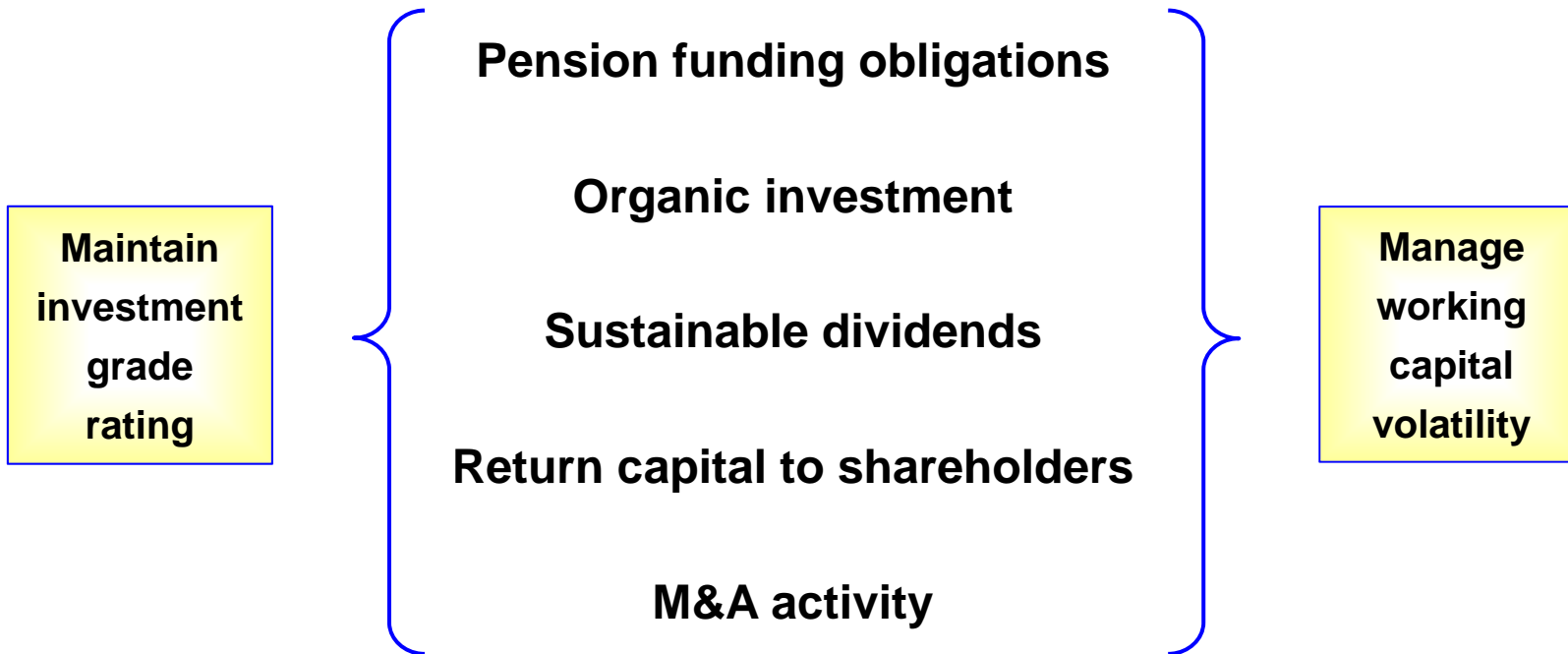
Net Cash / (Debt)

(£bn)

	Gross Debt	Gross Cash	Net
31 December 2011	(3.2)	1.8	(1.4)
Cash Flow	-	1.8	1.8
Commercial Paper redemption	0.5	(0.5)	-
Term Debt issuance	(0.4)	0.4	-
Foreign exchange translation	0.1	(0.1)	-
	<u>(3.0)</u>	<u>3.4</u>	<u>0.4</u>
31 December 2012	(3.0)	3.4	0.4
Pre-financing of 2014 debt		(0.4)	

