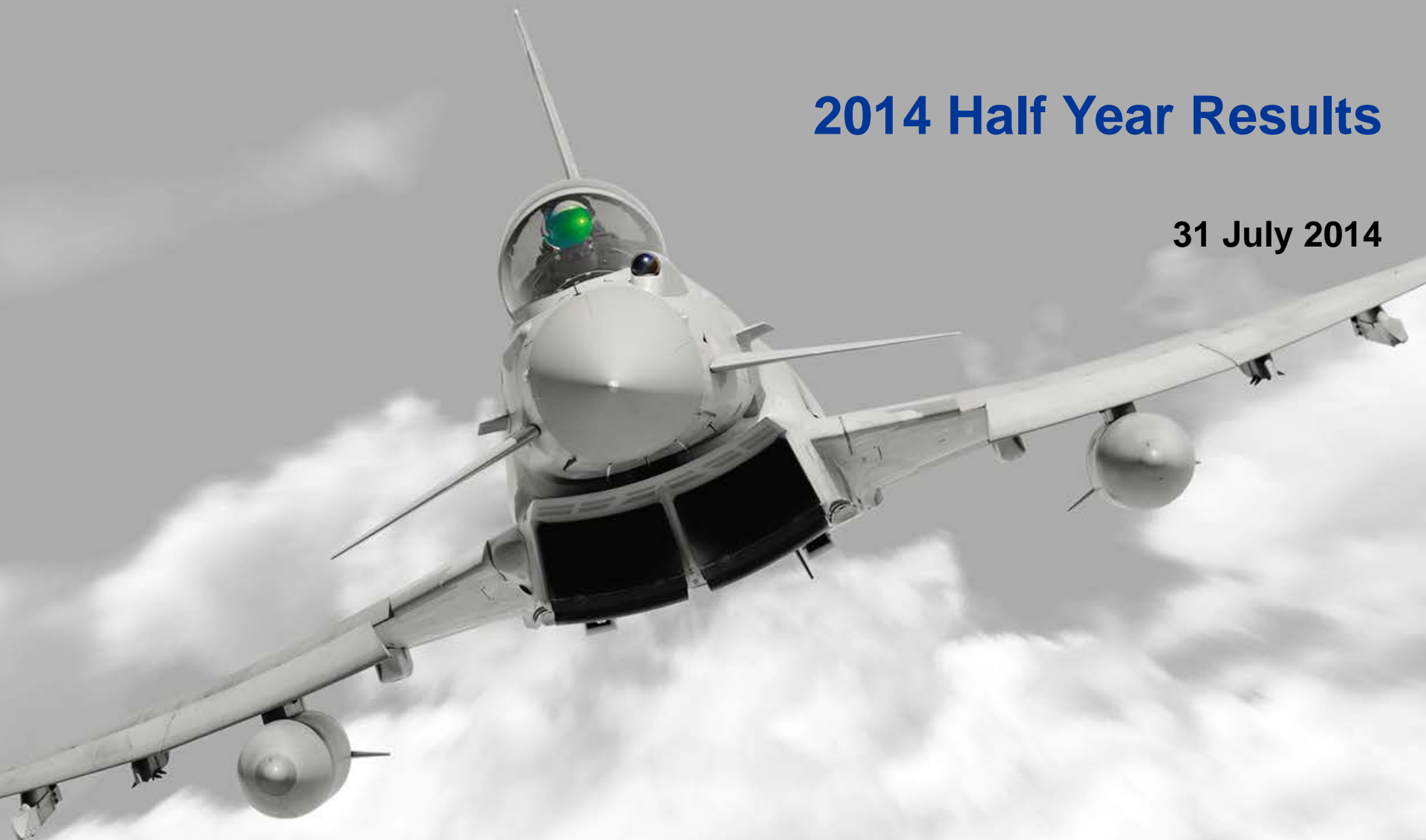


2014 Half Year Results

31 July 2014



Ian King

2014 Overview

2014 Half Year

Sales	£7,611m
Underlying EBITA	£802m
Underlying EPS	17.7p
Dividend per share	8.2p

