

BAE Systems

2013 Half Year Results

1 August 2013



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Ian King



Introduction



- **Salam**
 - Good progress with continued price escalation discussions
 - Supports expectations for 2013 performance
 - Significant trading bias to second half anticipated
- **Backlog**
 - Further good international order intake
 - Group order backlog sustained



US defence

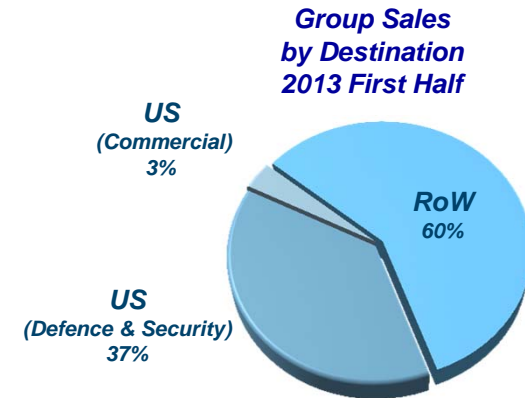
2013 trading environment

- Good programme execution
- Continued uncertainty
- Continuing Resolution
 - In operation at start of 2013, O&M flexibility introduced
 - Possibility of further CR from October
- Ship repair WARN announcements mitigated



Market outlook

- Continued Sequestration expected to progressively impact as obligated funding lines are consumed
- 2014 budget process commenced



Challenging environment but impact on overall Group expected to be limited



UK defence

Trading environment

- Good programme execution
- Budget pressures, but stable
- Good long term programme visibility
- Large order book
- Cost reduction continues

Maritime

- Carrier progressing well
- Post Carrier shipyard work load under review
- Excellent long term submarines visibility - Astute / Successor

Military air

- Salam Typhoon deliveries resumed in April
- Hawk final assembly resumed
- F-35 LRIP deliveries stable ahead of projected ramp



International - business development

- **Good programme execution**
- **KSA**
 - Typhoon deliveries recommenced
 - £0.6bn Guided weapons contract signed
 - Multi-year Typhoon support agreement
 - Price escalation discussions continue
- **Oman**
 - £2.5bn Typhoon and Hawk contract
- **Typhoon opportunities**
 - KSA B2
 - Malaysia
 - UAE
 - Other Gulf states
 - South Korea
- **F-35**
 - Significant International commitments and opportunities
- **Armoured vehicles and Artillery**
 - Denmark - CV90 follow-on opportunity
 - Canada - CV90 bid for Close Combat Vehicle
 - Poland - armoured vehicle replacement
 - India - M777



Cyber & Intelligence

Commercial cyber

- Continued organic investment
- Good growth in commercial cyber
- Strong position in Financial services sector
- Cyber security for CNI and corporate networks

Intelligence & Security

- Resilient mission-specific services
- Well positioned for new business in high priority activities



Peter Lynas



2013 Half Year Financial Summary

		Yr-on-Yr
Sales ⁽¹⁾	£8,448m	+ 1%
Underlying EBITA ^(1,2)	£865m	- 6%
Underlying Finance Costs ^(1,3)	£(95)m	
Underlying Earnings per Share ^(1,4)	17.8p	- 4%
Operating Business Cash Flow	£(815)m	
Net Debt	£(1,192)m	
Order Backlog ^(1,5)	£43.1bn	+ 2%
Dividend per Share	8.0p	+ 3%

(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

(5) Growth compared to 31 December 2012

Balance Sheet

(£m)

	30 Jun 13	31 Dec 12	Movement drivers:
Intangible fixed assets	11,218	10,928	Exchange translation & amortisation
Tangible fixed assets	2,414	2,407	
Investments	299	270	
Working capital	(5,037)	(6,557)	Advances & provision utilisation, T&T settlement
Pension deficit	(4,287)	(4,560)	Asset returns & discount rate
Tax assets & liabilities	796	951	Lower pension deficit
Financial assets & liabilities	19	(50)	
Net (debt) / cash	(1,192)	387	
Business held for sale	(4)	(2)	
Net assets	4,226	3,774	

Pension Deficit (IAS 19)

(£bn)

