

2014 Preliminary Results

19 February 2015



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It should be noted that the above Schedule 10A and Section 463 Companies Act 2006 contain limits on the liability of the directors of BAE Systems plc so that their liability is solely to BAE Systems plc.

Sir Roger Carr

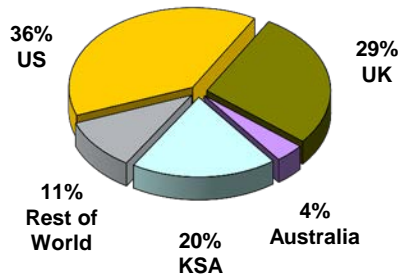
Ian King

2014 Overview

2014 Full Year

Sales	£16,637m
Underlying EBITA	£1,702m
Underlying EPS	38.0p
Dividend per share	20.5p
Order backlog	£40.5bn

2014 Sales by destination



- Continued solid performance in 2014
- US and UK markets
 - Environment stabilising
 - Visibility starting to improve in US
- International markets
 - Continued high activity in KSA
 - High level of bidding
- Strong order backlog
- Good growth in adjacent commercial businesses
- £925m returned to shareholders

Consistent good performance through period of budget constraint

Key Markets - US

Trading environment

- Procurement environment improving
 - Electronics, Support and Land programmes
- Land franchise positions being renewed
- Intelligence & Security, services challenging
- Continued growth in commercial electronics
 - Organic growth from incumbent platform positions
 - Boeing 777X flight controls - a key win
- Commercial shipbuilding charges



Key Markets - UK

Trading environment

- Budget constraints, but stable ahead of SDSR
- Good programme execution
- Continued focus on affordability and efficiency

Military air

- Acceleration of Typhoon capability expansion
- F-35 production ramp commencing
- Good progress on unmanned systems

Maritime

- QEC Carriers progressing to plan
- OPV contract award
- Type 26 discussions continue
- Portsmouth dockyard support contract award
- Submarines activity increasing
- Spearfish Torpedo upgrade contract award



Key Markets - Kingdom of Saudi Arabia



- **Continuing Typhoon deliveries**
 - 11 aircraft delivered in 2014
 - 45 aircraft cumulative deliveries*

- **Strategic development of industrial holdings**
 - Good support to KSA national objectives

- **Continued high level of activity**

*as at 31 Dec 2014

Other International Markets



Australia

- Increasing defence budget
- Strong performance on Naval Programmes
- Naval workload challenge post LHD