- **Group performing well overall**
 - Good programme execution
 - Large order backlog
 - FX translation headwind
- **International markets vibrant**
 - Continued high level of activity in KSA
 - Significant new bid activity
- **Growth in commercial business**
 - 777X flight controls win
 - Further 25% growth in Applied Intelligence order backlog

First half performance supports full year outlook *

* subject to foreign exchange translation

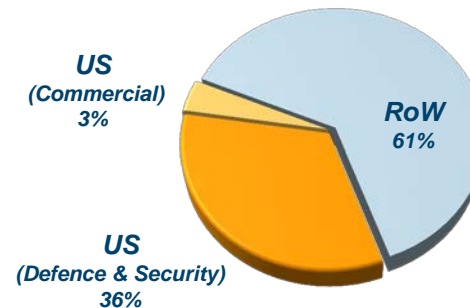
Key Markets - US



Trading environment

- Improving budget clarity
 - Bipartisan budget signed in January
- Procurement activity improving in many sectors
 - Electronics, Support and Land programmes
- Continued low visibility in short cycle services activities
 - eg Intelligence & Security
- Continued growth in commercial electronics
 - Organic growth from incumbent platform positions
 - Boeing 777X flight controls - a key win

2014 Half Year
Group Sales
by Destination



Key Markets - UK



Trading environment

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

Military air

- First Typhoon Tranche 3 aircraft flown
- 4 Salam Typhoon deliveries in period
- F-35 production ramp commencing
- Successful Taranis UAS phase 2 flight trials

Maritime

- Implementation of UK surface ship strategy
- Excellent QEC Carrier progress
 - Naming ceremony conducted in July
- Submarines activity rising with Successor engineering

Key Markets - Kingdom of Saudi Arabia



- **Multi-year training and support contracts**
 - **Tornado to remain in-service into next decade**

- **Continuing Typhoon deliveries**
 - **Support for 38 Typhoon aircraft now in service**

- **Reorganisation of industrial companies**

Other International Markets



Australia

- Increasing defence budget
- Significant naval opportunities

Korean F-16 upgrade

- Initial contract funding received

MBDA

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

Typhoon exports

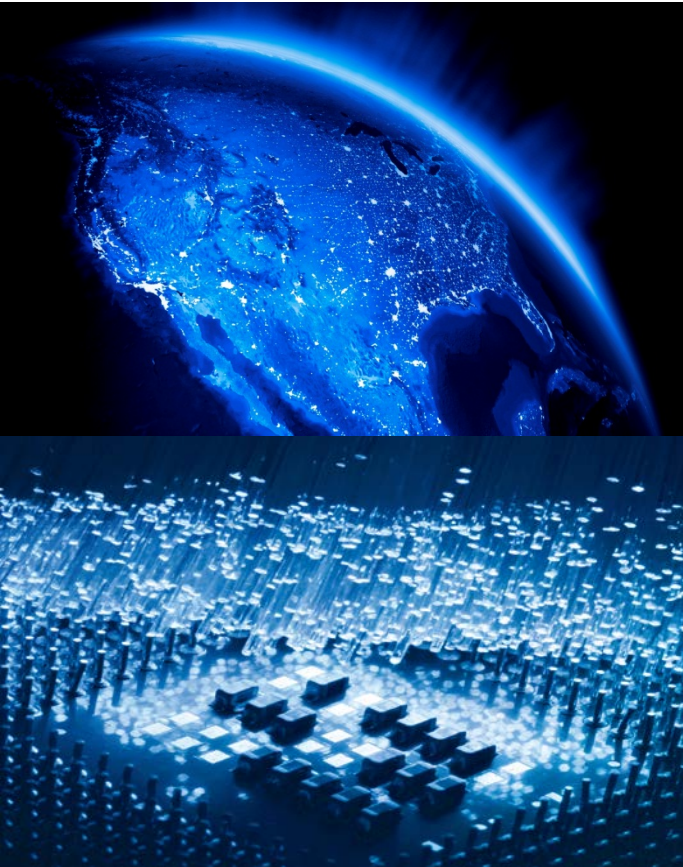
- Further opportunities in Gulf states

Combat vehicle exports

- CV90 and Bradley campaigns continue



Cyber & Intelligence



Intelligence & Security

- **Slow contracting pace continues**
- **Substantial bids prospects**
- **Strong margin performance**

