

BAE Systems

2012 Half Year Results

2 August 2012



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Ian King





US defence

Budget environment

- **10 year deficit reduction plan**
 - Significant defence budget savings targeted
 - BAE Systems assuming circa \$600bn
 - Risk of sequestration



Business performance

- **Support Solutions**
 - Good visibility eg Naval sustainment programmes
 - New business wins eg Radford
- **Land**
 - JLTV and GCV demonstration funded
 - Cost reduction continues
 - Portfolio disposals
- **Electronics**
 - Sustained support for defence electronics 'fast lanes'
 - Good growth in commercial aircraft electronics



Cyber & Intelligence

Intelligence & Security

- US Government market growth rate lower
- Well positioned on continued high priority activities
- Strong bid pipeline
- Business remains robust

BAE Systems Detica

- Some increase in UK Government security activity
- Developing strategy to address growth in commercial cyber
 - Significant organic investment
- New organisation to address international growth markets



UK defence

Budget environment

- Difficult but stable equipment environment post SDSR
- Budget in balance with equipment plan



Business performance

- Large order book in military air, naval ships and submarines
- Performing well with good programme execution
- Cost reduction continues



International Markets



- **KSA**
 - Budgets approved
 - £1.6bn training aircraft contract signed
 - Increasing business opportunities



- **Norway**
 - £0.5bn CV90 contract signed



- **Oman**
 - Typhoon proposal submitted



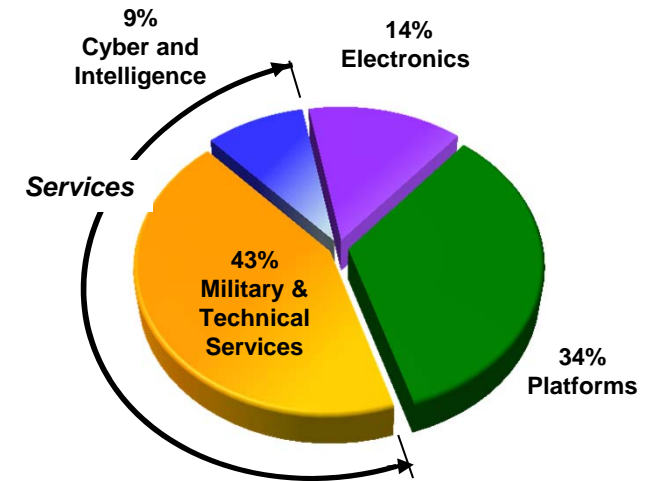
- **India**
 - M777 opportunity progressing
 - Continued Hawk order intake



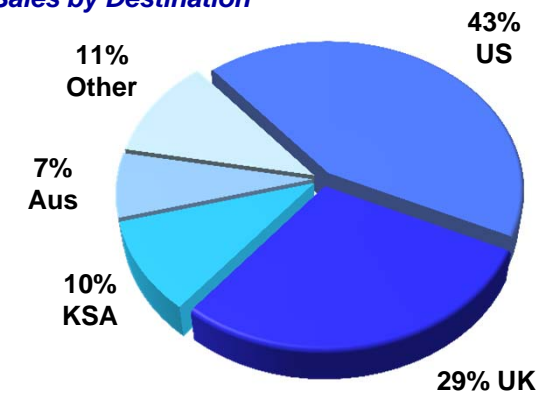
Summary

- **Challenging environment**
- **US market uncertainty**
 - Further budget reductions anticipated
 - Overhanging Sequestration risk
- **UK market stabilised**
 - Good execution
- **International opportunities delivering**
- **Cost reduction continues**

*2012 First Half
Sales by Activity*



*2012 First Half
Sales by Destination*



Near term focus on delivering bottom line performance

Peter Lynas



Financial Highlights

Sales ⁽¹⁾	£8,334m	- 10%
Underlying EBITA ^(1,2)	£939m	- 3%
Underlying Earnings per Share ^(1,3)	18.8p	
Operating Business Cash Flow	£742m	
Net Debt	£(1,230)m	
Order Backlog	£40.0bn	
Dividend per Share	7.8p	+ 4%

(1) Continuing operations

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

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

Summary Income Statement (continuing operations)

