

2015 HALF YEAR RESULTS

30 July 2015



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Ian King

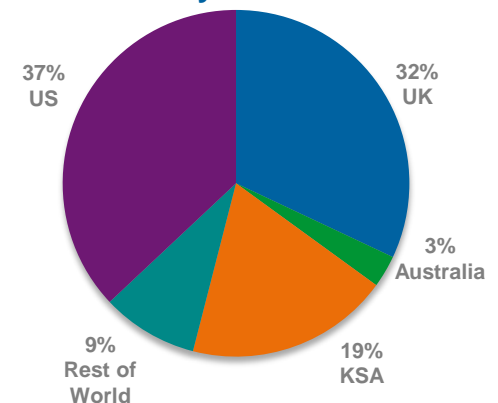
2015 Half Year Overview

- Good performance continued into first half 2015
- Indications of improving market environment
- Challenges remain:
 - Progressing military aircraft order intake
 - Australian shipyard workload gap
- International markets
 - Good order intake in MBDA
 - High operational activity in KSA

2015
Half Year

Sales	£8,472m
Underlying EBITA	£800m
Underlying EPS	17.1p
Dividend per share	8.4p
Order backlog	£37.3bn

2015 Half Year
Sales by Destination



First half performance supports full year expectations

Key Markets - US

TRADING ENVIRONMENT

- Market outlook starting to clear
 - Encouraging signs of growth returning
 - Planning assumptions not yet changed
- Commercial aerospace electronics developing well
- Intelligence & Security review underway
- US combat vehicles outlook stabilising
- US Navy ship repair performing well
- Commercial shipbuilding stable but challenging



Key Markets - UK

TRADING ENVIRONMENT

- Business performing well
- Budget constraints, but stable
- SDSR anticipated later this year

MILITARY AIR

- F-35 production rate increasing
- Typhoon capability expansion underway
 - Weapons clearance and E-Scan radar

MARITIME

- Coherent UK naval strategy
- QEC Carriers progressing well
- Commitment to Type 26
- Successor submarine activity rising
- Facilities enhancements underway



International markets

KSA

- High volume of support activity
- Tornado and Typhoon achieving high availability

AUSTRALIA

- Naval workload challenge post LHD
- Reviewing options for Williamstown facility

MBDA

- Strong order intake and contracts pending
- Good growth outlook

OTHER MARKETS

- M777 and new Hawk opportunities in India
- Omani contracts progressing to plan



Applied Intelligence

- **Successful SilverSky integration**
- **Rapid pace of AI expansion**
 - Increased product development activity
 - Recruitment - 900 staff intake in first half
- **Active order pipeline**
 - Well set for second half performance



Peter Lynas

2015 Half Year Financial Summary

	2015 Half Year	2014 Half Year
Sales	£8,472m	£7,611m
Underlying EBITA ⁽¹⁾	£800m	£802m
Underlying Finance Costs ⁽²⁾	£(107)m	£(89)m
Underlying Earnings per Share ⁽³⁾	17.1p	17.7p
Operating Business Cash Flow	£(349)m	£287m
Net Debt	£(1,939)m	£(1,032)m ⁽⁴⁾
Order Backlog	£37.3bn	£40.5bn ⁽⁴⁾
Dividend per Share	8.4p	8.2p

(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 and mark-to-market revaluation of financial instruments and investments

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

(4) As at 31 December 2014

Balance Sheet

<i>(£m)</i>	30 Jun 15	31 Dec 14	Movement drivers:
Intangible fixed assets	9,870	9,983	- amortisation
Tangible fixed assets	1,682	1,718	
Investments	215	236	- dividends paid
Working capital	(3,433)	(4,466)	- utilisation of customer advances, provisions
Pension deficit	(4,774)	(5,368)	- higher discount rates
Tax assets & liabilities	690	865	- deferred tax on lower pension deficit
Financial assets & liabilities	(180)	(112)	- mark-to-market movements
Net debt	(1,939)	(1,032)	
Assets held for sale	12	53	- Land South Africa disposal completed
Net assets	2,143	1,877	