MBDA

- Indian Jaguar ASRAAM award
- Good level of new business proposals



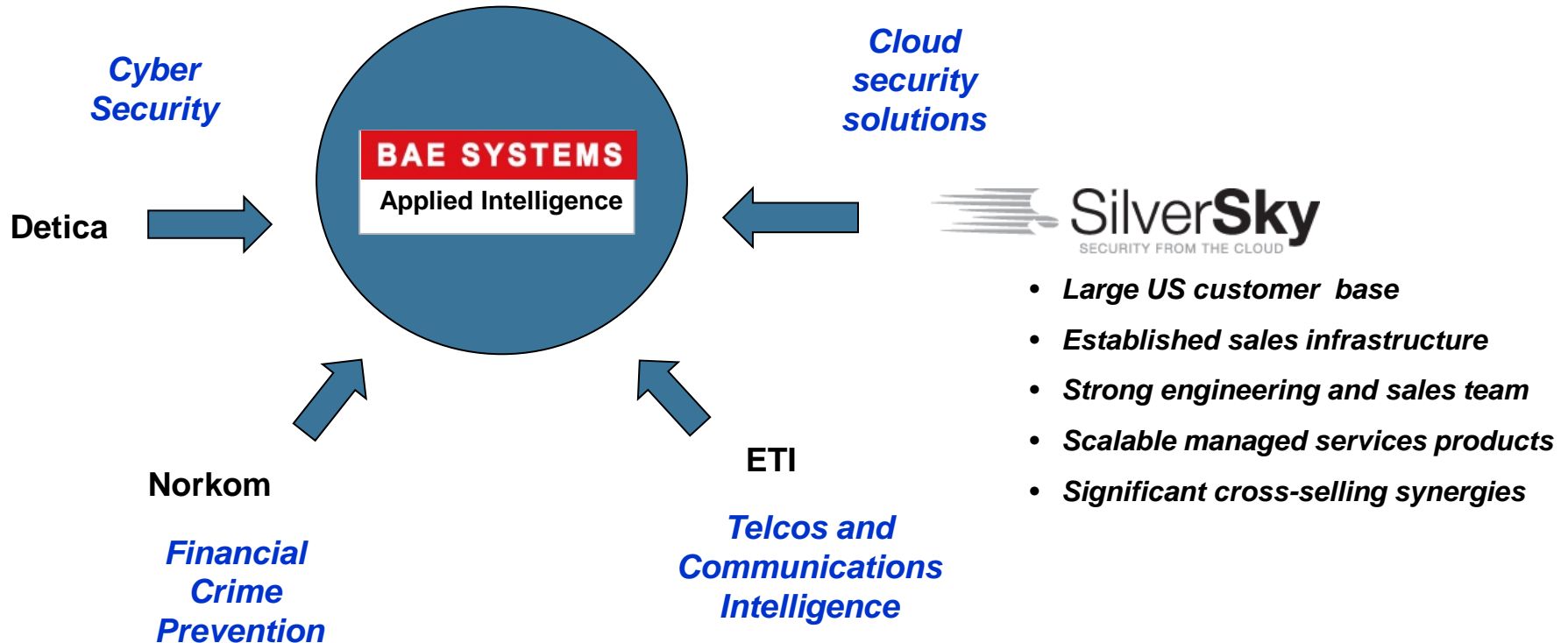
Typhoon and Hawk exports

- Omani contract progressing to plan
- High level of bidding

Applied Intelligence - building for growth in cyber security

Secure-government capabilities

.... addressing commercial markets



Good growth in commercial cyber security

Peter Lynas

2014 Financial Summary

	2014	2013
Sales	£16,637m	£18,180m
Underlying EBITA ⁽¹⁾	£1,702m	£1,925m
Underlying Finance Costs ⁽²⁾	£(204)m	£(179)m
Underlying Earnings per Share ⁽³⁾	38.0p	42.0p
Operating Business Cash Flow	£1,191m	£147m
Net Debt	£(1,032)m	£(699)m
Order Backlog	£40.5bn	£42.7bn
Dividend per Share	20.5p	20.1p

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

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

(3) Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, non-recurring items and, in 2014, a credit in respect of the re-assessment of existing tax provisions