Applied Intelligence

- **Continuing good performance against strategy**
- **Good growth in commercial cyber security**
 - **Building on last year's 60% order backlog growth**
 - **Further 25% increase in first half**
- **Organic investment continues**

Business investment and capital allocation



Business investment

- Company funded R&D and investment focus:-
 - Defence electronics
 - Commercial aerospace electronics
 - Unmanned technologies / combat air
 - Commercial cyber security
- Company and customer funded R&D
 - Circa 6% of sales

Prioritised capital allocation

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

Peter Lynas

2014 Half Year Financial Summary

	2014 Half Year	2013 Half Year
Sales	£7,611m	£8,487m
Underlying EBITA ⁽¹⁾	£802m	£867m
Underlying Finance Costs ⁽²⁾	£(89)m	£(95)m
Underlying Earnings per Share ⁽³⁾	17.7p	17.9p
Operating Business Cash Flow	£287m	£(815)m
Net Debt	£(1,182)m	£(699)m ⁽⁴⁾
Order Backlog	£39.7bn	£42.7bn ⁽⁴⁾
Dividend per Share	8.2p	8.0p

(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 instruments and non-recurring items

(4) As at 31 December 2013

Balance Sheet

(£m)	30 Jun 14	31 Dec 13	Movement drivers:
Intangible fixed assets	9,527	9,735	- foreign exchange, amortisation
Tangible fixed assets	1,729	2,071	- KSA residential compound disposal
Investments	251	286	- foreign exchange
Working capital	(4,190)	(4,988)	- utilisation of customer advances, provisions
Pension deficit	(3,737)	(3,509)	- lower discount rates
Tax assets & liabilities	434	405	
Financial assets & liabilities	(56)	(23)	
Net debt	(1,182)	(699)	
Assets held for sale	-	140	- KSA residential compound disposal
Net assets	2,776	3,418	

Pension Deficit (IAS 19)

<i>(£bn)</i>	30 Jun 14	31 Dec 13	30 Jun 13*
Assets	22.1	21.5	20.7
Liabilities	(26.9)	(26.0)	(26.0)
Pension Deficit	(4.8)	(4.5)	(5.3)
Group share of deficit, pre-tax	(3.7)	(3.5)	(4.1)
UK - real discount rate	0.9%	1.1%	1.3%
bond yields	4.2%	4.5%	4.6%
inflation rate	3.3%	3.4%	3.3%
US - bond yields	4.3%	4.9%	4.9%

* 30 Jun 13 restated to reflect the change in fair value of the longevity swap following adoption of IAS 19 (R)

Net Cash / (Debt)

(£m)

Opening Net Debt	(699)			
Operating business cash flow	287	→	Electronic Systems	86
Interest & Tax	(141)		Cyber & Intelligence	24
Equity dividends paid	(383)		Platforms & Services (US)	109
Share buyback	(235)		Platforms & Services (UK)	(201)
Other, incl. foreign exchange	(11)		Platforms & Services (Int'l)	541
			HQ	(272)
				<hr/>
Closing Net Debt	(1,182)		Gross Debt	Gross Cash
			£(2.6)bn	£1.4bn

Electronic Systems

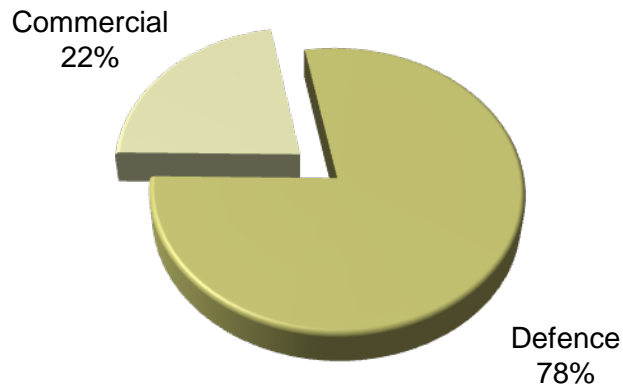
	2014 Half Year	2013 Half Year
Sales	\$1,849m	\$1,843m
Underlying EBITA	\$238m	\$241m
Margin	12.9%	13.1%
Cash flow	\$144m	\$113m
Order backlog	\$6.2bn	\$6.1bn *