Pension Deficit (IAS 19)

<i>(£bn)</i>	30 Jun 15	31 Dec 14	30 Jun 14
Assets	23.8	23.8	22.1
Liabilities	(30.0)	(30.6)	(26.9)
Pension Deficit	(6.2)	(6.8)	(4.8)
Group share of deficit	(4.8)	(5.4)	(3.7)
UK – real discount rate	0.5%	0.4%	0.9%
Bond yields	3.8%	3.6%	4.2%
Inflation rate	3.3%	3.2%	3.3%
US – bond yields	4.5%	4.1%	4.3%

Net Cash / (Debt)

(£m)

Opening Net Debt	(1,032)
Operating business cash flow	(349)
Interest & Tax	(154)
Equity dividends paid	(389)
Share buyback	(4)
Acquisitions & Disposals	16
Other, incl foreign exchange	(27)
Closing Net Debt	(1,939)

Electronic Systems	139
Cyber & Intelligence	42
Platforms & Services (US)	(20)
Platforms & Services (UK)	(296)
Platforms & Services (Int'l)	(49)
HQ	(165)
	<u>(349)</u>

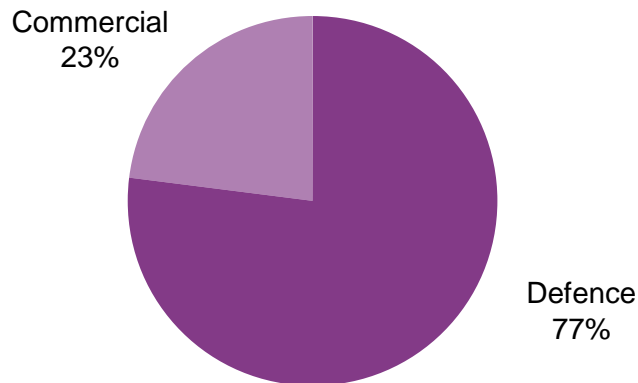
Gross Debt	Gross Cash
£(3.3)bn	£1.4bn

Electronic Systems

	2015 Half Year	2014 Half Year
Sales	\$1,897m	\$1,849m
Underlying EBITA	\$285m	\$238m
Margin	15.0%	12.9%
Cash flow	\$211m	\$144m
Order Backlog	\$5.8bn	\$6.1bn *

- Sales up 3%
 - Commercial up 12%, Defence stable
- Margin performance ahead of guidance, benefitted from strong programme execution
- Further cash conversion improvement expected full year
- Order backlog down pending second half awards

2015 Sales



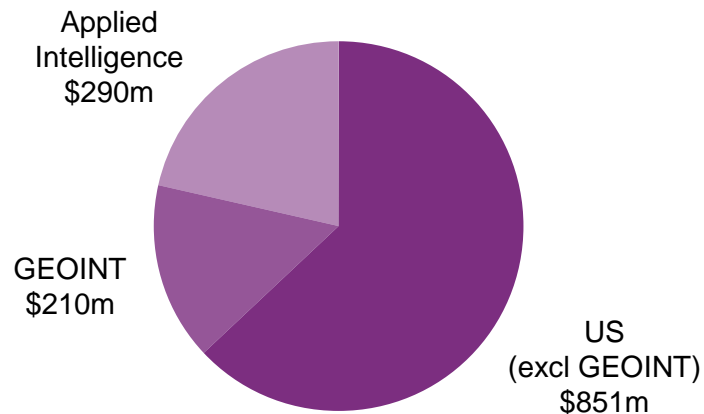
* as at 31 December 2014

Cyber & Intelligence

	2015 Half Year	2014 Half Year
Sales	\$1,351m	\$1,359m
Underlying EBITA	\$79m	\$99m
Margin	5.9%	7.4%
Cash flow	\$65m	\$90m
Order Backlog	\$3.2bn	\$3.1bn *

- Overall sales stable
 - US down 2% on IT Services reductions
 - Applied Intelligence up 16% on SilverSky acq'n.
- Margin reflects first half investment for growth and second half sales weighting
- Order backlog increased
 - US up 1%
 - Applied Intelligence up 6%, fx adjusted