Capital Allocation

Conservative balance sheet management



Three year share repurchase programme up to £1bn*

* full implementation subject to satisfactory resolution of the Salam price escalation negotiations

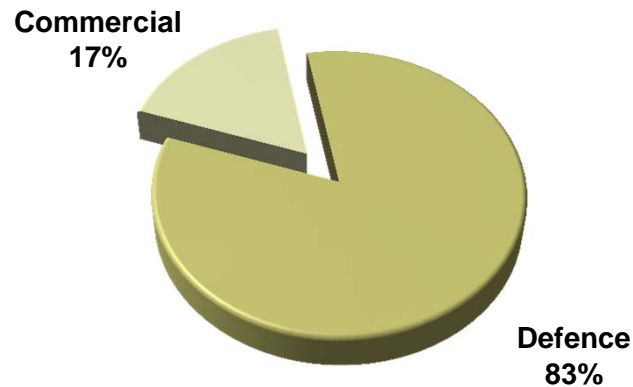
Electronic Systems

	2012	2011
Sales	\$3,974m	\$4,243m
Underlying EBITA	\$565m	\$619m
Margin	14.2%	14.6%
Cash flow	\$406m	\$430m
Order backlog	\$5.8bn	\$5.6bn

2012 Performance:

- Sales impacted by:
 - Completion of Thermal Weapon Sights deliveries
 - Commercial aerospace growth
 - Continuing Resolution
- Strong programme execution
- Cost reduction actions
- 95% profit to cash conversion (pre-pension deficit funding)
- Backlog benefits from Saudi EW contract

2012 Sales



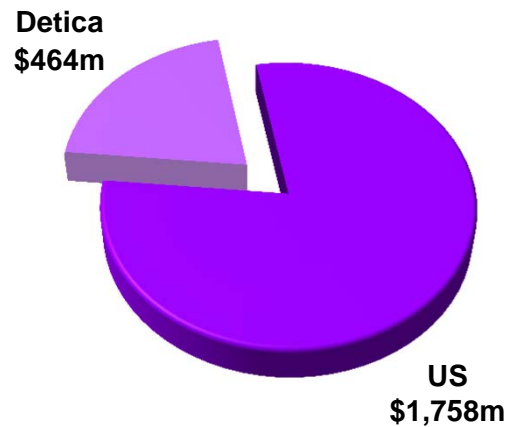
Cyber & Intelligence

	2012	2011
Sales	\$2,222m	\$2,244m
Underlying EBITA	\$196m	\$218m
Margin	8.8%	9.7%
Cash flow	\$179m	\$197m
Order backlog	\$1.6bn	\$1.7bn

2012 Performance:

- US sales / backlog constrained on award decisions
- Detica sales constrained on Middle East contract
- Margins reflect investment in Detica
- 91% profit to cash conversion