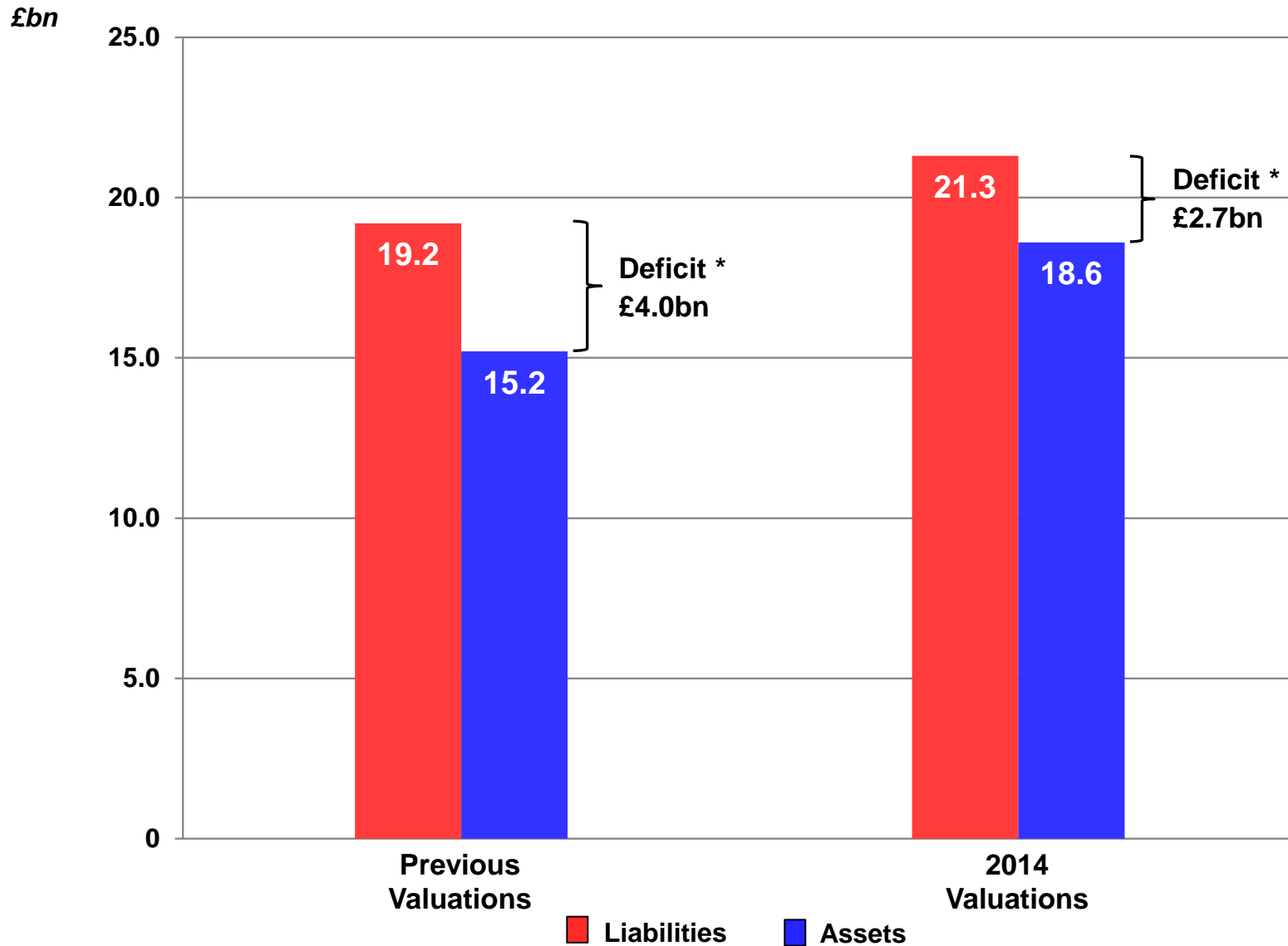
Balance Sheet

<i>(£m)</i>	31 Dec 14	31 Dec 13	Movement drivers:
Intangible fixed assets	9,983	9,735	- acquisitions & impairment
Tangible fixed assets	1,718	2,071	- KSA residential compound disposal
Investments	236	286	
Working capital	(4,466)	(4,988)	- utilisation of customer advances, provisions
Pension deficit	(5,368)	(3,509)	- lower discount rates
Tax assets & liabilities	865	405	- higher pension deficit
Financial assets & liabilities	(112)	(23)	
Net debt	(1,032)	(699)	
Assets held for sale	53	140	- KSA residential compound disposal
Net assets	1,877	3,418	

Pension Deficit (IAS 19)

(£bn)	31 Dec 14	30 Jun 14	31 Dec 13
Assets	23.8	22.1	21.5
Liabilities	(30.6)	(26.9)	(26.0)
Pension Deficit	(6.8)	(4.8)	(4.5)
Group share of deficit, pre-tax	(5.4)	(3.7)	(3.5)
UK – real discount rate	0.4%	0.9%	1.1%
Bond yields	3.6%	4.2%	4.5%
Inflation rate	3.2%	3.3%	3.4%
US – bond yields	4.1%	4.3%	4.9%

UK Pensions : Assets/Liabilities – Funded Basis



* before allocation to equity accounted investments and other participating employers

Net Cash / (Debt)

Opening Net Debt

Operating business cash flow

Interest & Tax

Equity dividends paid

Share buyback

Acquisitions

Other, incl foreign exchange

Closing Net Debt

(699)

1,191

(237)

(642)

(283)

(230)

(132)

(1,032)

Electronic Systems

Cyber & Intelligence

Platforms & Services (US)

Platforms & Services (UK)

Platforms & Services (Int'l)

HQ

246

71

201

173

881

(381)

1,191

**Gross
Debt**

£(3.3)bn

**Gross
Cash**

£2.3bn

Debt pre-financing

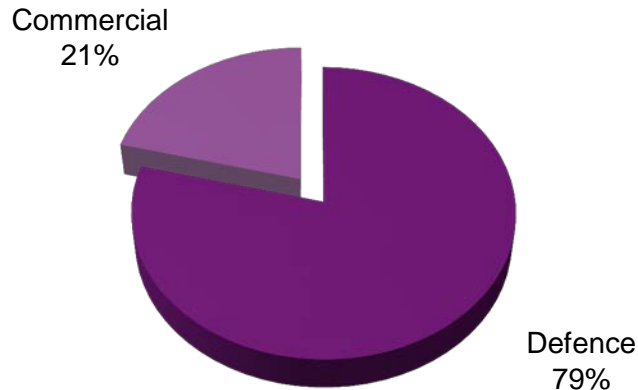
£0.7bn

Electronic Systems

	2014	2013
Sales	\$3,978m	\$3,858m
Underlying EBITA	\$614m	\$541m
Margin	15.4%	14.0%
Cash flow	\$405m	\$368m
Order Backlog	\$6.1bn	\$6.1bn

- Sales up 3%, ahead of guidance
 - Commercial up 7%
 - Defence up 2%
- Margin performance ahead of guidance
 - strong programme execution
 - 50 bps contract pricing benefit
- Cash conversion @ 80% ex-pension deficit funding
- Order backlog sustained;
 - ENVG award further protested

