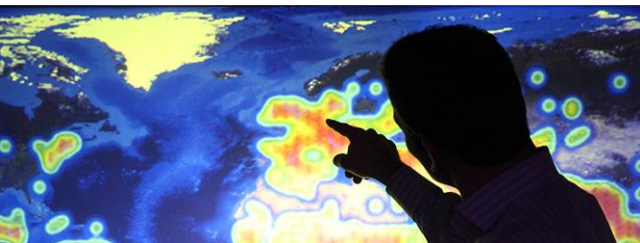


# BAE Systems

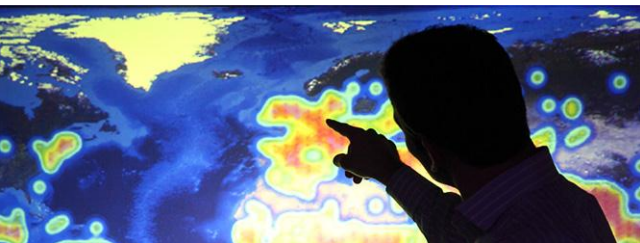
## 2013 Preliminary Results

20 February 2014

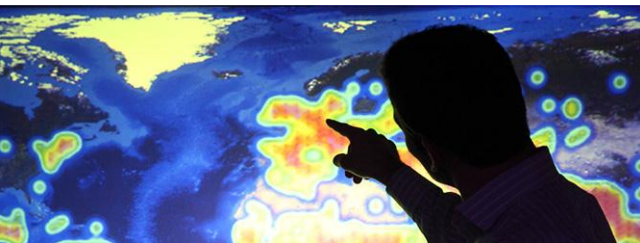


All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of BAE Systems and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of BAE Systems or the markets and economies in which BAE Systems operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

# Sir Roger Carr



# Ian King



# 2013 Overview

- **Solid performance in tough environment**
- **Kingdom of Saudi Arabia**
  - Continued growth in order Backlog
  - Typhoon deliveries resumed
  - Price escalation
- **Reduced US defence spend**
- **UK naval ships agreement**
- **Continued cost reduction**
  - Protecting margins
  - Enhancing competitiveness
- **Continued investment in R&D and business development**



**Strong balance sheet and increased order backlog**



# Key markets - US

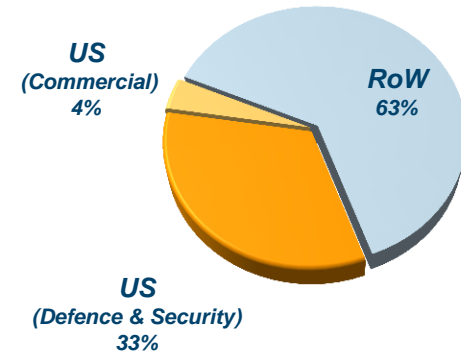
## 2013 trading environment

- Continued budget uncertainty
- Sequester pointed to 10% budget reduction from 2012 level
  - 15% reduction to O&M and investment accounts

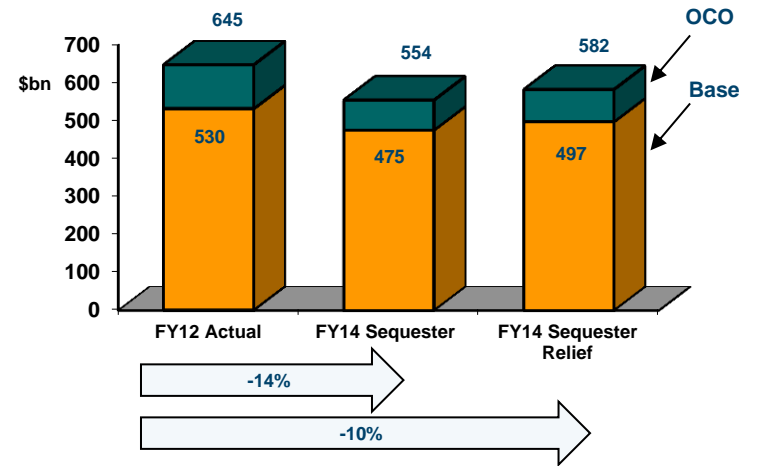
## 2014 budget

- Bipartisan budget agreement signed in January
- Budget lines inconsistently impacted
  - OCO budgets down 26%
  - O&M budgets down 6%
  - Investment accounts down 16%
- Good support for key programmes
  - eg F-35

2013 Group Sales by Destination



DoD Budget Authority



# Protecting the Land industrial base

- Refocus on to core missions
- Cost reduction
  - Exit wheeled automotive assembly - Sealy closure
  - Consolidate satellite manufacturing to hubs
- Restructuring of existing contracts