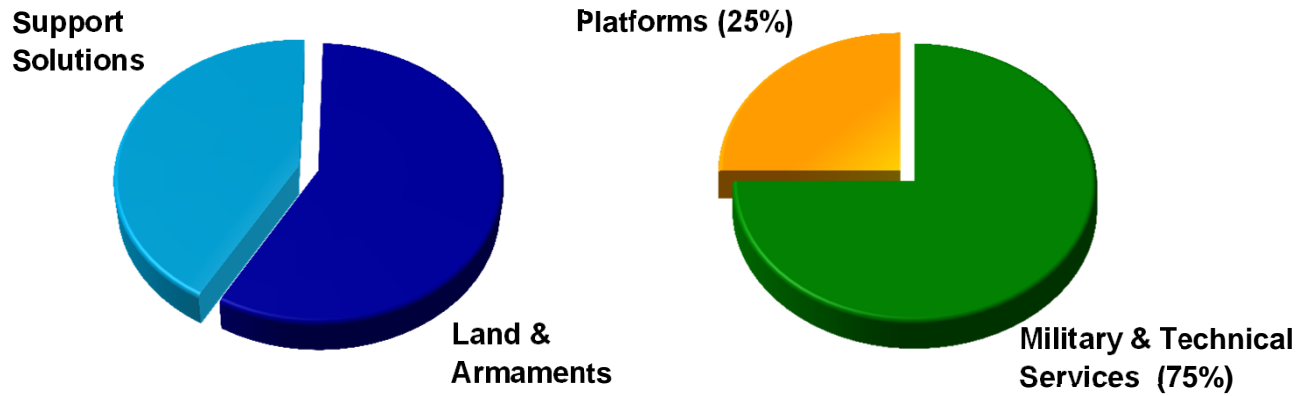
2012 Sales



Platforms & Services (US)

	2012	2011
Sales	\$7,193m	\$8,511m
Underlying EBITA	\$625m	\$767m
Margin	8.7%	9.0%
Cash flow	\$498m	\$658m
Order backlog	\$13.7bn	\$13.6bn

2012 Sales



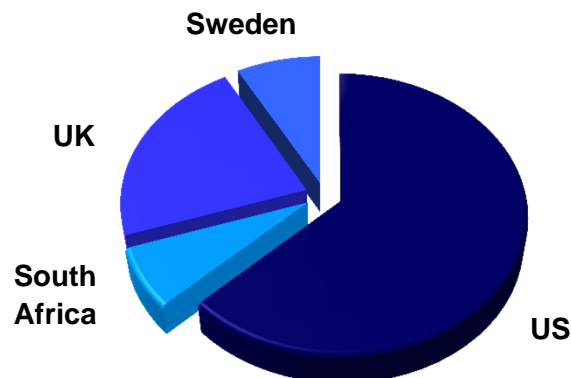
Platforms & Services (US) – Land & Armaments

	2012	2011
Sales	\$4,160m	\$5,403m
Underlying EBITA	\$359m	\$534m
Margin	8.6%	9.9%
Cash flow	\$260m	\$430m
Order backlog	\$8.3bn	\$8.4bn

2012 Performance:

- Like-for-like sales down 20%
 - Volume reductions on FMTV, Bradley, Caiman & MRAP
- EBITA includes Newcastle closure & legal costs
- 83% profit to cash conversion (pre-pension deficit funding)
 - UK facilities investment
- Order awards for CV90 Norway and Bradley funding

2012 Sales



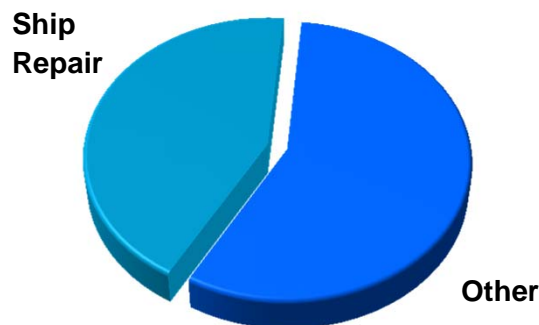
Platforms & Services (US) – Support Solutions

	2012	2011
Sales	\$3,033m	\$3,108m
Underlying EBITA	\$266m	\$233m
Margin	8.8%	7.5%
Cash flow	\$238m	\$228m
Order backlog	\$5.4bn	\$5.2bn

2012 Performance:

- Sales down 2%
 - Increase in new business (Radford munitions plant)
 - Lower operational tempo driven volumes
- Margin benefits from legal settlements
- 100% profit to cash conversion (pre-pension deficit funding)
- Order awards for Radford & Navy training aircraft maintenance