2014 Sales

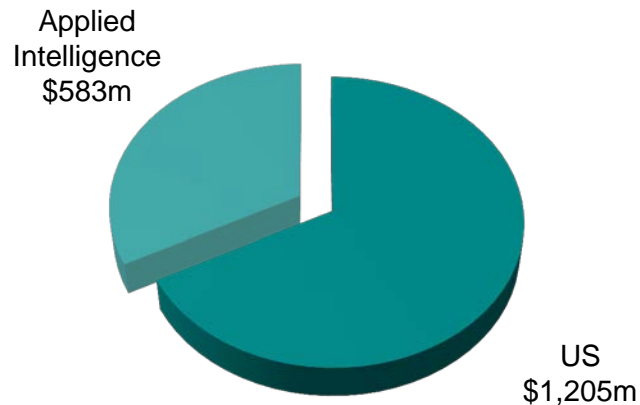


Cyber & Intelligence

	2014	2013
Sales	\$1,788m	\$1,945m
Underlying EBITA	\$202m	\$180m
Margin	11.3%	9.3%
Cash flow	\$117m	\$185m
Order Backlog	\$1.4bn	\$1.2bn

- Overall sales reduction at 8%
 - US down 17% on budget pressures
 - Applied Intelligence growth at 10%
- Margin improvement ahead of guidance
 - Applied Intelligence margin enhanced
- Cash flow includes capital investment at Applied Intelligence
- Order backlog increased
 - US up 7%
 - Applied Intelligence up 37% including SilverSky

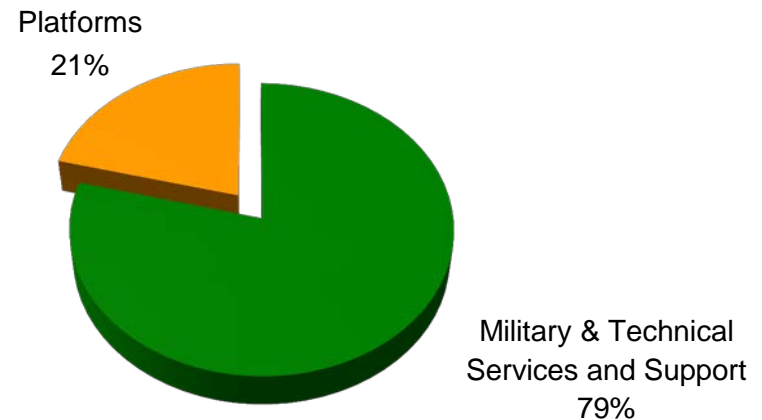
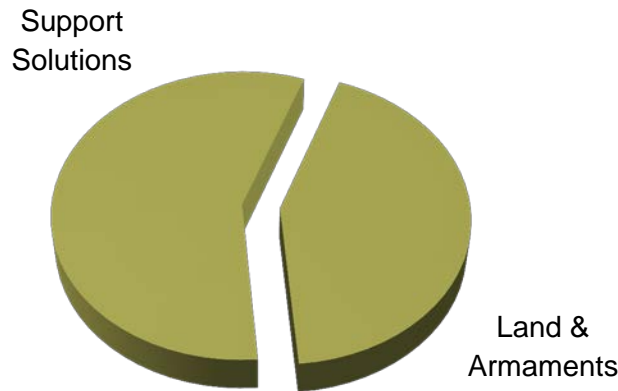
2014 Sales



Platforms & Services (US)

	2014	2013 ⁽¹⁾
Sales	\$5,380m	\$6,120m
Underlying EBITA	\$242m	\$358m
Margin	4.5%	5.9%
Cash flow	\$331m	\$299m
Order Backlog	\$9.0bn	\$10.1bn

2014 Sales



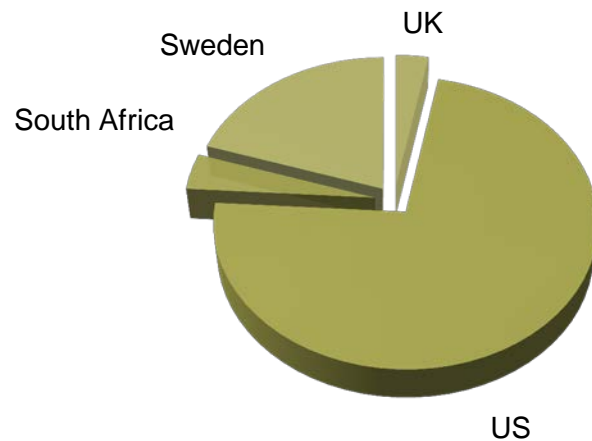
(1) 2013 presented to exclude UK Munitions business now reported in Platforms & Services (UK)

Platforms & Services (US) – Land & Armaments

	2014	2013 ⁽¹⁾
Sales	\$2,319m	\$3,019m
Underlying EBITA	\$238m	\$266m
Margin	10.3%	8.8%
Cash flow	\$289m	\$258m
Order Backlog	\$4.4bn	\$5.0bn