- Pursue additional opportunities
  - Bradley and M88 business won to secure York to mid 2015
  - LRIP contract for M109 PIM secured in Oct 13
  - AMPV proposal
  - International requirements





## Key markets - UK

### *Trading environment*

- Budget pressures, but stable
- Good long-term programme visibility
- Large order backlog
- Strong programme performance

### *Military air*

- First Typhoon Tranche 3 aircraft flown
- Taranis UAV flight trials underway
- Salam Typhoon deliveries recommenced to plan

### *Maritime*

- UK Government naval ships agreement
- Submarines activity rising



# International - business development

## Further good order intake

- **KSA**
  - Multi-year Typhoon support
  - Tornado upgrade and weapons procurement
  
- **Typhoon exports**
  - Opportunities in Gulf state
  
- **Military aircraft upgrade and support**
  - F-15 in KSA
  - F-16 RoK
  - Australian Hawk follow-on support
  
- **Armoured vehicles and artillery**
  - CV90 and Bradley campaigns





# Cyber & Intelligence

## *Intelligence & Security*

- Continued weakness from slow contracting pace
- Some anticipated operations driven reductions
- Substantial bids in prospect

## *Applied Intelligence*

- Performing well - 60% growth in Order Book
- Good growth in commercial cyber security
- Continued organic investment



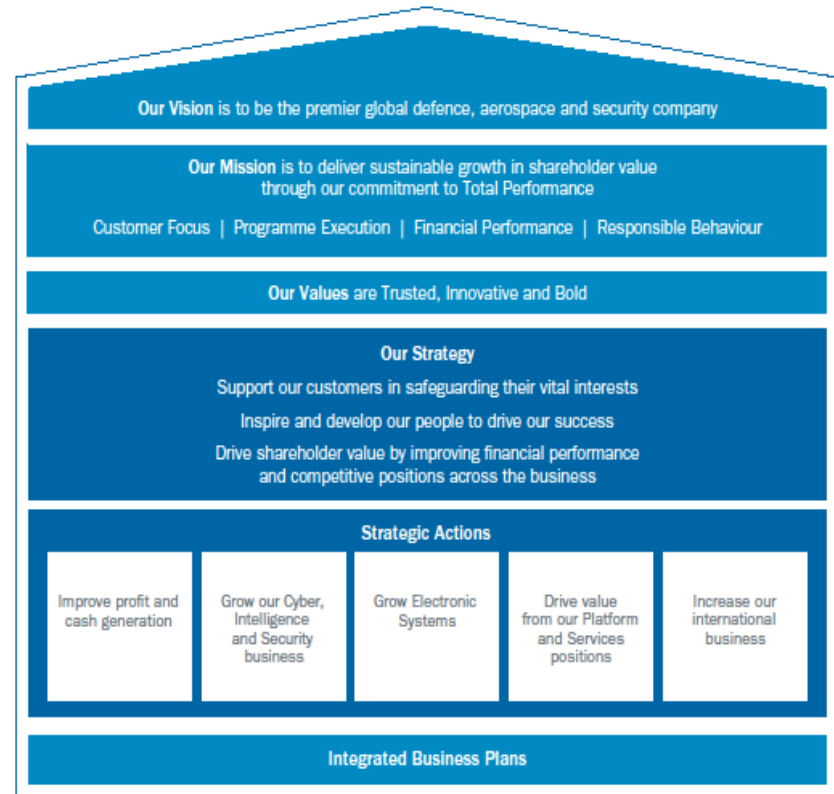
# Strategy

## *Consistent strategy for 2014*

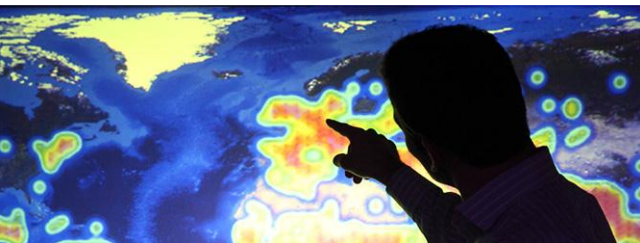
- **Well balanced portfolio**
- **Organic investment in:-**
  - **Cyber & Security**
  - **Commercial aerospace electronics**
- **Continued R&D investment**
  - **US defence electronics**
  - **Military Air including unmanned**

## *Prioritised capital allocation*

- **Pension funding**
- **Organic investment**
- **Dividend payments**
- **Accelerated returns**
- **Acquisitions**