2012 Sales



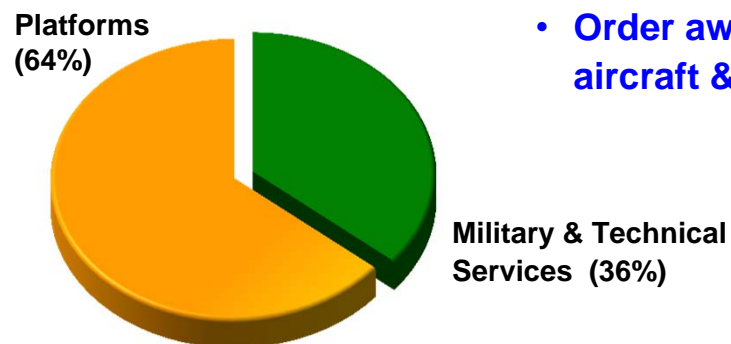
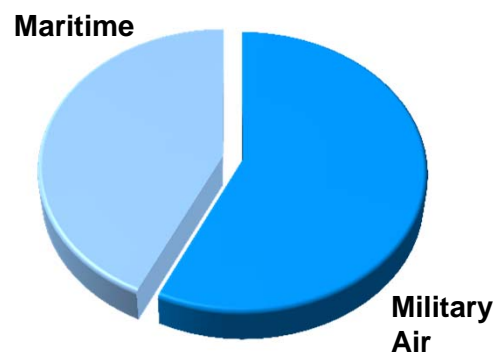
Platforms & Services (UK)

	2012	2011
Sales	£5,646m	£6,258m
Underlying EBITA	£689m	£658m
Margin	12.2%	10.5%
Cash flow	£1,719m	£69m
Order backlog	£21.2bn	£18.7bn

2012 Performance:

- Sales down 10%
 - Salam Typhoon timing
 - South Africa deliveries completed
 - Salam price escalation delays
- Margin benefit from strong programme execution
- Cash performance reflects downpayments
- Order awards for Saudi trainer aircraft & Oman Typhoon/Hawk

2012 Sales



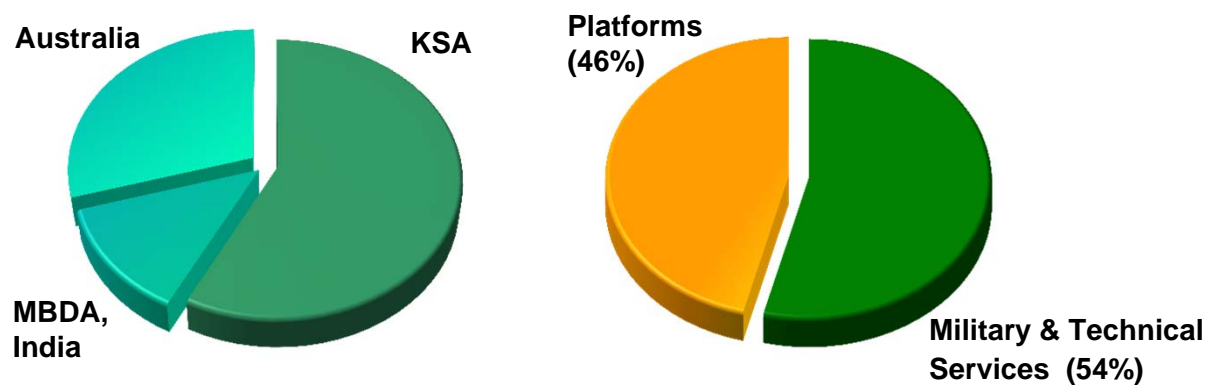
Platforms & Services (International)

	2012	2011
Sales	£4,071m	£3,794m
Underlying EBITA	£417m	£449m
Margin	10.2%	11.8%
Cash flow	£506m	£80m
Order backlog	£9.3bn	£8.3bn

2012 Performance:

- Like-for-like sales up 9%
 - Saudi Tornado upgrade
 - Typhoon support
 - Salam price escalation delays
- Cash performance reflects accelerated receipts on Tornado upgrade
- 5-year Saudi core support award