	30 Jun 13	31 Dec 12	30 Jun 12
Assets	20.5	19.6	18.6 *
Liabilities	(26.0)	(25.3)	(24.5)
Pension Deficit	(5.5)	(5.7)	(5.9)
Group share of deficit, pre-tax	(4.3)	(4.6)	(4.7)
UK - real discount rate	1.3%	1.6%	1.7%
bond yields	4.6%	4.5%	4.4%
inflation rate	3.3%	2.9%	2.7%
US - bond yields	4.9%	4.1%	4.4%

* includes assets held in Reservoir Trust, contributed into the pension schemes in 2012

Net Cash / (Debt)

(£m)

Opening Net Cash	387		
Operating business cash flow	(815)	→	Electronic Systems 73
Interest & Tax	(175)		Cyber & Intelligence 56
Equity dividends paid	(380)		Platforms & Services (US) (89)
Share buyback	(90)		Platforms & Services (UK) (415)
Other, including foreign exchange	(119)		Platforms & Services (Int'l) (221)
			HQ (223)
			Discontinued Operations 4
Closing Net Debt	(1,192)		(815)

Net Cash / (Debt)

(£bn)

	Gross Debt	Gross Cash	Net
31 December 2012	(3.0)	3.4	0.4
Cash Flow	-	(1.5)	(1.5)
Foreign exchange translation	(0.1)	-	(0.1)
30 June 2013	(3.1)	1.9	(1.2)
Pre-financing of 2014 debt		(0.4)	

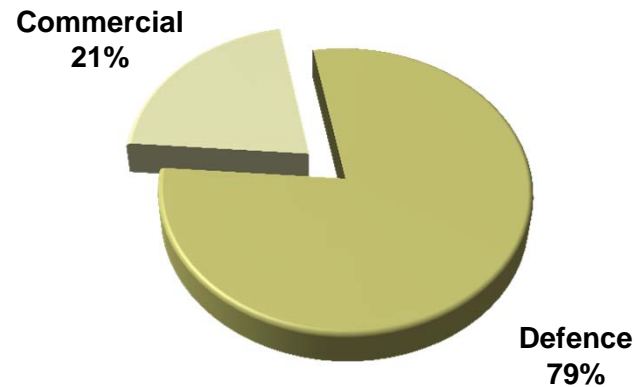
Electronic Systems

	First Half 2013	First Half 2012
Sales	\$1,843m	\$1,862m
Underlying EBITA	\$241m	\$259m
Margin	13.1%	13.9%
Cash flow	\$113m	\$166m
Order backlog	\$5.7bn	\$5.8bn *

2013 First Half Performance:

- Sales down 1%:
 - US defence budgets
 - Commercial business growth
- Margin performance per guidance
- Cash conversion of 47%

2013 Sales



* as at 31 December 2012

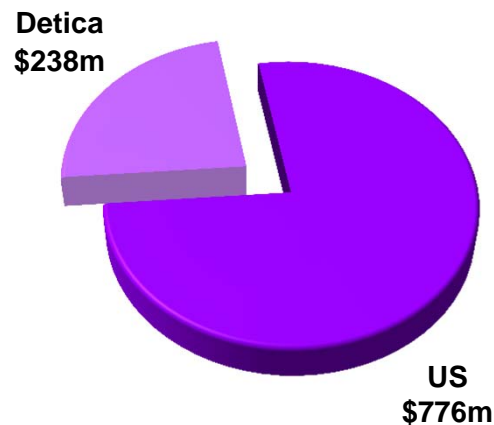
Cyber & Intelligence

	First Half 2013	First Half 2012
Sales	\$1,014m	\$1,126m
Underlying EBITA	\$82m	\$85m
Margin	8.1%	7.6%
Cash flow	\$86m	\$33m
Order backlog	\$1.4bn	\$1.6bn *

2013 First Half Performance:

- US sales down 14% on lower IT Services and C-IED
- Detica sales growth at 9%
- Margins reflect investment in Detica, per guidance
- Profit to cash conversion >100%
- US backlog constrained on award decisions