# Peter Lynas



# 2013 Full Year Financial Summary

		Yr-on-Yr <sup>(1)</sup>
<b>Sales</b>	<b>£18,180m</b>	<b>+ 2%</b>
<b>Underlying EBITA <sup>(2)</sup></b>	<b>£1,925m</b>	<b>+ 3%</b>
<b>Underlying Finance Costs <sup>(3)</sup></b>	<b>£(179)m</b>	
<b>Underlying Earnings per Share <sup>(4)</sup></b>	<b>42.0p</b>	<b>+ 9%</b>
<b>Operating Business Cash Flow</b>	<b>£147m</b>	
<b>Net Debt</b>	<b>£(699)m</b>	
<b>Order Backlog</b>	<b>£42.7bn</b>	
<b>Dividend per Share</b>	<b>20.1p</b>	<b>+ 3%</b>

(1) Comparative information has been represented on classification of Regional Aircraft as a continuing operation and restated for the adoption of the revised IAS 19 Employee Benefits

(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 on pensions and financial instruments and non-recurring items

# Balance Sheet

(£m)

	31 Dec 13	31 Dec 12	Movement drivers:
Intangible fixed assets	9,735	10,928	- impairments & amortisation
Tangible fixed assets	2,071	2,407	- held-for-sale & depreciation
Investments	286	270	
Working capital	(4,988)	(6,557)	- advances & provision utilisation
Pension deficit	(3,509)	(4,560)	- asset returns
Tax assets & liabilities	405	951	- lower pension deficit
Financial assets & liabilities	(23)	(50)	
Net (debt) / cash	(699)	387	
Assets / business held for sale	140	(2)	- KSA residential compound
<b>Net assets</b>	<b>3,418</b>	<b>3,774</b>	

# Pension Deficit (IAS 19)

(£bn)

	31 Dec 13	30 Jun 13	31 Dec 12
Assets	21.5	20.5	19.6
Liabilities	(26.0)	(26.0)	(25.3)
<b>Pension Deficit</b>	<b>(4.5)</b>	<b>(5.5)</b>	<b>(5.7)</b>
Group share of deficit, pre-tax	(3.5)	(4.3)	(4.6)
UK - real discount rate	1.1%	1.3%	1.6%
bond yields	4.5%	4.6%	4.5%
inflation rate	3.4%	3.3%	2.9%
US - bond yields	4.9%	4.9%	4.1%

# Net Cash / (Debt)

(£m)

## Opening Net Cash

Operating business cash flow	147
Interest & Tax	(304)
Equity dividends paid	(638)
Share buyback	(212)
Other, including foreign exchange	(79)

## Closing Net Debt

387
147
(304)
(638)
(212)
(79)
<u>(699)</u>



Electronic Systems	235
Cyber & Intelligence	118
Platforms & Services (US)	192
Platforms & Services (UK)	59
Platforms & Services (Int'l)	(189)
HQ	(268)
	<u>147</u>

£(2.9)bn	£2.2bn
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**Gross  
Debt**

**Gross  
Cash**

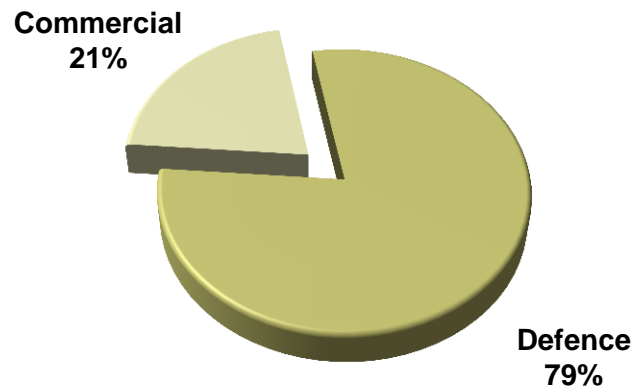
# Electronic Systems

	2013	2012
Sales	\$3,858m	\$3,974m
Underlying EBITA	\$541m	\$565m
Margin	14.0%	14.2%
Cash flow	\$368m	\$406m
Order backlog	\$6.1bn	\$5.8bn

## 2013 Performance:

- Sales down 3%
  - Commercial growth
  - US defence budgets
- Margin performance per guidance
  - Strong programme execution
  - Continued cost reduction actions
- Profit to cash conversion of 89% (pre-pension deficit funding)
- Order backlog
  - THAAD production orders