- Sales in line with year's guidance

- Improved cash conversion expected in full year

- Order backlog sustained; ENVG award protested

2014 Sales



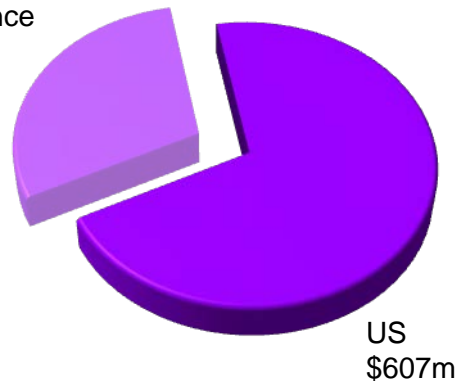
Cyber & Intelligence

	2014 Half Year	2013 Half Year
Sales	\$883m	\$1,014m
Underlying EBITA	\$78m	\$82m
Margin	8.9%	8.1%
Cash flow	\$40m	\$86m
Order backlog	\$1.4bn	\$1.2bn *

- Overall sales reduction at 13%
 - US down 22% on budget pressures
 - Applied Intelligence growth at 7%
- Margin improvement in line with guidance
- Cash flow includes capital investment at Applied Intelligence
- Order backlog increased
 - US up 8%
 - Applied Intelligence up 25%

2014 Sales

Applied
Intelligence
\$276m

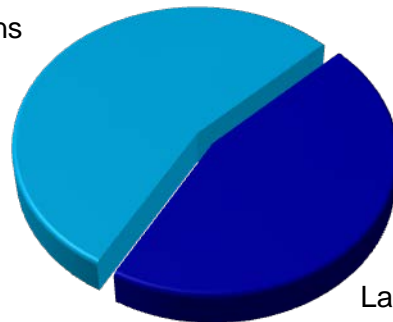


Platforms & Services (US)

	2014 Half Year	2013 ⁽¹⁾ Half Year
Sales	\$2,774m	\$3,024m
Underlying EBITA	\$175m	\$266m
Margin	6.3%	8.8%
Cash flow	\$182m	\$35m
Order backlog	\$9.2bn	\$10.1bn *

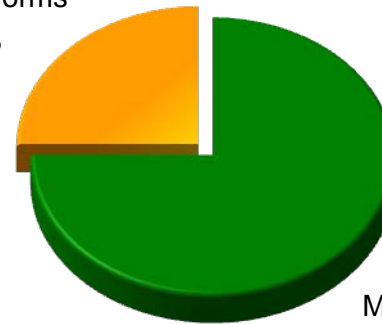
2014 Sales

Support
Solutions



Land &
Armaments

Platforms
25%



Military & Technical
Services 75%

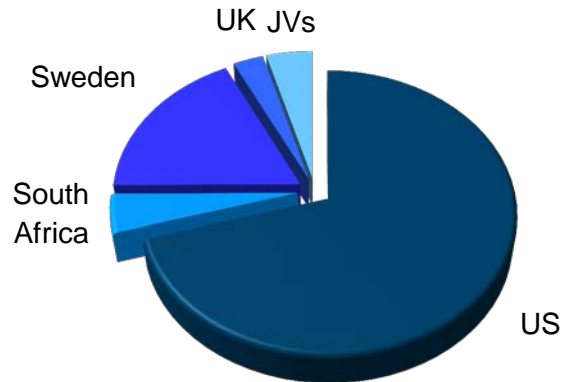
(1) 2013 Half Year presented to exclude UK Munitions business now reported in Platforms & Services (UK)

* as at 31 December 2013

Platforms & Services (US) – Land & Armaments

	2014 Half Year	2013 ⁽¹⁾ Half Year	
Sales	\$1,259m	\$1,467m	<ul style="list-style-type: none"> • Sales 14% lower, as expected <ul style="list-style-type: none"> ➢ Bradley reset activity ➢ MMPV, M777 completion
Underlying EBITA	\$137m	\$142m	
Margin	10.9%	9.7%	<ul style="list-style-type: none"> • Margins improved
Cash flow	\$149m	\$2m	<ul style="list-style-type: none"> • Profit to cash conversion > 100%
Order backlog	\$4.4bn	\$5.0bn *	<ul style="list-style-type: none"> • Order backlog lower in line with trading