2015 Sales



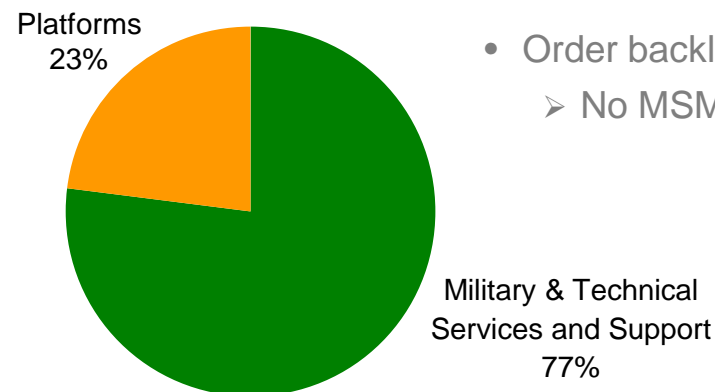
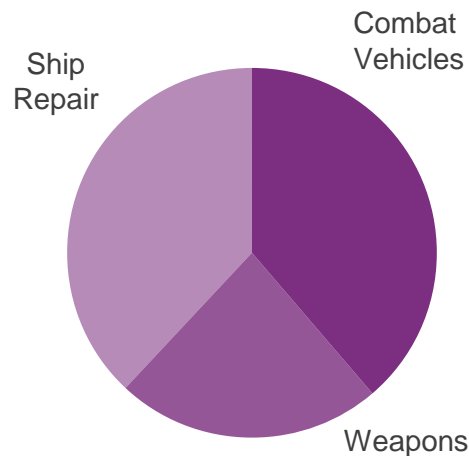
* as at 31 December 2014

Platforms & Services (US)

	2015 Half Year	2014 Half Year
Sales	\$2,022m	\$2,295m
Underlying EBITA	\$140m	\$154m
Margin	6.9%	6.7%
Cash flow	\$(30)m	\$132m
Order Backlog	\$6.2bn	\$7.2bn *

- Sales down 12% in line with guidance; like-for-like reduction 9%
 - GCV completion
- Margin performance in line with guidance
- Cash performance reflects
 - utilisation of US Commercial Ships provisions
 - utilisation of advances on CV90 Norway programme
 - investment in San Diego dry dock
- Order backlog lower in line with trading
 - No MSMO recompetes

2015 Sales



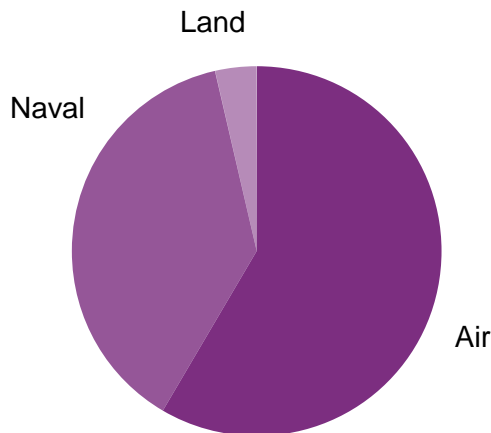
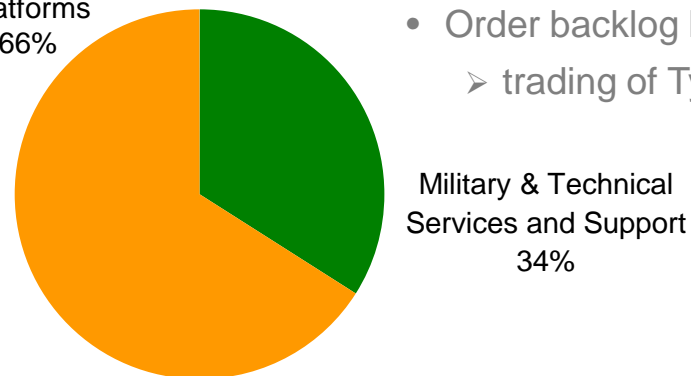
* as at 31 December 2014