## 2013 Sales





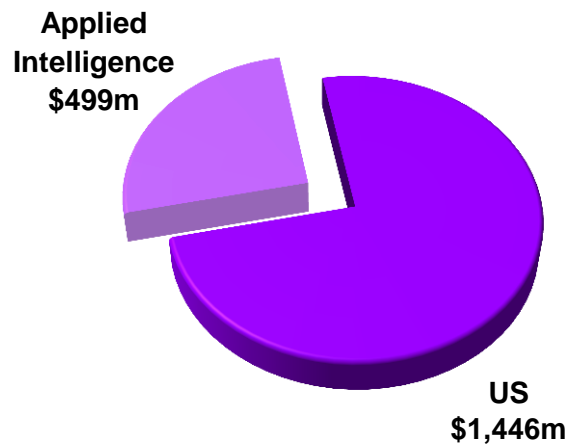
# Cyber & Intelligence

	2013	2012
Sales	\$1,945m	\$2,222m
Underlying EBITA	\$180m	\$196m
Margin	9.3%	8.8%
Cash flow	\$185m	\$179m
Order backlog	\$1.2bn	\$1.6bn

## 2013 Performance:

- Sales down 12%
  - US down 18%
  - Applied Intelligence growth at 9%
- Margin performance slightly ahead of guidance
  - Continued organic investment in Applied Intelligence business
- Profit to cash conversion >100%
- Order backlog
  - US constrained on award decisions
  - \$0.3bn removed following de-scoping of programmes
  - Applied Intelligence up 60%

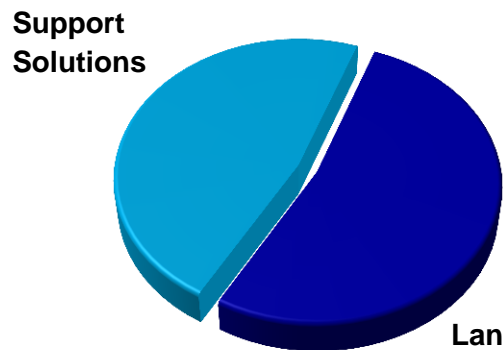
## 2013 Sales



# Platforms & Services (US)

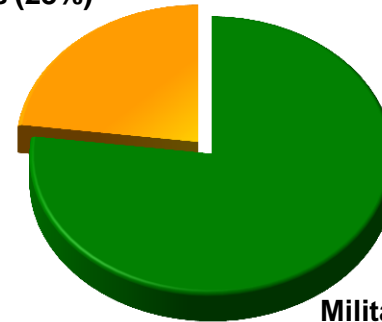
	2013	2012
<b>Sales</b>	<b>\$6,564m</b>	<b>\$7,193m</b>
<b>Underlying EBITA</b>	<b>\$414m</b>	<b>\$625m</b>
<b>Margin</b>	<b>6.3%</b>	<b>8.7%</b>
<b>Cash flow</b>	<b>\$300m</b>	<b>\$498m</b>
<b>Order backlog</b>	<b>\$12.3bn</b>	<b>\$13.7bn</b>

## 2013 Sales



Land & Armaments

Platforms (23%)



Military & Technical Services (77%)

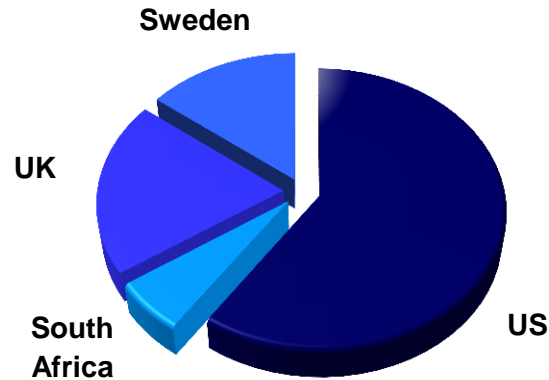
# Platforms & Services (US) – Land & Armaments

	2013	2012
Sales	\$3,463m	\$4,160m
Underlying EBITA	\$322m	\$359m
Margin	9.3%	8.6%
Cash flow	\$259m	\$260m
Order backlog	\$7.2bn	\$8.3bn

## 2013 Performance:

- Sales down 17%; like-for-like 10%
  - UK vehicles & support transferred out
  - Completion of Caiman and MRAP upgrade contracts; lower Bradley reset
- Margin performance ahead of guidance
- Profit to cash conversion at 86% (pre pension deficit funding)
- Order backlog
  - Reduced on trading of US M777 and long-term UK Munitions contract
  - CV90 Canada programme cancelled
  - No decision on M777 India acquisition