2012 Sales



2013 Guidance - Trading

	2012 Actual		2013 Guidance *	
	Sales	Margin	Sales	Margin
Electronic Systems	2,507	14.2%	stable	12% - 14%
Cyber & Intelligence	1,402	8.8%	stable to c.(5)%	8% - 9%
Platforms & Services (US)	4,539	8.7%	c.(3)% to c.(7)%	7.5% - 8.5%
Platforms & Services (UK)	5,646	12.2%	c.25%	10% - 12%
Platforms & Services (International)	4,071	10.2%	stable to 5%	10% - 12%
HQ (EBITA)	(85)		> 10% reduction	
Underlying Finance Costs	(204)		marginally lower	
Tax rate	25%		23% - 25%	
Underlying EPS	38.9p			

* assumes satisfactory conclusion to Salam pricing negotiations and does not address the potential impact of sequestration on US business

2013 Guidance – Cash Utilisation

	£bn
Operating items:	
• Capital expenditure / depreciation	nil
• Working capital	
- 2012 accelerated receipts	(0.2)
- provision utilisation	(0.4)
- advances movement (net)	(1.0) – (1.75)
• Pension deficit funding	(0.4)
Non-operating items:	
• Interest & tax	(0.4)
• Dividends	(0.6)

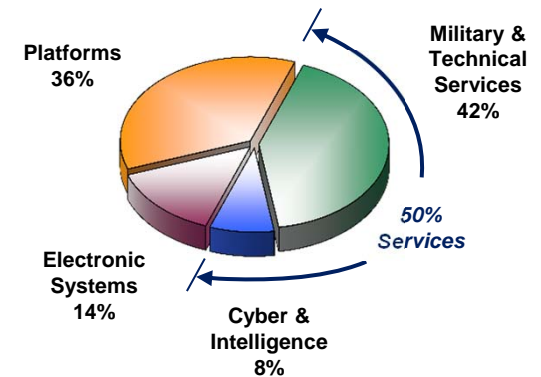
Significant utilisation of 31/12/12 cash position

Summary

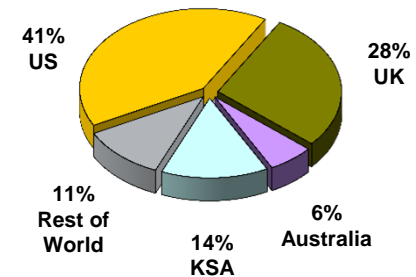
- **Robust performance in a difficult environment**
- **US environment**
 - **Budget reductions anticipated**
- **UK environment**
 - **Good programme execution**
- **Strong International order intake**
- **Cost reduction measures continue**

Three year share repurchase programme up to £1bn*

2012 Sales by activity



2012 Sales by destination



* full implementation subject to satisfactory resolution of the Salam price escalation negotiations

Handouts

2012 Financial Summary

(£m)

	Sales	Underlying EBITA	Margin	Cash flow
Electronic Systems	2,507	356	14.2%	256
Cyber & Intelligence	1,402	124	8.8%	113
Platforms & Services (US)	4,539	394	8.7%	314
Platforms & Services (UK)	5,646	689	12.2%	1,719
Platforms & Services (International)	4,071	417	10.2%	506
HQ	267	(85)		(214)
Eliminations/Discontinued Operations	(598)	-		(2)
Total	17,834	1,895	10.6%	2,692

Underlying earnings per share

38.9p

Reconciliation of Earnings

(£m)	2012 Underlying	2011 Underlying	2012 Reported	2011 Reported
Underlying EBITA	1,895	2,025	1,895	2,025
Gain / (loss) on disposal of businesses			103	(29)
Regulatory penalties			-	(49)
EBITA	1,895	2,025	1,998	1,947
Amortisation / Impairment			(312)	(348)
Underlying finance costs	(204)	(199)	(204)	(199)
Pension / Fair Value movements ⁽¹⁾			(71)	93
Finance Costs	(204)	(199)	(275)	(106)
Underlying tax	(417)	(472)	(417)	(472)
R&D tax benefit			-	197
Tax on amortisation / impairment			63	66
Tax on pension / fair value movements			17	(24)
Tax	(417)	(472)	(337)	(233)
Minority Interest	(11)	(16)	(11)	(16)
Discontinued Operations			5	(4)
Earnings	1,263	1,338	1,068	1,240
Earnings per share	38.9p	39.7p		