<i>£m</i>	First Half 2012 Underlying	First Half 2011 Underlying	First Half 2012 Reported	First Half 2011 Reported
Sales	8,334	9,229	8,334	9,229
EBITA	939	968	957	913
Amortisation / impairment				
- goodwill			(39)	(22)
- other intangibles			(125)	(126)
Finance costs *	(91)	(104)	(129)	(62)
Profit before tax	848	864	664	703
Tax	(230)	(225)	(186)	(203)
Minority Interest	(8)	(6)	(8)	(6)
Earnings	610	633	470	494

* 2011 underlying finance costs exclude penalties paid relating to the early redemption of debt (£13m)

Balance Sheet

<i>£m</i>	30 Jun 12	31 Dec 11
Intangible fixed assets	11,231	11,465
Tangible fixed assets	2,593	2,626
Investments	755	788
Working capital	(5,772)	(5,677)
Pension deficit	(4,699)	(4,217)
Tax assets & liabilities	1,031	975
Financial assets & liabilities	(206)	(219)
Net debt	(1,230)	(1,439)
Assets /(liabilities) held for sale	71	(3)
Net assets	3,774	4,299

Pension Deficit (IAS 19)

<i>£bn</i>	30 Jun 12	31 Dec 11	30 Jun 11
Assets *	18.6	18.1	17.9
Liabilities	(24.5)	(23.3)	(21.9)
Pension Deficit	(5.9)	(5.2)	(4.0)
Group share of deficit, pre-tax	(4.7)	(4.2)	(3.2)

Real Discount Rates

UK	1.7%	1.9%	2.0%
bond yields	4.4%	4.8%	5.5%
inflation rate	2.7%	2.9%	3.5%
US	1.9%	2.5%	2.4%
bond yields	4.4%	5.0%	5.4%
inflation rate	2.5%	2.5%	3.0%

* includes assets held in Reservoir Trust

Operating Cash Flow

For the six months ended 30 June 2012 (£m):

Cash flow from operating activities *	940
Capital expenditure (net)	(189)
Dividends from equity accounted investments	16
Contribution to Trust (re: pensions)	(25)
Operating business cash flow	742
Electronic Systems	105
Cyber & Intelligence	21
Platforms & Services (US)	-
Platforms & Services (UK)	243
Platforms & Services (International)	568
HQ	(188)
Discontinued Operations	(7)
Operating business cash flow	742

* excludes charitable contribution paid to Tanzania which was treated as a cash flow in the Group's net cash/(debt) in 2010

Movement in Net Debt

For the six months ended 30 June 2012 (£m):

Opening Net Debt	(1,439)
Operating business cash flow	742
Interest and Tax	(124)
Equity dividends paid	(367)
Acquisitions & disposals	18
Foreign exchange and other movements	(60)
Closing Net Debt	(1,230)

Capital Allocation

<i>£bn</i>	Gross Debt	Cash	Net Debt
31 December 2011	(3.2)	1.8	(1.4)
Cash Flow	-	0.2	0.2
Debt issuance - term debt	(0.4)	0.4	-
Debt redemption - commercial paper	0.3	(0.3)	-
30 June 2012	(3.3)	2.1	(1.2)

Pre-financing of 2014 debt

(0.4)

Near-term cash utilisation includes:

- commercial paper redemption
- pension deficit funding
- interim dividend
- Tornado advance utilisation

(0.2)
(0.2)
(0.3)
(0.3)