2013 Sales

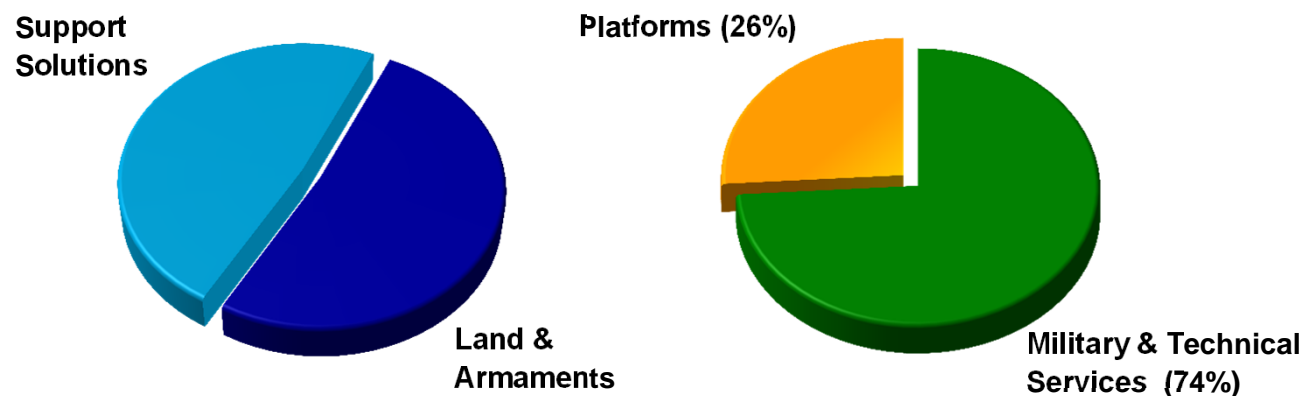


* as at 31 December 2012

Platforms & Services (US)

	First Half 2013	First Half 2012
Sales	\$3,217m	\$3,554m
Underlying EBITA	\$281m	\$298m
Margin	8.7%	8.4%
Cash flow	\$(137)m	-
Order backlog	\$11.8bn	\$13.7bn *

2013 Sales



* as at 31 December 2012

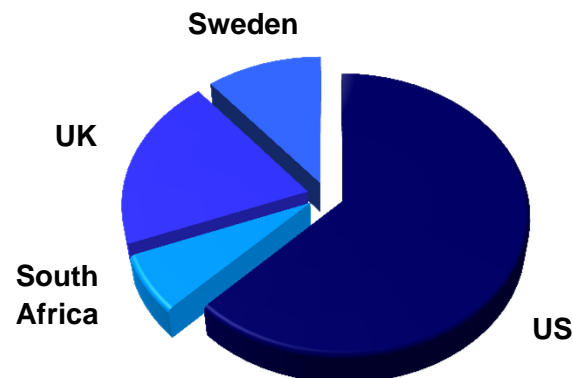
Platforms & Services (US) – Land & Armaments

	First Half 2013	First Half 2012
Sales	\$1,660m	\$2,048m
Underlying EBITA	\$157m	\$175m
Margin	9.5%	8.5%
Cash flow	\$(170)m	\$(65)m
Order backlog	\$6.9bn	\$8.3bn *

2013 First Half Performance:

- Like-for-like sales down 9%
 - Completion of MRAP vehicle upgrades
- Margin benefits from ongoing cost reduction actions
- Cash flow biased to the second half

2013 Sales



* as at 31 December 2012

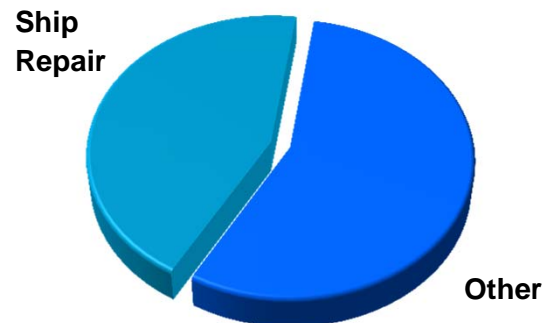
Platforms & Services (US) – Support Solutions