- Sales to \$2.3bn, as per guidance
 - Bradley reset activity
 - MMPV, M777 completion
- Margins improvement
 - good programme execution
 - cost reduction
- Profit to cash conversion > 100%
- Order backlog lower in line with trading
 - AMPV LRIP options not booked

2014 Sales



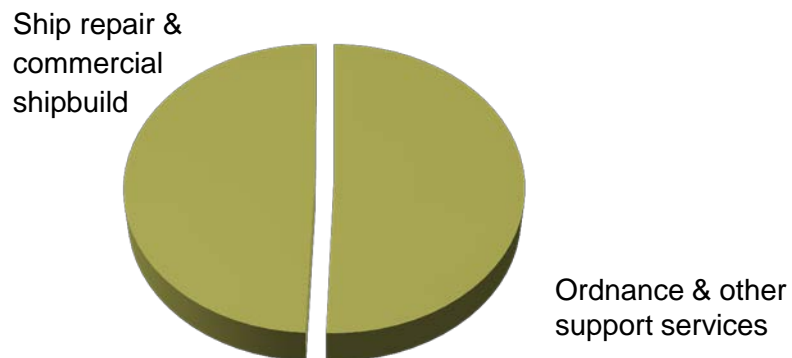
(1) 2013 presented to exclude UK Munitions business now reported in Platforms & Services (UK)

Platforms & Services (US) – Support Solutions

	2014	2013
Sales	\$3,061m	\$3,101m
Underlying EBITA	\$4m	\$92m
Margin	0.1%	3.0%
Cash flow	\$42m	\$41m
Order Backlog	\$4.6bn	\$5.1bn

- Sales 1% lower, as per guidance
- Margin performance impacted
 - \$122m commercial shipbuild charges
 - Radford stabilised
- Order backlog lower
 - trading out of US Navy MSMOs
 - year's MSMO recompetes secured

2014 Sales

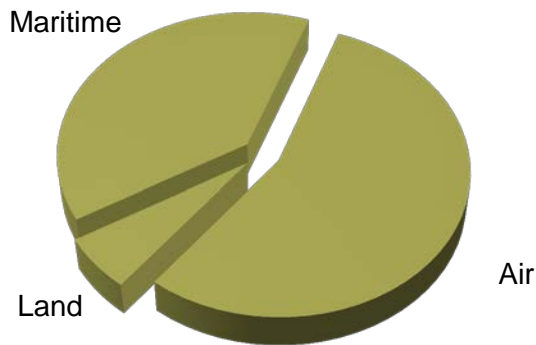


Platforms & Services (UK)

	2014	2013 ⁽¹⁾
Sales	£6,623m	£7,174m
Underlying EBITA	£772m	£915m
Margin	11.7%	12.8%
Cash flow	£173m	£60m
Order Backlog	£20.1bn	£21.6bn

- Sales lower
 - 2013 Salam price escalation
 - lower inter-Group trading
- Margin performance in line with guidance
- Cash performance reflects
 - slower advances utilisation
 - provision utilisation
- Order backlog lower
 - trading of Typhoon, Hawk & Carrier

2014 Sales



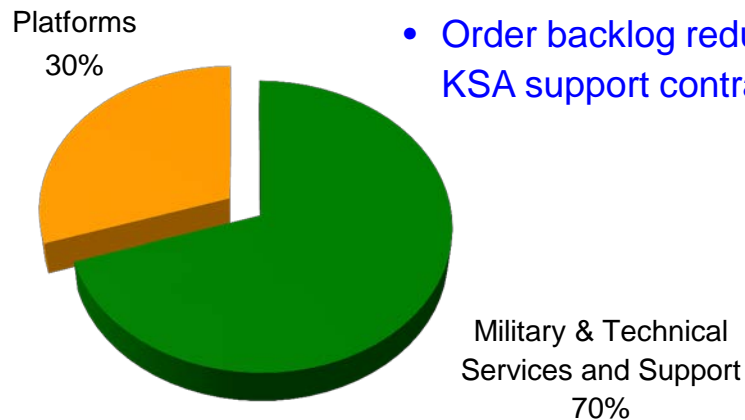
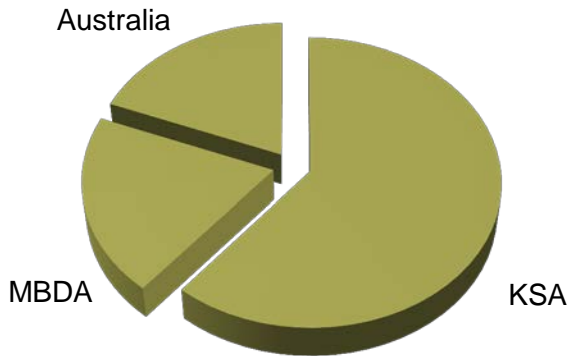
(1) 2013 presented to include UK Munitions business now reported in Platforms & Services (UK)