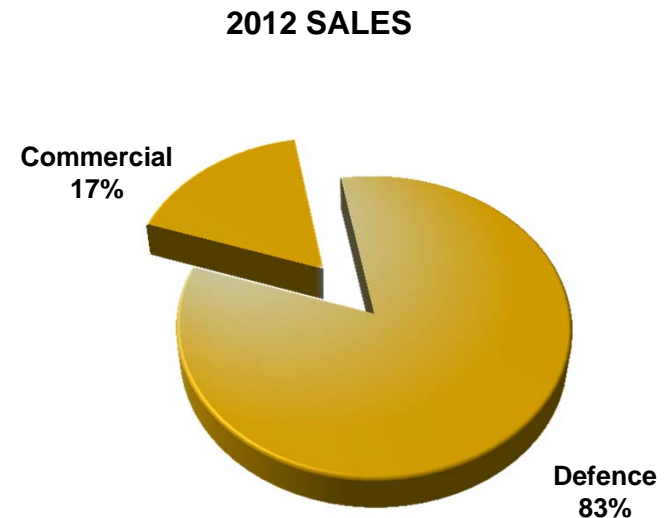
Capital Allocation



Conservative balance sheet management

Electronic Systems

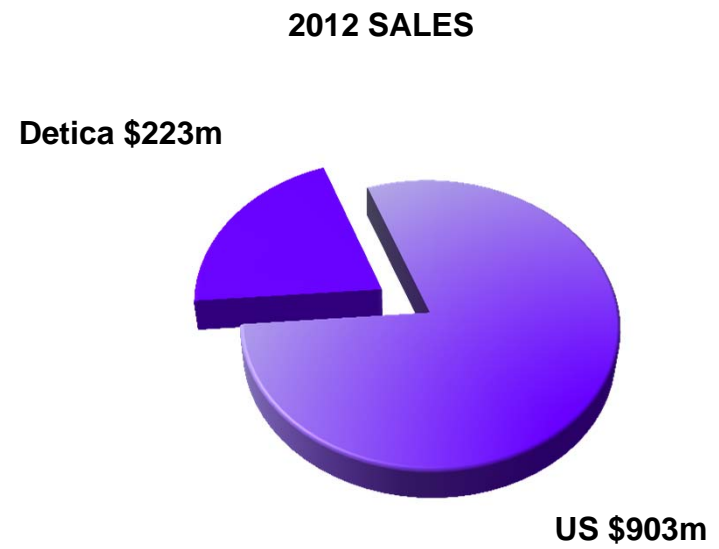
	First Half 2012	First Half 2011
Sales	\$1,862m	\$1,975m
Underlying EBITA	\$259m	\$278m
Margin	13.9%	14.1%
Cash flow	\$166m	\$167m
Order backlog	\$5.6bn	\$5.6bn *



* 2011 order backlog as at 31 December 2011

Cyber & Intelligence

	First Half 2012	First Half 2011
Sales	\$1,126m	\$1,053m
Underlying EBITA	\$85m	\$89m
Margin	7.6%	8.4%
Cash flow	\$33m	\$108m
Order backlog	\$1.6bn	\$1.7bn *

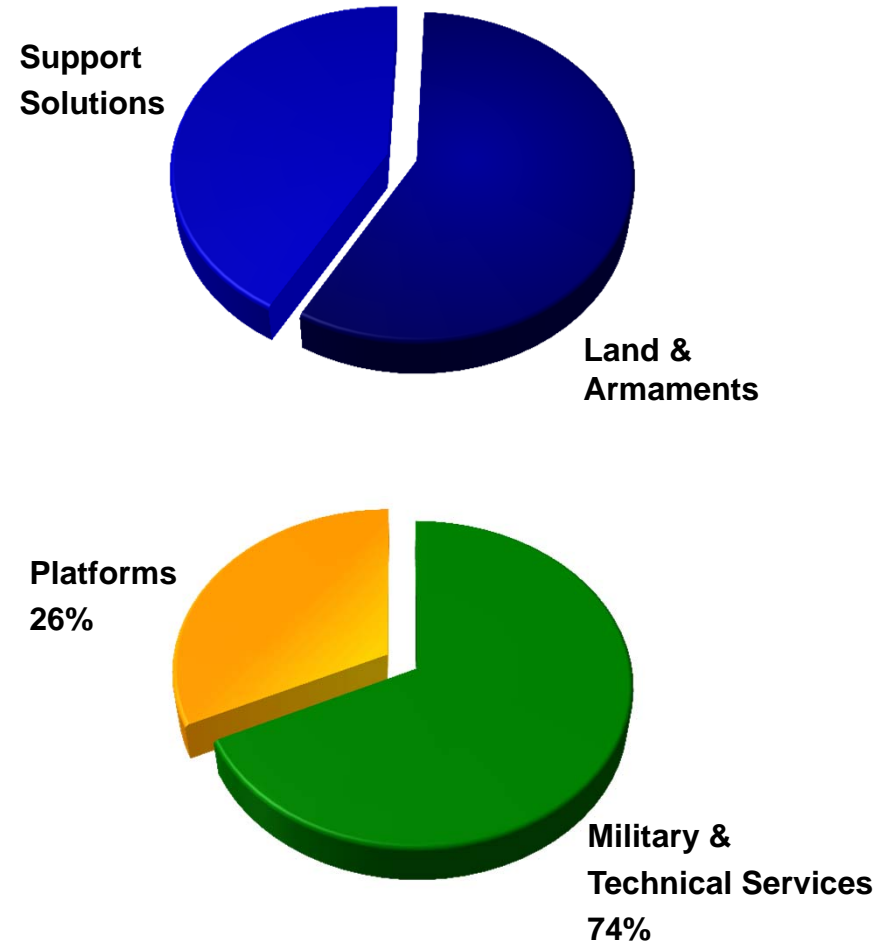


* 2011 order backlog as at 31 December 2011

Platforms & Services (US)