## 2013 Sales



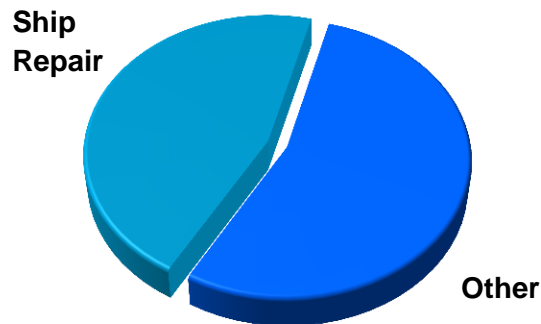
# Platforms & Services (US) – Support Solutions

	2013	2012
<b>Sales</b>	<b>\$3,101m</b>	<b>\$3,033m</b>
<b>Underlying EBITA</b>	<b>\$92m</b>	<b>\$266m</b>
<b>Margin</b>	<b>3.0%</b>	<b>8.8%</b>
<b>Cash flow</b>	<b>\$41m</b>	<b>\$238m</b>
<b>Order backlog</b>	<b>\$5.1bn</b>	<b>\$5.4bn</b>

## 2013 Performance:

- Sales up 2%
  - Radford munitions, ship repair
- Margin performance impacted by charges taken
  - Radford munitions facility
  - Commercial shipbuild
- Profit to cash conversion at 68% (pre-pension deficit funding)
- Order backlog
  - Five year ship repair contract trading

## 2013 Sales



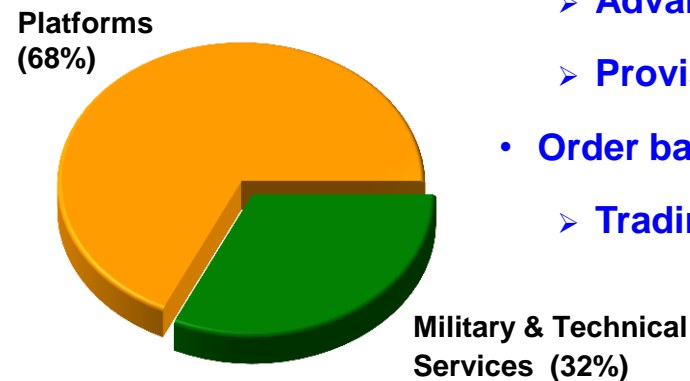
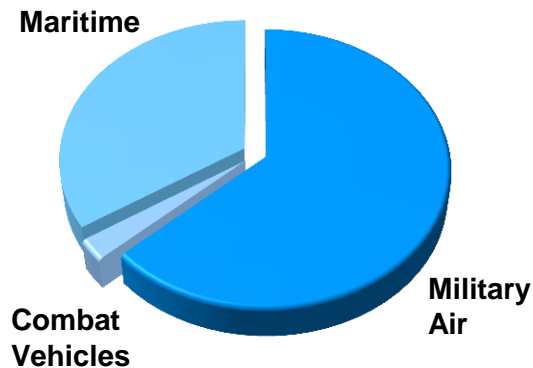
# Platforms & Services (UK)

	2013	2012 *
<b>Sales</b>	<b>£6,890m</b>	<b>£5,717m</b>
<b>Underlying EBITA</b>	<b>£879m</b>	<b>£695m</b>
<b>Margin</b>	<b>12.8%</b>	<b>12.2%</b>
<b>Cash flow</b>	<b>£59m</b>	<b>£1,717m</b>
<b>Order backlog</b>	<b>£20.3bn</b>	<b>£21.3bn</b>

## 2013 Performance:

- Sales up 21%; like-for-like 19%
  - UK vehicles & support transferred in
  - 10 Salam aircraft plus escalation
- Margin performance ahead of guidance
  - Strong programme execution
  - Cost reduction
- Cash performance
  - Advances consumed
  - Provision utilisation
- Order backlog
  - Trading of aircraft deliveries

### 2013 Sales



\* Comparative information has been represented on classification of Regional Aircraft as a continuing operation

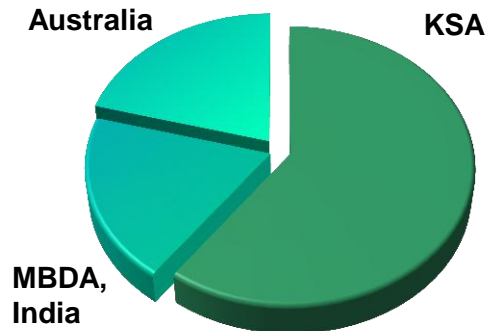
# Platforms & Services (International)

	2013	2012
Sales	£4,063m	£4,071m
Underlying EBITA	£429m	£417m
Margin	10.6%	10.2%
Cash flow	£(189)m	£506m
Order backlog	£12.3bn	£9.3bn