Platforms & Services (International)

	2014	2013
Sales	£3,572m	£4,063m
Underlying EBITA	£366m	£429m
Margin	10.2%	10.6%
Cash flow	£881m	£(189)m
Order Backlog	£11.6bn	£12.3bn

- Sales, like-for-like, below guidance
 - support delivery timing
 - LHD ramping down
 - 2013 higher KSA equipment deliveries
- Margin performance in line with guidance
- Cash flow strong
 - includes compound transactions
 - accelerated customer receipts
 - advance payment received
- Order backlog reducing on trading of 5-year KSA support contracts

2014 Sales



2015 Guidance - Trading

	2014 Actual ⁽¹⁾		2015 Guidance ⁽²⁾	
	Sales	Margin	Sales	Margin
Electronic Systems	2,415	15.4%	stable	12% - 14%
Cyber & Intelligence	1,658	9.2%	c.5%	8% - 10%
Platforms & Services (US)	2,689	4.4%	c.(10)%	6% - 8%
Platforms & Services (UK)	6,623	11.7%	c.5%	10% - 12%
Platforms & Services (Int'l)	3,572	10.2%	c.10%	10% - 12%
HQ (EBITA)	(79)		marginally higher	
Underlying Finance Costs	(204)		stable	
Tax rate ⁽³⁾	19%		c.20%	
Underlying EPS	38.0p			

In aggregate, underlying EPS to be marginally higher than in 2014 including some reliance on anticipated naval & aircraft orders

(1) 2014 figures presented to reflect the transfer of the IE&WS business from Platforms & Services (US) to Cyber & Intelligence

(2) guidance for US sectors in US dollars

(3) 2014 tax rate reflects the Group's underlying effective tax rate

2015 Guidance - Cash Utilisation

(£bn)

2014

2015
Guidance

Operating items:

- Net capital expenditure, disposals & depr'n
- Working capital
 - provision utilisation
 - advances movement (net)
 - other working capital movements
- Pension deficit funding

0.5

(0.1)

(0.2)

(0.2)

(0.6)

nil – (0.5)

0.2

(0.2)

(0.4)

(0.4)

Non-operating items:

- Interest & tax
- Dividends
- Share buyback
- M&A

(0.2)

(0.3)

(0.6)

(0.6)

(0.3)

(0.4)

(0.2)

0.1

Net Debt to increase, post shareholder returns

Ian King

Group Strategic Framework - 2015

Our vision is to be the premier international defence, aerospace and security company

Our mission is to safeguard and enhance our customers' vital interests and deliver sustainable growth in shareholder value

Our Strategy

- **Maintain and grow our defence business**
- **Continue to grow our business in adjacent markets**
- **Develop and expand our international business**
- **Inspire and develop our people to drive success**
- **Enhance overall financial performance and competitive positions**

Strategic Objectives

Continuously improve efficiency and competitiveness

Continue to drive value from our defence platforms and services

Accelerate growth of our cyber, intelligence and security business

Continue to win new international orders

Continue to grow our electronic systems business

Leverage our technology and engineering capabilities

Our values are Trusted, Innovative and Bold

Delivering the strategy

Continuously improve efficiency and competitiveness

- 2009-14: Headcount reduced 30%, sales 20%
- Margin maintained

Continue to drive value from our defence Platform and Services

- Good programme execution
- Cost reduction and efficiency improvements
- UK stable, US bottoming out

Accelerate growth of our Cyber, Intelligence and Security business

- SilverSky acquisition
- Applied Intelligence backlog increased 37%
- Margin growing

Continue to win new International orders

- Non UK/US business 35% of Group
- KSA now 20% of sales

Continue to grow our electronic systems business

- Commercial growth at 7%
- EW provision to F-35, World's largest defence programme
- Strongest margin sector, 15% RoS

Leverage our technology and engineering capabilities

- R&D sustained at 8% of sales
- Investments to address adjacent commercial markets

Consistent Strategy to capitalise on core strengths and growth market opportunities

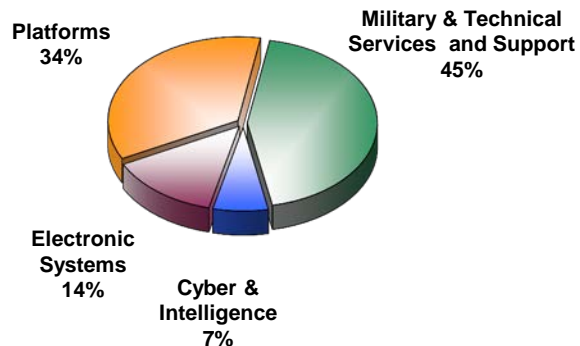
Summary

2014 Full Year

Sales	£16,637m
Underlying EBITA	£1,702m
Underlying EPS	38.0p
Dividend per share	20.5p
Order backlog	£40.5bn