2014 Sales



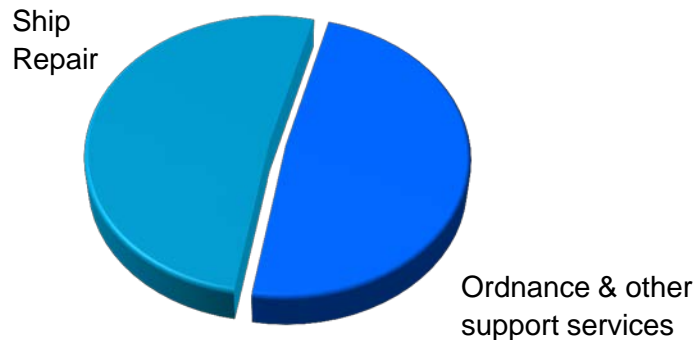
(1) 2013 Half Year presented to exclude UK Munitions business now reported in Platforms & Services (UK)

* as at 31 December 2013

Platforms & Services (US) – Support Solutions

	2014 Half Year	2013 Half Year	
Sales	\$1,515m	\$1,557m	• Sales 3% lower per guidance ➢ Naval ship repair strength
Underlying EBITA	\$38m	\$124m	• Margin performance impacted ➢ \$20m commercial ship build charge
Margin	2.5%	8.0%	
Cash flow	\$33m	\$33m	
Order backlog	\$4.8bn	\$5.1bn *	• Order backlog lower ➢ trading out of US Navy MSMOs ➢ trading out of ordnance contracts

2014 Sales

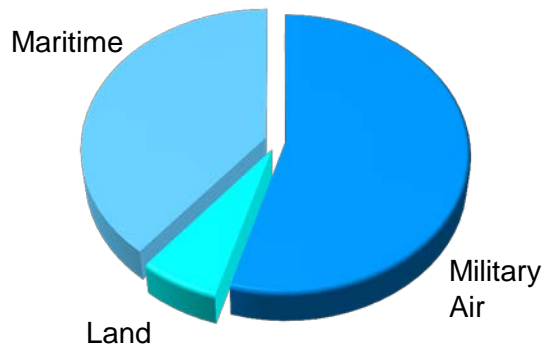


Platforms & Services (UK)

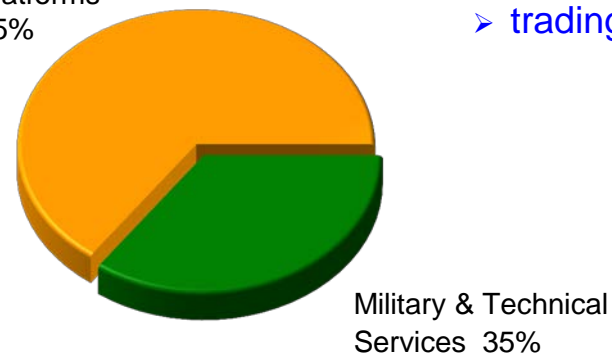
	2014 Half Year	2013 ⁽¹⁾ Half Year
Sales	£2,844m	£3,356m
Underlying EBITA	£393m	£396m
Margin	13.8%	11.8%
Cash flow	£(201)m	£(522)m
Order backlog	£20.4bn	£21.6bn *

- Sales have 2nd half bias
 - Typhoon deliveries (H1 12 : H2 30)
- Margin performance strong
 - programme execution / accelerated risk reduction
- Cash performance reflects advances utilisation
 - Oman programme, Saudi training aircraft
European Typhoon
- Order backlog lower
 - trading of Typhoon, Hawk & Carrier