	First Half 2012	First Half 2011
Sales	\$3,554m	\$4,342m
Underlying EBITA	\$298m	\$414m
Margin	8.4%	9.5%
Cash flow	-	\$181m
Order backlog	\$14.3bn	\$13.6bn *

2012 SALES



* 2011 order backlog as at 31 December 2011

Platforms & Services (US)

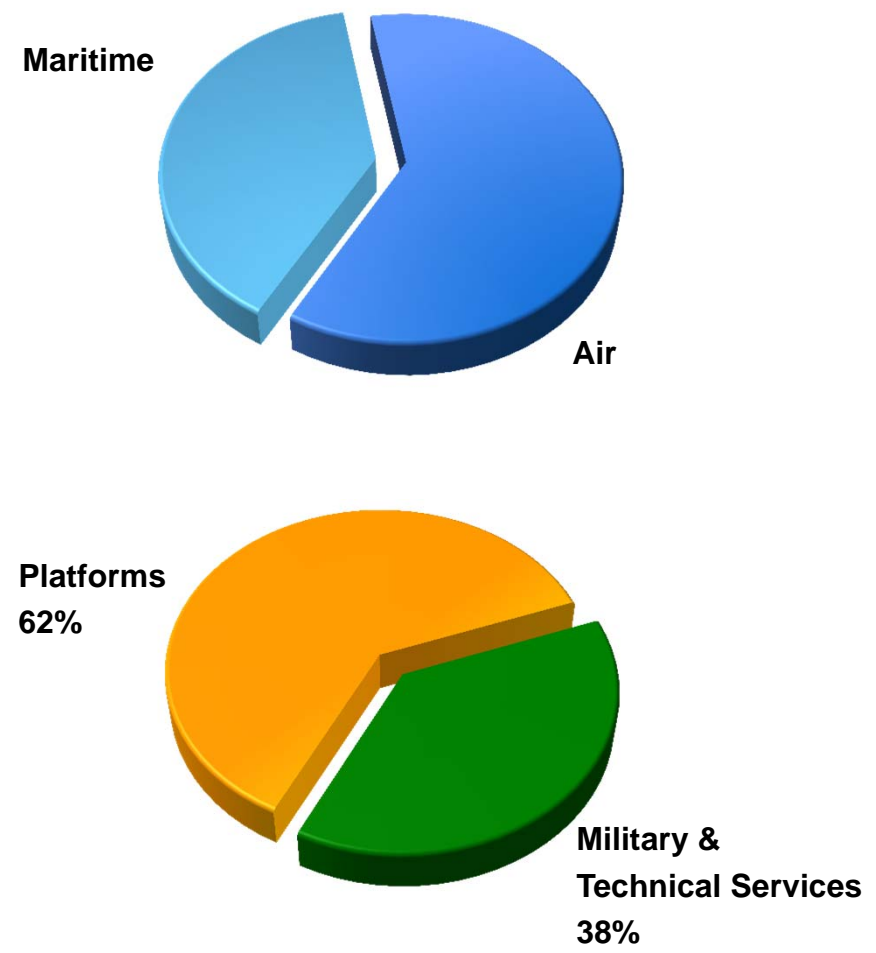
	Land & Armaments		Support Solutions	
	First Half 2012	First Half 2011	First Half 2012	First Half 2011
Sales	\$2,048m	\$2,871m	\$1,506m	\$1,471m
Underlying EBITA	\$175m	\$297m	\$123m	\$117m
Margin	8.5%	10.3%	8.2%	8.0%
Cash flow	\$(65)m	\$43m	\$65m	\$138m
Order backlog	\$8.7bn	\$8.4bn *	\$5.6bn	\$5.2bn *