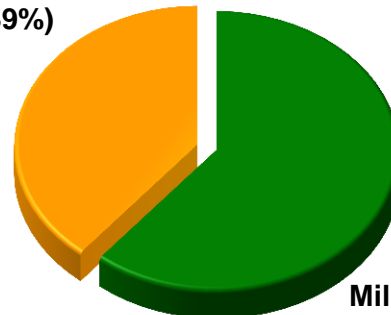
## 2013 Performance:

- Sales unchanged
  - Increased KSA Typhoon support
  - LHD production ramping down
- Margin performance at lower level of guidance
- Cash outflow
  - 2012 accelerated receipts
  - Salam settlement proceeds
- Order backlog
  - KSA awards - Typhoon support, weapons package
  - Australian Hawk support renewal

2013 Sales

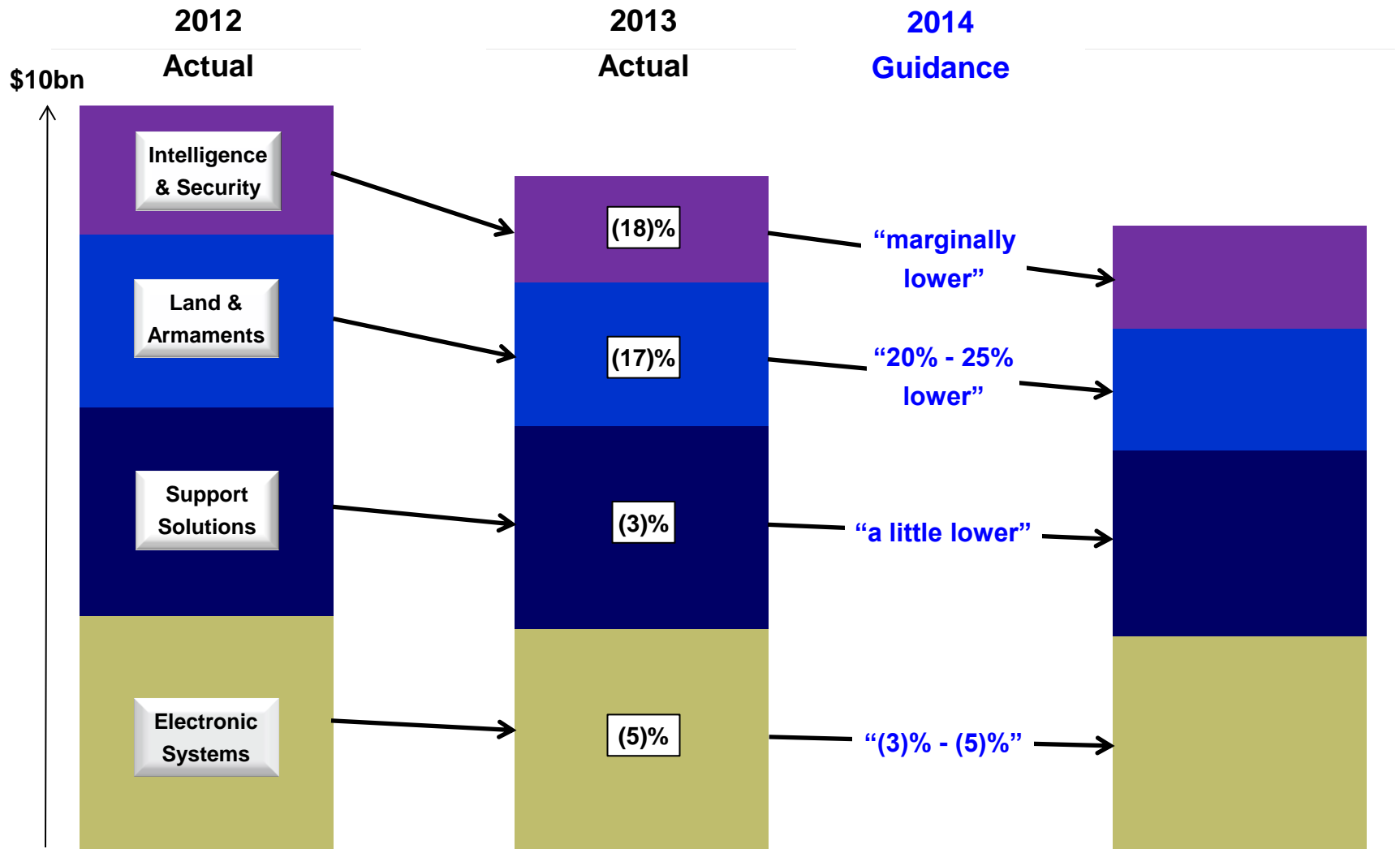


Platforms (39%)