	First Half 2013	First Half 2012
Sales	\$1,557m	\$1,506m
Underlying EBITA	\$124m	\$123m
Margin	8.0%	8.2%
Cash flow	\$33m	\$65m
Order backlog	\$4.9bn	\$5.4bn *

2013 First Half Performance:

- Sales up 3%
 - Radford munitions facility
 - Navy training aircraft maintenance
- Margin performance per guidance
- Cash flow biased to the second half
- Backlog reflects trade-out of long-term Ship Repair contracts

2013 Sales



* as at 31 December 2012

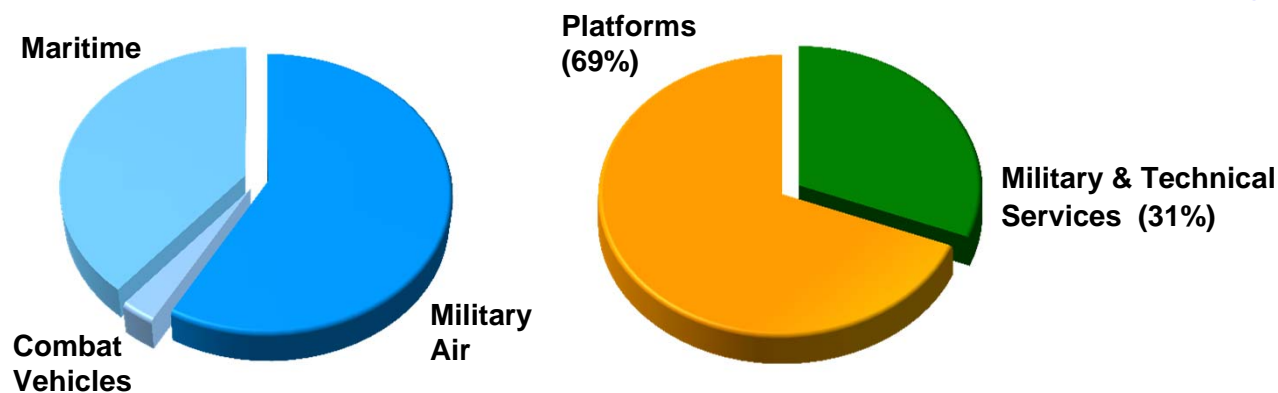
Platforms & Services (UK)

	First Half 2013	First Half 2012
Sales	£3,192m	£2,651m
Underlying EBITA	£384m	£420m
Margin	12.0%	15.8%
Cash flow	£(415)m	£243m
Order backlog	£20.4bn	£21.2bn *

2013 First Half Performance:

- Like-for-like sales up 18%
 - Four Salam aircraft delivered
 - Hawk India deliveries
- Margin performance per guidance
 - No profit on Salam deliveries
- Cash performance reflects utilisation of advances and provisions
- Backlog down for aircraft deliveries

2013 Sales



* as at 31 December 2012

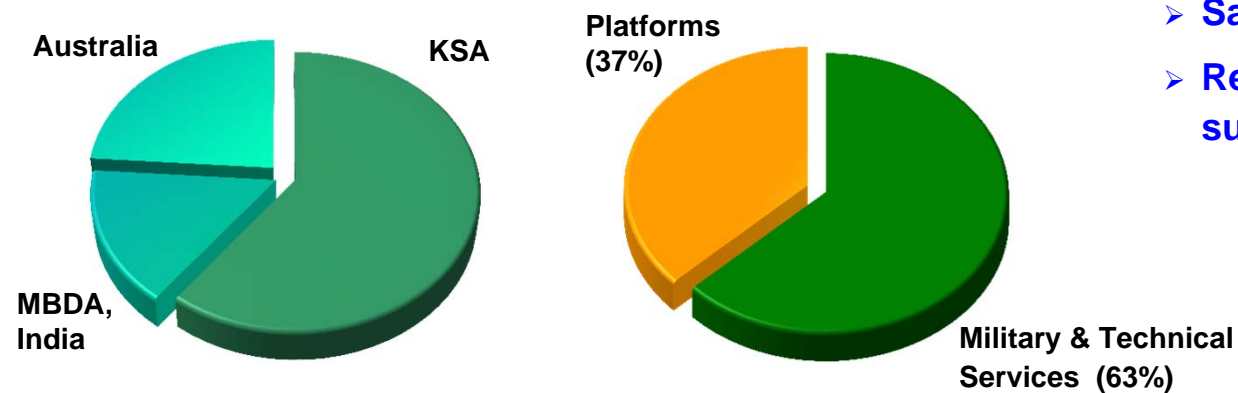
Platforms & Services (International)