Platforms & Services (UK)

	2015 Half Year	2014 Half Year
Sales	£3,544m	£2,844m
Underlying EBITA	£355m	£393m
Margin	10.0%	13.8%
Cash flow	£(296)m	£(201)m
Order Backlog	£18.7bn	£20.1bn *

- Sales up 25%
 - c.£300m on Radar & DASS equipment
 - Second half weighting for Saudi Typhoon deliveries
- Margin performance reflects
 - 2014 Typhoon Tranche 2 production
 - 2015 Typhoon Tranche 3 plus Radar & DASS dilution
- Cash performance reflects advance & rationalisation utilisation
 - Oman programme, Saudi Training aircraft and European Typhoon
- Order backlog lower
 - trading of Typhoon, Carrier & Astute

2015 Sales

Platforms
66%

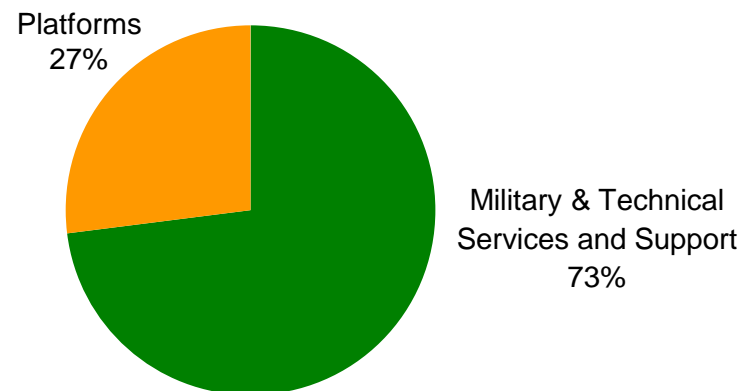
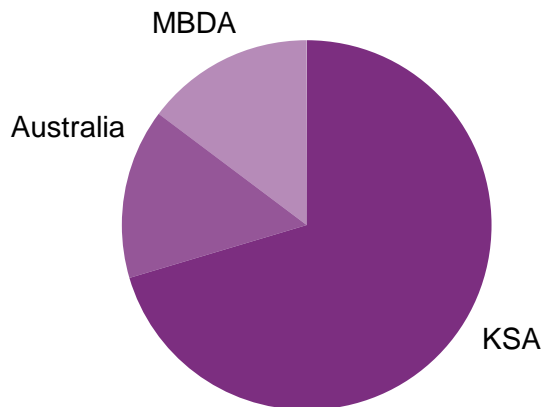
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Platforms & Services (International)

	2015 Half Year	2014 Half Year
Sales	£1,621m	£1,576m
Underlying EBITA	£155m	£157m
Margin	9.6%	10.0%
Cash flow	£(49)m	£541m
Order Backlog	£10.7bn	£11.6bn *

- Sales, like-for-like, up 6%
 - Second half weighting in Saudi & Australia
- Margin after small shipbuilding rationalisation charge
- Cash flow performance reflects
 - Salam VOP receipt
 - accelerated customer receipts in 2014
- Order backlog reducing on trading of 5 year Saudi support contracts

2015 Sales



* as at 31 December 2014

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.10%	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 conditional upon anticipated aircraft orders & review of options for Melbourne shipyard facility

(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

<i>(£bn)</i>	2015 Half Year	2015 Guidance
Operating items:		
• Net capital expenditure, disposals & depr'n	-	(0.1)
• Working capital		
- provision utilisation	(0.1)	(0.2)
- advances movement (net)	(0.6)	(0.2) – (0.7)
- other working capital movements	(0.1)	-
• Pension deficit funding	(0.2)	(0.4)
Non-operating items:		
• Interest & tax	(0.2)	(0.3)
• Dividends	(0.4)	(0.7)
• Share buyback	-	(0.1)
• M&A	-	0.1