(1) 2011 Pension / Fair Value movements includes £(13)m penalties relating to the early redemption of debt

Like-for-Like Sales & Underlying EBITA - Group

(£m)

	Sales			Underlying EBITA		
	<u>2012</u>	<u>2011</u>	<i>Yr-on-Yr</i>	<u>2012</u>	<u>2011</u>	<i>Yr-on-Yr</i>
Continuing Businesses	17,834	19,154	(7)%	1,895	2,025	(6)%
Foreign Exchange:						
USD		90			8	
Other		(83)			(10)	
Adjusted for Foreign Exchange	17,834	19,161	(7)%	1,895	2,023	(6)%
Transactions:						
Acquisitions & Disposals	(312)	(402)		(16)	(18)	
Adjusted for F/x and Transactions	17,522	18,759	(7)%	1,879	2,005	(6)%

Like-for-Like Sales & Underlying EBITA by sector

(\$m)	Sales			Underlying EBITA		
	2012	2011	Growth	2012	2011	Growth
Electronic Systems - reported	3,974	4,243	(6)%	565	619	(9)%
Foreign Exchange		(5)			(1)	
Acquisitions	(67)	(43)		(2)	(3)	
Electronic Systems - adjusted	3,907	4,195	(7)%	563	615	(8)%
Cyber & Intelligence - reported	2,222	2,244	(1)%	196	218	(10)%
Foreign Exchange		(5)			(1)	
Acquisitions	(306)	(309)		(30)	(20)	
Cyber & Intelligence - adjusted	1,916	1,930	(1)%	166	197	(16)%
Platforms & Services (US) - reported	7,193	8,511	(15)%	625	767	(19)%
Foreign Exchange		(76)			(10)	
Acquisitions / Disposals	(122)	(284)		6	(5)	
Platforms & Services (US) - adjusted	7,071	8,151	(13)%	631	752	(16)%

Like-for-Like Sales & Underlying EBITA by sector

<i>(£m)</i>	Sales			Underlying EBITA		
	<u>2012</u>	<u>2011</u>	<i>Growth</i>	<u>2012</u>	<u>2011</u>	<i>Growth</i>
Platforms & Services (UK) - reported	5,646	6,258	(10)%	689	658	5%
Foreign Exchange		-			-	
Acquisitions	-	-		-	-	
Platforms & Services (UK) - adjusted	5,646	6,258	(10)%	689	658	5%
Platforms & Services (Int'l) - reported	4,071	3,794	7%	417	449	(7)%
Foreign Exchange		(49)			(6)	
Acquisitions	-	-		-	-	
Platforms & Services (Int'l) - adjusted	4,071	3,745	9%	417	443	(6)%

Working Capital Movements – Reconciliation to Cash Flow

<i>(£m)</i>	31 December		Mvmt	F/x	M&A	Other ⁽²⁾	Cash Flow
	2012	2011					
Inventories	655	716	61	23	33	(1)	6
Receivables - current	2,873	3,369	496				
Receivables - non-current	254	314	60				
Total receivables	3,127	3,683	556	92	28	(11)	447
Payables - current	(8,067)	(8,531)	(464)				
Payables - non-current	(1,481)	(571)	910				
Total payables	(9,548)	(9,102)	446	(114)	(18)	(353)	931
Liability provisions - current	(297)	(453)	(156)				
Liability provisions - non-current	(449)	(501)	(52)				
Total liability provisions	(746)	(954)	(208)	(18)	2	32	(224)
Working Capital per Cash Flow	(6,512)	(5,657)	855				
Adjusting items ⁽¹⁾	2	33					
Pension prepayment	(47)	(53)					
Working Capital Per Balance Sheet	(6,557)	(5,677)					

⁽¹⁾ includes cash on customer account (2011 includes cash held for charitable contribution to Tanzania)

⁽²⁾ payables includes £(424)m in respect of the MBDA one-off dividend