	First Half 2013	First Half 2012
Sales	£1,654m	£1,573m
Underlying EBITA	£165m	£161m
Margin	10.0%	10.2%
Cash flow	£(221)m	£568m
Order backlog	£11.9bn	£9.3bn *

2013 First Half Performance:

- Sales up 5%
 - Typhoon support
- Margin performance per guidance
- Cash performance reflects utilisation of advances
- Order backlog reflects:
 - Five-year Typhoon follow-on support
 - Saudi weapons package
 - Renewal of Australian Hawk support programme

2013 Sales



* as at 31 December 2012

2013 Guidance - Trading

	2012 Actual **		2013 Guidance *	
	Sales	Margin	Sales	Margin
Electronic Systems	2,507	14.2%	stable to c.(5)%	12% - 14%
Cyber & Intelligence	1,402	8.8%	c.(5)%	8% - 9%
Platforms & Services (US)	4,539	8.7%	c.(5)% to c.(10)%	7.5% - 8.5%
Platforms & Services (UK)	5,646	12.2%	c.+25%	10% - 12% <i>plus</i>
Platforms & Services (International)	4,071	10.2%	stable to c.+5%	10% - 12%
HQ (EBITA)	(124)		broadly similar	
Underlying Finance Costs	(204)		marginally lower	
Tax rate	24%		23% - 25%	
Underlying EPS	38.5p			

* assumes satisfactory conclusion to Salam pricing negotiations; guidance for US sectors in US dollars

** restated following adoption of IAS 19 (revised 2011)

2013 Guidance - Trading

In aggregate:

- including
 - the benefit from share repurchase programme,
 - downside arising from reductions to US defence budgets
- and, assuming a satisfactory conclusion to Salam pricing negotiations this year

Double-digit growth in underlying earnings per share is anticipated for 2013

2013 Guidance – Cash Utilisation

	2013 Half Year £bn	2013 Guidance £bn
Operating items:		
• Capital expenditure / depreciation	nil	nil
• Working capital		
- 2012 accelerated receipts	(0.1)	(0.2)
- provision utilisation	(0.2)	(0.4)
- advances movement (net)	(0.7)	(1.0) – (1.75)
- other working capital movements	(0.6)	-
• Pension deficit funding	(0.2)	(0.5)
Non-operating items:		
• Interest & tax	(0.2)	(0.4)
• Dividends	(0.4)	(0.6)
• Share repurchase	(0.1)	(0.3)

Significant utilisation of 31/12/12 cash position

Summary - Investor proposition

Business environment

- **US market**
 - Sequestration pressures
 - Reduced spend anticipated
- **UK market**
 - Stable
 - Good programme visibility
- **International**
 - Strong order intake
 - Growing opportunities
- **Cyber**
 - Increasing opportunities
 - Commercial sector growth

Balanced portfolio

- **50/50 Services and Products**
 - Strong platform positions
 - High customer relevance support provision
 - Commercial growth opportunities

Capital allocation

- **Cash generation to enable**
 - Investment to develop business
 - Good returns to shareholders
 - Dividends
 - Share re-purchases

Broad geographic reach and strong portfolio provides a good platform for future growth

Handouts

2013 First Half Financial Summary

(£m)

	Sales	Underlying EBITA	Margin	Cash flow
Electronic Systems	1,194	156	13.1%	73
Cyber & Intelligence	657	53	8.1%	56
Platforms & Services (US)	2,085	182	8.7%	(89)
Platforms & Services (UK)	3,192	384	12.0%	(415)
Platforms & Services (International)	1,654	165	10.0%	(221)
HQ	145	(75)		(223)
Eliminations/Discontinued Operations	(479)			4
Total	8,448	865	10.2%	(815)