2014 Sales



Platforms
65%



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

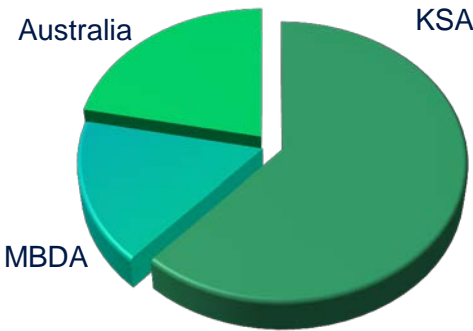
* as at 31 December 2013

Platforms & Services (International)

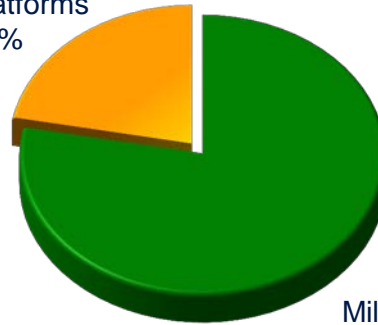
	2014 Half Year	2013 Half Year
Sales	£1,576m	£1,654m
Underlying EBITA	£157m	£165m
Margin	10.0%	10.0%
Cash flow	£541m	£(221)m
Order backlog	£11.4bn	£12.3bn *

- Sales, like-for-like, unchanged
- Margin performance consistent
- Cash includes compound transactions
- Order backlog reducing on trading of 5-year support contracts
 - finalising £1.3bn of awards

2014 Sales



Platforms
22%



Military & Technical
Services 78%

* as at 31 December 2013

2014 Guidance - Trading

<i>(£m)</i>	2013 Actual		2014 Guidance ⁽¹⁾	
	Sales	Margin	Sales	Margin
Electronic Systems	2,466	14.0%	stable	12% - 14%
Cyber & Intelligence	1,243	9.3%	c.(5)%	8% - 10%
Platforms & Services (US) ⁽²⁾	3,912	5.9%	c.(10)% to c.(15)%	6% - 8%
Platforms & Services (UK) ⁽²⁾	7,174	12.8%	c.(5)%	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%		c.20%	
Underlying EPS	42.0p			

With last year's non-recurring benefit from the Salam price escalation settlement, underlying EPS to be some 5% to 10% lower than 2013, excluding exchange translation

(1) guidance for US sectors in US dollars and for Platforms & Services (International) excludes exchange translation impact

(2) 2013 figures presented to reflect the transfer of the UK Munitions business from Platforms & Services (US) to Platforms & Services (UK)

2014 Guidance - Cash Utilisation

<i>(£bn)</i>	2014 Half Year	2014 Full Year Guidance
Operating items:		
• Net capital expenditure, disposals & depr'n	0.4	0.4
• Working capital		
- provision utilisation	(0.2)	(0.3)
- advances movement (net)	(0.3)	(0.9) - (1.25)
- other working capital movements	(0.3)	-
• Pension deficit funding	(0.2)	(0.4)
Non-operating items:		
• Interest & tax	(0.1)	(0.3)
• Dividends	(0.4)	(0.6)
• Share repurchase	(0.2)	(0.4)

£1bn of cash returns to shareholders planned for 2014

2014 Summary

2014 Half Year

Sales	£7,611m
Underlying EBITA	£802m
Underlying EPS	17.7p
Dividend per share	8.2p

- **Group performing well overall**
 - Good programme execution
 - Large order backlog
 - FX translation headwind
- **International markets vibrant**
 - Continued high level of activity in KSA
 - Significant new bid activity
- **US / UK environment**
 - Clarity improving in US budgets
 - Continued stability in UK
- **Growth in commercial business**
 - 777X flight controls win
 - Further 25% growth in Applied Intelligence order backlog

First half performance supports full year outlook *

* subject to foreign exchange translation

Supplementary Information

2014 Half Year Financial Summary

	Sales	Underlying EBITA	Margin	Cash flow
Electronic Systems	1,108	143	12.9%	86
Cyber & Intelligence	529	47	8.9%	24
Platforms & Services (US)	1,662	105	6.3%	109
Platforms & Services (UK)	2,844	393	13.8%	(201)
Platforms & Services (International)	1,576	157	10.0%	541
HQ	127	(43)		(272)
Eliminations	(235)			
Total	7,611	802	10.5%	287