Military & Technical Services (61%)

# 2012 - 2014 US Sectors: Defence Sales only



# 2014 Guidance - Trading

	2013 Actual		2014 Guidance <sup>1</sup>	
	Sales	Margin	Sales	Margin
Electronic Systems	2,466	14.0%	stable	12% - 14%
Cyber & Intelligence	1,243	9.3%	stable	8% - 10%
Platforms & Services (US)	4,196	6.3%	c.(10)% to c.(15)% <sup>2</sup>	6% - 8%
Platforms & Services (UK)	6,890	12.8%	c.(5)% <sup>2</sup>	10% - 12%
Platforms & Services (International)	4,063	10.6%	stable	10% - 12%
HQ (EBITA)	(109)		significantly lower	
Underlying Finance Costs	(179)		marginally higher	
Tax rate	22%		21% - 23%	
Underlying EPS	42.0p			

**Underlying earnings per share to be some 5% to 10% lower than 2013**

<sup>1</sup> guidance for US sectors in US dollars

<sup>2</sup> like-for-like excluding UK Munitions business



# 2014 Guidance – Cash Utilisation

	2013 £bn	2014 Guidance £bn
<b>Operating items:</b>		
• Net capital expenditure, disposals & depr'n	0.1	0.2
• Working capital		
- 2012 accelerated receipts	(0.2)	-
- provision utilisation	(0.3)	(0.2)
- advances movement (net)	(0.7)	(0.75) – (1.25)
- other working capital movements	-	-
• Pension deficit funding	(0.4)	(0.4)
<b>Non-operating items:</b>		
• Interest & tax	(0.3)	(0.4)
• Dividends	(0.6)	(0.6)
• Share repurchase	(0.2)	(0.4)

£1bn of cash returns to shareholders planned for 2014

# Summary - Investor proposition

## *Summary business environment*

- **US market**
  - Some budget clarity emerging
  - Reduced spend anticipated
- **UK market**
  - Stable
  - Good programme visibility
- **International**
  - Strong order intake
  - Growing opportunities
- **Cyber**
  - Increasing opportunities
  - Commercial sector growth

## *Key tenets of investment case*

- **Strategic intent**
  - Sustainable growth in shareholder returns
  - Derive value from large order backlog
- **Balanced business portfolio**
  - Geographic spread of home and export markets
  - Good balance of products and services
- **Demonstrable cost reduction**
  - 30,200 head count reduction since 2008
- **Shareholder focused distribution policy**
  - £2.6bn returned since 2010.

**Strong order backlog provides platform for future growth**

# Handouts

# 2013 Financial Summary

(£m)

	Sales	Underlying EBITA	Margin	Cash flow
Electronic Systems	2,466	346	14.0%	235
Cyber & Intelligence	1,243	115	9.3%	118
Platforms & Services (US)	4,196	265	6.3%	192
Platforms & Services (UK)	6,890	879	12.8%	59
Platforms & Services (International)	4,063	429	10.6%	(189)
HQ	306	(109)		(268)
Eliminations	(984)			
<b>Total</b>	<b>18,180</b>	<b>1,925</b>	<b>10.6%</b>	<b>147</b>

Underlying earnings per share

42.0p

# Reconciliation of Earnings

(£m)

	2013 Underlying	2012 Underlying *	2013 Reported	2012 Reported *
<b>Underlying EBITA</b>	1,925	1,862	1,925	1,862
Gain on disposal of businesses			6	103
<b>EBITA</b>			<u>1,931</u>	<u>1,965</u>
Amortisation / Impairment			(1,076)	(312)
<b>Underlying finance costs</b>	(179)	(204)	(179)	(204)
Pension / Fair Value movements			(213)	(206)
<b>Finance Costs</b>			<u>(392)</u>	<u>(410)</u>
<b>Underlying tax</b>	(379)	(394)	(379)	(394)
Tax on amortisation / impairment			46	61
Tax on pension / fair value movements			46	49
<b>Tax</b>			<u>(287)</u>	<u>(284)</u>
Minority Interest	(8)	(11)	(8)	(11)
<b>Earnings</b>	<u>1,359</u>	<u>1,253</u>	<u>168</u>	<u>948</u>
<b>Earnings per share</b>	42.0p	38.7p		

\* Comparative information has been represented on classification of Regional Aircraft as a continuing operation and restated for the adoption of the revised IAS 19 Employee Benefits

# Like-for-Like Sales & Underlying EBITA - Group

(£m)