* 2011 order backlog as at 31 December 2011

Platforms & Services (UK)

	First Half 2012	First Half 2011
Sales	£2,651m	£3,052m
Underlying EBITA	£420m	£310m
Margin	15.8%	10.2%
Cash flow	£243m	£3m
Order backlog	£19.5bn	£18.7bn *

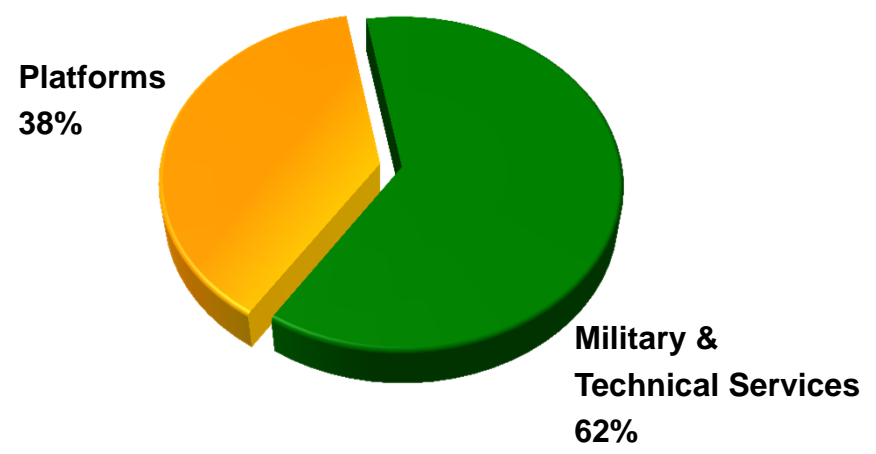
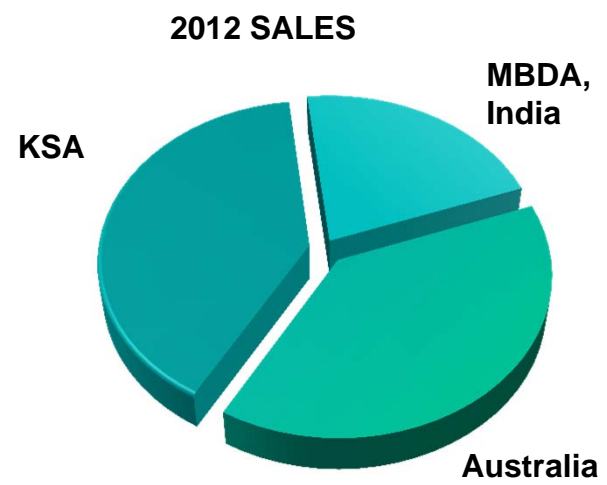
2012 SALES



* 2011 order backlog as at 31 December 2011

Platforms & Services (International)

	First Half 2012	First Half 2011
Sales	£1,573m	£1,756m
Underlying EBITA	£161m	£211m
Margin	10.2%	12.0%
Cash flow	£568m	£(175)m
Order backlog	£8.1bn	£8.3bn *



* 2011 order backlog as at 31 December 2011

2012 Guidance

	2011 Actual		Guidance	
	Sales	Margin	2012 Sales	Margin
Electronic Systems	2,645	14.6%	stable - (5)%	12% - 14%
Cyber & Intelligence	1,399	9.7%	stable	8.5% - 9.5%
Platforms & Services (US)	5,305	9.0%	(8)% - (12)%	8.0% - 9.0%
Platforms & Services (UK)	6,258	10.5%	stable	10% - 12%
Platforms & Services (International)	3,794	11.8%	c.15%	9.5% - 10.5%
HQ (EBITA)	(82)		broadly similar	
Underlying Finance Costs	(199)		reduced	
Tax rate	26%		26% - 28%	
Underlying EPS	39.7p		modest growth	

Handouts

Financial Summary

For the six months ended 30 June (£m):

	Sales	Underlying EBITA	Margin	Cash flow
Electronic Systems	1,181	164	13.9%	105
Cyber & Intelligence	714	54	7.6%	21
Platforms & Services (US)	2,254	189	8.4%	-
Platforms & Services (UK)	2,651	420	15.8%	243
Platforms & Services (International)	1,573	161	10.2%	568
HQ	123	(49)		(188)
Eliminations/Discontinued Operations	(162)	-		(7)
Total	8,334	939	11.3%	742