Underlying earnings per share

17.7p

Underlying EPS Bridge



Presentation of UK Munitions – 2013

	2013 Half Year			2013 Full Year		
	As Reported	Munitions transfer	As Presented	As Reported	Munitions transfer	As Presented
Platforms & Services (US)						
Sales	\$3,217m	\$(193)m	\$3,024m	\$6,564m	\$(444)m	\$6,120m
Underlying EBITA	\$281m	\$(15)m	\$266m	\$414m	\$(56)m	\$358m
Cash flow	\$(137)m	\$172m	\$35m	\$300m	\$(1)m	\$299m
Order backlog				\$12.3bn	\$(2.2)bn	\$10.1bn
Land & Armaments						
Sales	\$1,660m	\$(193)m	\$1,467m	\$3,463m	\$(444)m	\$3,019m
Underlying EBITA	\$157m	\$(15)m	\$142m	\$322m	\$(56)m	\$266m
Cash flow	\$(170)m	\$172m	\$2m	\$259m	\$(1)m	\$258m
Order backlog				\$7.2bn	\$(2.2)bn	\$5.0bn
Platforms & Services (UK) *						
Sales	£3,231m	£125m	£3,356m	£6,890m	£284m	£7,174m
Underlying EBITA	£386m	£10m	£396m	£879m	£36m	£915m
Cash flow	£(411)m	£(111)m	£(522)m	£59m	£1m	£60m
Order backlog				£20.3bn	£1.3bn	£21.6bn

* As Reported has been restated on classification of Regional Aircraft as a continuing operation

Reconciliation of Earnings

	2014 Half Year Underlying	2013 Half Year Underlying *	2014 Half Year Reported	2013 Half Year Reported *
Underlying EBITA	802	867	802	867
Gain on disposal of businesses			-	4
EBITA			<u>802</u>	<u>871</u>
Amortisation / Impairment			(88)	(100)
Underlying finance costs	(89)	(95)	(89)	(95)
Pension / Fair Value movements			(80)	(128)
Finance Costs			<u>(169)</u>	<u>(223)</u>
Underlying tax	(145)	(189)	(145)	(189)
Tax on amortisation / impairment			18	25
Tax on pension / fair value movements			16	31
Tax			<u>(111)</u>	<u>(133)</u>
Minority Interest	(5)	(4)	(5)	(4)
Earnings	<u>563</u>	<u>579</u>	<u>429</u>	<u>411</u>
Earnings per share	17.7p	17.9p		

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

Like-for-Like Sales & Underlying EBITA - Group

<i>(£m)</i>	Sales			Underlying EBITA		
	Half Year			Half Year		
	<u>2014</u>	<u>2013 *</u>	<i>Yr-on-Yr</i>	<u>2014</u>	<u>2013 *</u>	<i>Yr-on-Yr</i>
Continuing Businesses	7,611	8,487	(10)%	802	867	(7)%
Foreign Exchange:						
USD		(246)			(26)	
AUD		(65)			(4)	
Other		(57)			(3)	
Adjusted for Foreign Exchange	7,611	8,119	(6)%	802	834	(4)%
Transactions:						
Acquisitions & Disposals		(3)			1	
Adjusted for F/x and Transactions	7,611	8,116	(6)%	802	835	(4)%

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

Working Capital Movements – Reconciliation to Cash Flow

(£m)

	30 Jun 14	31 Dec 13	Mvmt	F/x	Reclass	Other	Cash Flow
Inventories	690	680	(10)	18	-	-	(28)
Receivables - current	3,054	3,038					
Receivables - non-current	517	477					
Total receivables	3,571	3,515	(56)	66	-	3	(125)
Payables - current	(6,505)	(7,074)					
Payables - non-current	(1,035)	(1,160)					
Total payables	(7,540)	(8,234)	(694)	(66)	(84)	(18)	(526)
Liability provisions - current	(277)	(391)					
Liability provisions - non-current	(473)	(403)					
Total liability provisions	(750)	(794)	(44)	(13)	84	9	(124)
Working Capital per Cash Flow	(4,029)	(4,833)	(804)				
Cash on customer account	-	1					
Pension prepayments	(161)	(156)					
Working Capital Per Balance Sheet	(4,190)	(4,988)					