Underlying earnings per share

17.8p

Reconciliation of Earnings

(£m)	First Half 2013 Underlying	First Half 2012 Underlying *	First Half 2013 Reported	First Half 2012 Reported *
Underlying EBITA	865	922	865	922
Gain on disposal of businesses			4	18
EBITA	865	922	869	940
Amortisation / Impairment			(100)	(164)
Underlying finance costs	(95)	(91)	(95)	(91)
Pension / Fair Value movements			(128)	(101)
Finance Costs	(95)	(91)	(223)	(192)
Underlying tax	(189)	(221)	(189)	(221)
Tax on amortisation / impairment			25	33
Tax on pension / fair value movements			31	27
Tax	(189)	(221)	(133)	(161)
Minority Interest	(4)	(8)	(4)	(8)
Discontinued Operations			2	4
Earnings	577	602	411	419
Earnings per share	17.8p	18.6p		

* restated following adoption of IAS 19 (revised 2011)

Like-for-Like Sales & Underlying EBITA - Group

(£m)

	Sales			Underlying EBITA		
	First Half		Yr-on-Yr	First Half		Yr-on-Yr
	2013	2012		2013	2012	
Continuing Businesses	8,448	8,334	1%	865	922	(6)%
Foreign Exchange:						
USD		73			8	
Other		5			(4)	
Adjusted for Foreign Exchange	8,448	8,412	0%	865	926	(7)%
Transactions:						
Acquisitions & Disposals	(3)	(77)		1	4	
Adjusted for F/x and Transactions	8,445	8,335	1%	866	930	(7)%

Like-for-Like Sales & Underlying EBITA by sector

(\$m)

	Sales			Underlying EBITA		
	First Half		Growth	First Half		Growth
	2013	2012		2013	2012	
Electronic Systems - reported	1,843	1,862	(1)%	241	259	(7)%
Foreign Exchange		(3)			-	
Electronic Systems - adjusted	1,843	1,859	(1)%	241	259	(7)%
Cyber & Intelligence - reported	1,014	1,126	(10)%	82	85	(4)%
Foreign Exchange		(5)			-	
Cyber & Intelligence - adjusted	1,014	1,121	(10)%	82	85	(4)%
Platforms & Services (US) - reported	3,217	3,554	(9)%	281	298	(6)%
Foreign Exchange		(28)			(9)	
Acquisitions / Disposals	(5)	(122)		1	6	
Combat Vehicles UK transfer		(79)			7	
Platforms & Services (US) - adjusted	3,212	3,325	(3)%	282	302	(7)%

Like-for-Like Sales & Underlying EBITA by sector

(£m)

	Sales First Half			Underlying EBITA First Half		
	2013	2012	Growth	2013	2012	Growth
Platforms & Services (UK) - reported	3,192	2,651	20%	384	420	(9)%
Combat Vehicles UK transfer		50			(5)	
Platforms & Services (UK) - adjusted	3,192	2,701	18%	384	415	(7)%
Platforms & Services (Int'l) - reported	1,654	1,573	5%	165	161	2%
Foreign Exchange		14			1	
Platforms & Services (Int'l) - adjusted	1,654	1,587	4%	165	162	2%

Working Capital Movements – Reconciliation to Cash Flow

<i>(£m)</i>	30/6/13	31/12/12	Mvmt	F/x	M&A	Other	Cash Flow
Inventories	738	655	(83)	(27)	2	1	(59)
Receivables - current	3,392	2,873					
Receivables - non-current	299	254					
Total receivables	3,691	3,127	(564)	(107)	1	(15)	(443)
Payables - current	(7,334)	(8,067)					
Payables - non-current	(1,336)	(1,481)					
Total payables	(8,670)	(9,548)	(878)	127	(1)	25	(1,029)
Liability provisions - current	(237)	(297)					
Liability provisions - non-current	(510)	(449)					
Total liability provisions	(747)	(746)	1	23	-	12	(34)
Working Capital per Cash Flow	(4,988)	(6,512)	(1,524)				
Cash on customer account	2	2					
Pension prepayment	(51)	(47)					
Working Capital Per Balance Sheet	(5,037)	(6,557)					