	Sales			Underlying EBITA		
	<u>2013</u>	<u>2012</u>	<i>Yr-on-Yr</i>	<u>2013</u>	<u>2012</u>	<i>Yr-on-Yr</i>
<b>Continuing Businesses</b>	<b>18,180</b>	<b>17,905</b>	<b>2%</b>	<b>1,925</b>	<b>1,862</b>	<b>3%</b>
Foreign Exchange:						
USD		88			10	
Other		(39)			(4)	
<b>Adjusted for Foreign Exchange</b>	<b>18,180</b>	<b>17,954</b>	<b>1%</b>	<b>1,925</b>	<b>1,868</b>	<b>3%</b>
Transactions:						
Acquisitions & Disposals	(3)	(96)		1	7	
<b>Adjusted for F/x and Transactions</b>	<b>18,177</b>	<b>17,858</b>	<b>2%</b>	<b>1,926</b>	<b>1,875</b>	<b>3%</b>

# Like-for-Like Sales & Underlying EBITA by sector

(\$m)	Sales			Underlying EBITA		
	2013	2012	Growth	2013	2012	Growth
<b>Electronic Systems - reported</b>	<b>3,858</b>	<b>3,974</b>	<b>(3)%</b>	<b>541</b>	<b>565</b>	<b>(4)%</b>
Foreign Exchange		(5)			-	
<b>Electronic Systems - adjusted</b>	<b>3,858</b>	<b>3,969</b>	<b>(3)%</b>	<b>541</b>	<b>565</b>	<b>(4)%</b>
<b>Cyber &amp; Intelligence - reported</b>	<b>1,945</b>	<b>2,222</b>	<b>(12)%</b>	<b>180</b>	<b>196</b>	<b>(8)%</b>
Foreign Exchange		(6)			-	
<b>Cyber &amp; Intelligence - adjusted</b>	<b>1,945</b>	<b>2,216</b>	<b>(12)%</b>	<b>180</b>	<b>196</b>	<b>(8)%</b>
<b>Platforms &amp; Services (US) - reported</b>	<b>6,564</b>	<b>7,193</b>	<b>(9)%</b>	<b>414</b>	<b>625</b>	<b>(34)%</b>
Foreign Exchange		(40)			(10)	
Disposals	(5)	(152)		1	10	
Combat Vehicles transfer		(110)			10	
<b>Platforms &amp; Services (US) - adjusted</b>	<b>6,559</b>	<b>6,891</b>	<b>(5)%</b>	<b>415</b>	<b>635</b>	<b>(35)%</b>

# Like-for-Like Sales & Underlying EBITA by sector

(£m)

	Sales			Underlying EBITA		
	<u>2013</u>	<u>2012</u>	<i>Growth</i>	<u>2013</u>	<u>2012</u>	<i>Growth</i>
<b>Platforms &amp; Services (UK) - reported</b>	<b>6,890</b>	<b>5,717</b>	<b>21%</b>	<b>879</b>	<b>695</b>	<b>26%</b>
Combat Vehicles UK transfer		70			(6)	
<b>Platforms &amp; Services (UK) - adjusted</b>	<b>6,890</b>	<b>5,787</b>	<b>19%</b>	<b>879</b>	<b>689</b>	<b>28%</b>
<b>Platforms &amp; Services (Int'l) - reported</b>	<b>4,063</b>	<b>4,071</b>	<b>(0)%</b>	<b>429</b>	<b>417</b>	<b>3%</b>
Foreign Exchange		(25)			1	
<b>Platforms &amp; Services (Int'l) - adjusted</b>	<b>4,063</b>	<b>4,046</b>	<b>0%</b>	<b>429</b>	<b>418</b>	<b>3%</b>



# Working Capital Movements – Reconciliation to Cash Flow

(£m)	31/12/13	31/12/12	Mvmt	F/x	M&A	Other <sup>1</sup>	Cash Flow
Inventories	680	655	(25)	20	(8)	(2)	(35)
Receivables - current	3,038	2,873					
Receivables - non-current	477	254					
Total receivables	3,515	3,127	(388)	47	(8)	(152)	(275)
Payables - current	(7,074)	(8,067)					
Payables - non-current	(1,160)	(1,481)					
Total payables	(8,234)	(9,548)	(1,314)	(57)	13	57	(1,327)
Liability provisions - current	(391)	(297)					
Liability provisions - non-current	(403)	(449)					
Total liability provisions	(794)	(746)	48	(23)	(1)	9	63
Working Capital per Cash Flow	(4,833)	(6,512)	(1,679)				
Cash on customer account	1	2					
Pension prepayments	(156)	(47)					
Working Capital Per Balance Sheet	(4,988)	(6,557)					

<sup>1</sup> Total receivables Other movement includes £(109) arising from the increase in pension prepayments