Net Debt to increase in 2015, post shareholder returns

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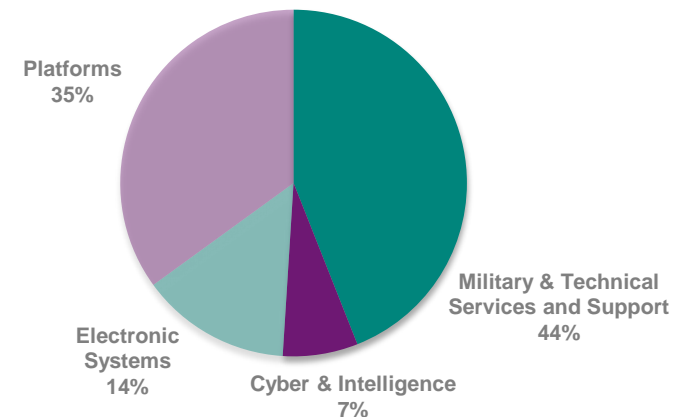
Summary

- Large order backlog
- Broad international customer base
- Business resilience demonstrated through challenging period
- US/UK defence budgets now stabilising

2015
Half Year

Sales	£8,472m
Underlying EBITA	£800m
Underlying EPS	17.1p
Dividend per share	8.4p
Order backlog	£37.3bn

2015 Half Year
Sales by Activity



First half performance supports full year expectations

Supplementary Information

2015 Half Year Financial Summary

(£m, backlog £bn)

	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	1,246	187	15.0%	139	3.7
Cyber & Intelligence	887	52	5.9%	42	2.0
Platforms & Services (US)	1,328	92	6.9%	(20)	3.9
Platforms & Services (UK)	3,544	355	10.0%	(296)	18.7
Platforms & Services (Int'l)	1,621	155	9.6%	(49)	10.7
HQ	128	(41)		(165)	-
Eliminations	(282)				(1.7)
	8,472	800	9.4%	(349)	37.3

Underlying earnings per share

17.1p

Like-for-Like Sales & Underlying EBITA - Group

(£m)

	Sales Half Year			Underlying EBITA Half Year		
	2015	2014	Yr-on-Yr	2015	2014	Yr-on-Yr
Continuing Businesses	8,472	7,611	11%	800	802	-%
Foreign exchange:						
USD		272			25	
Other		(71)			(4)	
Adjusted for foreign exchange	8,472	7,812	8%	800	823	(3)%
Transactions:						
Acquisitions & Disposals	(40)	(33)		(1)	(1)	
Adjusted for f/x and transactions	8,432	7,779	8%	799	822	(3)%

Reconciliation of Earnings

(£m)	2015 Half Year Underlying	2014 Half Year Underlying	2015 Half Year Reported	2014 Half Year Reported
Underlying EBITA	800	802	800	802
Non-recurring items			(24)	-
EBITA			776	802
Amortisation/Impairment			(65)	(88)
Underlying Finance Costs	(107)	(89)	(107)	(89)
Pension / Fair Value movements			(94)	(80)
Finance Costs			(201)	(169)
Underlying Tax	(146)	(145)	(146)	(145)
Tax on amortisation / impairment			14	18
Tax on pension / fair value movements			20	16
Tax			(112)	(111)
Non-controlling interest	(8)	(5)	(8)	(5)
Earnings	539	563	390	429
Earnings per share	17.1p	17.7p		

Working Capital Movements

– Reconciliation to Cash Flow

(£m)

	30 Jun 15	31 Dec 14	Mvmt	F/X	M&A	Other	Cash Flow
Inventories	723	690	(33)	7	(4)	-	(36)
Receivables – current	3,076	2,850					
Receivables – non-current	336	347					
Total Receivables	3,412	3,197	(215)	45	(1)	(11)	(248)
Payables – current	(6,258)	(6,670)					
Payables – non-current	(678)	(932)					
Total Payables	(6,936)	(7,602)	(666)	(71)	1	3	(599)
Liability Provisions – current	(230)	(315)					
Liability Provisions – non-current	(402)	(436)					
Total Liability Provisions	(632)	(751)	(119)	(2)	-	8	(125)
Working Capital	(3,433)	(4,466)	(1,033)				