Underlying earnings per share

18.8p

Like-for-Like Sales & Underlying EBITA - Group

£m	Sales			Underlying EBITA	
	First Half 2012	First Half 2011	Yr-on-Yr	First Half 2012	First Half 2011
Continuing Businesses	8,334	9,229	(10)%	939	968
Foreign Exchange:					
USD		98			10
Other		(24)			(4)
Adjusted for Foreign Exchange	8,334	9,303	(10)%	939	974
Transactions:					
Acquisitions & Disposals	(128)	(122)		(7)	(1)
Adjusted for F/x and Transactions	8,206	9,181	(11)%	932	973

Like-for-Like Sales & Underlying EBITA by sector

\$m	Sales			Underlying EBITA	
	First Half 2012	First Half 2011	Growth	First Half 2012	First Half 2011
Electronic Systems - reported	1,862	1,975	(6)%	259	278
Foreign Exchange		(4)			(1)
Acquisitions	(29)	(11)		2	-
Electronic Systems - adjusted	1,833	1,960	(6)%	261	277
Cyber & Intelligence - reported	1,126	1,053	7%	85	89
Foreign Exchange		(5)			-
Acquisitions	(168)	(138)		(11)	(2)
Cyber & Intelligence - adjusted	958	910	5%	74	87
Platforms & Services (US) - reported	3,554	4,342	(18)%	298	414
Foreign Exchange		(47)			(6)
Acquisitions / Disposals	(5)	(47)		(1)	-
Platforms & Services (US) - adjusted	3,549	4,248	(16)%	297	408

Like-for-Like Sales & Underlying EBITA by sector

<i>£m</i>	Sales			Underlying EBITA	
	<u>First Half 2012</u>	<u>First Half 2011</u>	<i>Yr-on-Yr</i>	<u>First Half 2012</u>	<u>First Half 2011</u>
Platforms & Services (UK) - reported	2,651	3,052	(13)%	420	310
Foreign Exchange		-			-
Platforms & Services (UK) - adjusted	2,651	3,052	(13)%	420	310
Platforms & Services (Int'l) - reported	1,573	1,756	(10)%	161	211
Foreign Exchange		(9)			(1)
Platforms & Services (Int'l) - adjusted	1,573	1,747	(10)%	161	210

Reconciliation of Earnings

<i>£m</i>	First Half 2012 Underlying	First Half 2011 Underlying	First Half 2012 Reported	First Half 2011 Reported
Underlying EBITA	939	968	939	968
Gain / (loss) on disposal of businesses			18	(6)
Regulatory penalties			-	(49)
EBITA	939	968	957	913
Amortisation / Impairment			(164)	(148)
Underlying finance costs	(91)	(104)	(91)	(104)
Pension / Fair Value movements			(38)	55
Penalties relating to early redemption of debt			-	(13)
Finance Costs	(91)	(104)	(129)	(62)
Underlying tax	(230)	(225)	(230)	(225)
Tax on amortisation / impairment			34	33
Tax on pension / fair value movements			10	(14)
Tax on penalties on early redemption of debt			-	3
Tax	(230)	(225)	(186)	(203)
Minority Interest	(8)	(6)	(8)	(6)
Discontinued Operations			4	(16)
Earnings	610	633	474	478

Working Capital Movements – Reconciliation to Cash Flow

£m	30/6/12	31/12/11	Mvmt	F/x	M&A	Other	Cash Flow
Inventories	794	716	(78)	(6)	(26)	-	(110)
Receivables - current	3,499	3,369	(130)				
Receivables - non-current	271	314	43				
Total receivables	3,770	3,683	(87)	(28)	(31)	(1)	(147)
Payables - current	(8,826)	(8,531)	295				
Payables - non-current	(636)	(571)	65				
Total payables	(9,462)	(9,102)	360	61	17	(14)	424
Liability provisions - current	(380)	(453)	(73)				
Liability provisions - non-current	(451)	(501)	(50)				
Total liability provisions	(831)	(954)	(123)	4	(2)	(22)	(143)
Working Capital per Cash Flow	(5,729)	(5,657)	72				
Adjusting items*	3	33	30				
Pension prepayment	(46)	(53)	(7)				
Working Capital Per Balance Sheet	(5,772)	(5,677)	95				

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