- Large base of high technology programmes and capabilities
- Stabilised US/UK defence budgets
- Broad international customer base
- Well balanced business
 - Advanced products and capabilities
 - Technology derived support services
- Large order backlog
- Strong balance sheet

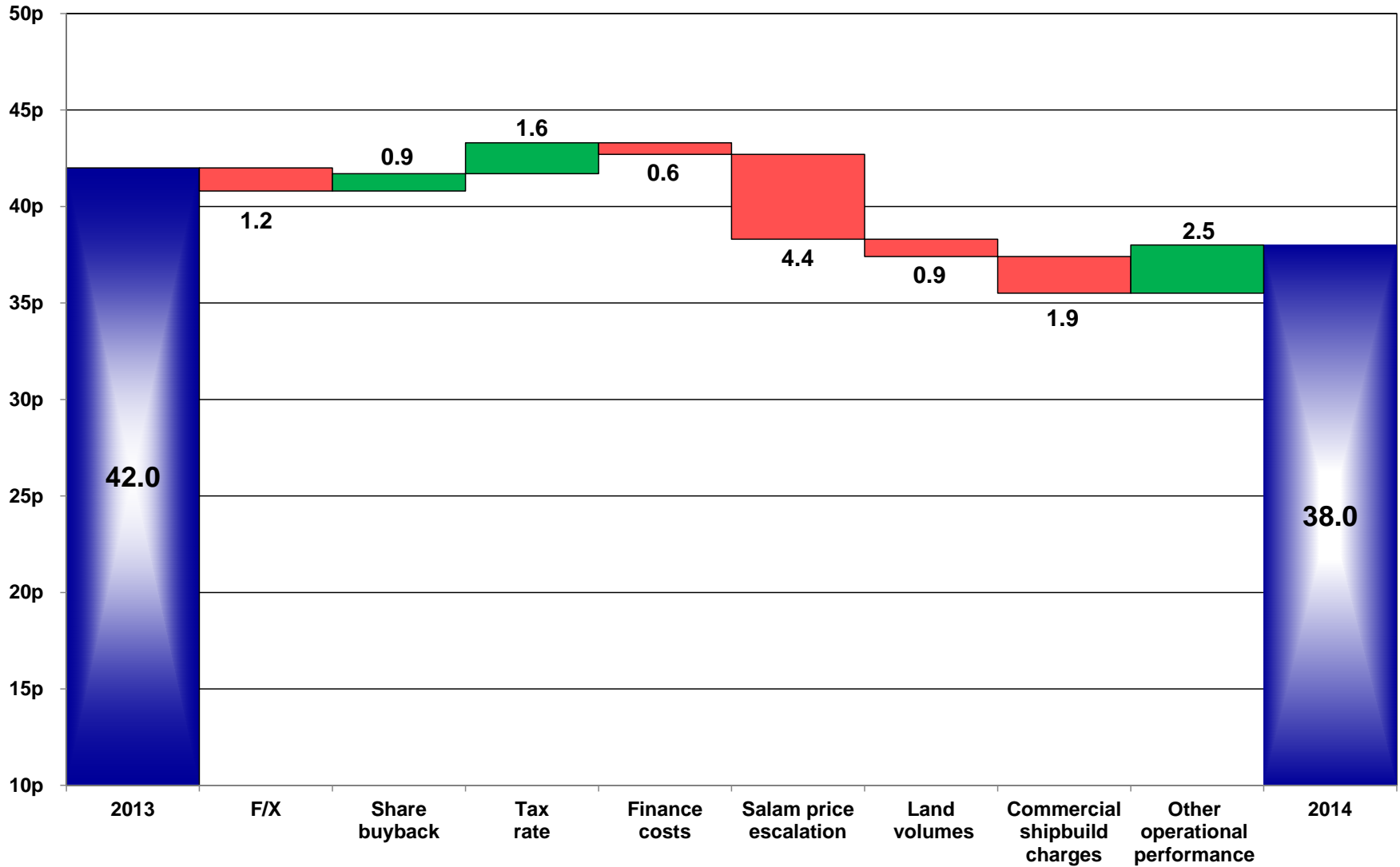
2014 Sales by activity



Strategy delivering shareholder value

Supplementary Information

Underlying EPS Bridge



2014 Financial Summary – As Reported

(£m / £bn backlog)

	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	2,415	373	15.4%	246	3.9
Cyber & Intelligence	1,085	123	11.3%	71	0.9
Platforms & Services (US)	3,266	147	4.5%	201	5.8
Platforms & Services (UK)	6,623	772	11.7%	173	20.1
Platforms & Services (Int'l)	3,572	366	10.2%	881	11.6
HQ	279	(79)		(381)	-
Eliminations	(603)				(1.8)
	16,637	1,702	10.2%	1,191	40.5

Underlying earnings per share

38.0p

Segment Changes – 2014 Full Year

	Sales			Underlying EBITA		
	Old Structure	IE&WS Transfer	New Structure	Old Structure	IE&WS Transfer	New Structure
<i>(£m)</i>						
Electronic Systems	2,415	-	2,415	373	-	373
Cyber & Intelligence	1,085	573	1,658	123	30	153
Platforms & Services (US)	3,266	(577)	2,689	147	(30)	117
Platforms & Services (UK)	6,623	-	6,623	772	-	772
Platforms & Services (Int'l)	3,572	-	3,572	366	-	366
HQ	279	-	279	(79)	-	(79)
Eliminations	(603)	4	(599)			
	<u>16,637</u>	<u>-</u>	<u>16,637</u>	<u>1,702</u>	<u>-</u>	<u>1,702</u>
<i>(\$m)</i>						
Cyber & Intelligence	1,788	943	2,731	202	50	252
Platforms & Services (US)	5,380	(950)	4,430	242	(50)	192
Eliminations		7				

2014 Financial Summary – Restated

(£m / £bn backlog)

	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	2,415	373	15.4%	246	3.9
Cyber & Intelligence *	1,658	153	9.2%	125	2.0
Platforms & Services (US) *	2,689	117	4.4%	147	4.7
Platforms & Services (UK)	6,623	772	11.7%	173	20.1
Platforms & Services (Int'l)	3,572	366	10.2%	881	11.6
HQ	279	(79)		(381)	-
Eliminations	(599)				(1.8)
	16,637	1,702	10.2%	1,191	40.5

Underlying earnings per share

38.0p

* restated for the transfer of the IE&WS business from Platforms & Services (US) to Cyber & Intelligence

Like-for-Like Sales & Underlying EBITA - Group

(£m)

	Sales			Underlying EBITA		
	2014	2013	Yr-on-Yr	2014	2013	Yr-on-Yr
Continuing Businesses	16,637	18,180	(8)%	1,702	1,925	(12)%
Foreign exchange:						
USD		(324)			(31)	
AUD		(97)			(6)	
Other		(146)			(12)	
Adjusted for foreign exchange	16,637	17,613	(6)%	1,702	1,876	(9)%
Transactions:						
Acquisitions & Disposals	(3)	(3)		2	1	
Adjusted for f/x and transactions	16,634	17,610	(6)%	1,704	1,877	(9)%

Reconciliation of Earnings

	2014 Underlying	2013 Underlying	2014 Reported	2013 Reported
Underlying EBITA	1,702	1,925	1,702	1,925
Non-recurring items			-	6
EBITA			<u>1,702</u>	<u>1,931</u>
Amortisation/Impairment			(354)	(1,076)
Underlying Finance Costs	(204)	(179)	(204)	(179)
Pensions/Fair Value/FX movements			(244)	(213)
Finance Costs			<u>(448)</u>	<u>(392)</u>
Underlying Tax	(282)	(379)	(282)	(379)
Tax on amortisation/impairment			37	46
Tax on pension/fair value movements			46	46
Reassessment of tax provision			51	-
Tax			<u>(148)</u>	<u>(287)</u>
Non-controlling interest	(12)	(8)	(12)	(8)
Earnings	<u>1,204</u>	<u>1,359</u>	<u>740</u>	<u>168</u>
Earnings per share	<u>38.0p</u>	<u>42.0p</u>		

Working Capital Movements

– Reconciliation to Cash Flow

(£m)	31 December								Cash Flow
	2014	2013	Mvmt	F/X	M&A	Reclass	Other		Flow
Inventories	690	680	(10)	(24)	17	-	(2)		(1)
Receivables – current	2,850	3,038							
Receivables – non-current	347	321							
Total Receivables	3,197	3,359	162	(62)	6	-	21		197
Payables – current	(6,670)	(7,074)							
Payables – non-current	(932)	(1,160)							
Total Payables	(7,602)	(8,234)	(632)	23	(2)	(84)	53		(622)
Liability Provisions – current	(315)	(391)							
Liability Provisions – non-current	(436)	(403)							
Total Liability Provisions	(751)	(794)	(43)	15	(4)	84	15		(153)
Working Capital per Cash Flow	(4,466)	(4,989)	(523)						
Cash on customer account	-	1							
Working Capital per Balance Sheet	(4,466)	(4,988)							