

2015 Preliminary Results



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Sir Roger Carr

Chairman



Ian King

Chief Executive

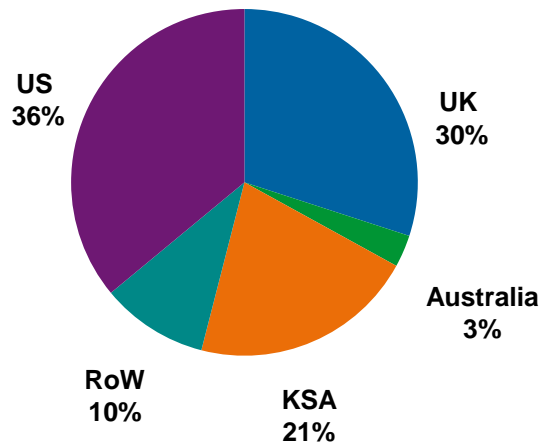
2015 - Overview

Solid performance in 2015 underpinned by:

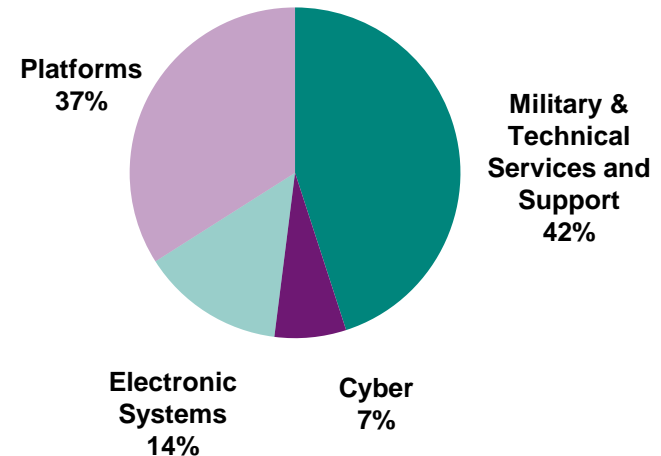
- Broad geographic base of business
- Strong customer support franchises
- Good programme execution
- Investment in engineering technology
- Business efficiency

	2015	2014
Sales	£17,904m	£16,637m
Underlying EBITA	£1,683m	£1,702m
Underlying EPS	40.2p	38.0p
Dividend per share	20.9p	20.5p
Order backlog	£36.8bn	£40.5bn

2015
Sales by Destination



2015
Sales by Activity



Key Markets - US

- Bipartisan agreement lifting BCA budget caps:-
 - increased FY 2016 defence budget
- Good Electronic Systems performance
 - strong EW position - EPAWSS and C-130J wins
 - continued ISR demand
 - commercial electronics growth
- Ship repair - transitioning for 'tilt to Pacific'
- I&S review completed
 - business performing well with increased order backlog
- Land business stable
 - core combat vehicle franchise wins
 - positioned for return to growth



Key Markets - UK

SDSR

- Positive outcome

Military Air

- Typhoon
 - Kuwait agreement
 - Typhoon major unit rate reduced
- F-35 production rate increasing
- Hawk
 - KSA batch 1 deliveries on track for 2016
 - KSA batch 2 contract award
 - Indian production support

Maritime

- QEC Carriers progressing well
- Type 26 / new light frigate / OPVs
- Astute class programme milestones
- Successor submarine activity rising



Key Markets - International

KSA

- High volume of training and support activity
- Good Tornado / Typhoon availability
- Hawk Batch 2 confirms enhanced training requirement

Australia

- Williamstown shipyard rationalisation / impairment
- Efficiency enhancement measures

India

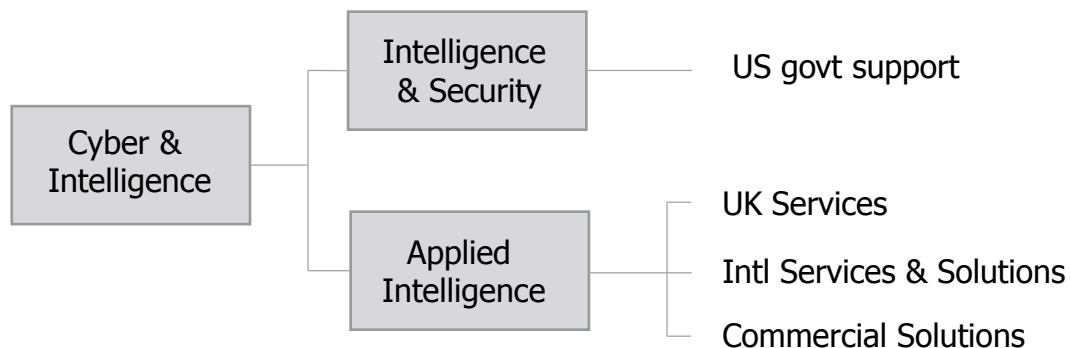
- HAL Hawk deliveries continue
- M777 prospect

MBDA

- Strong order intake and contracts pending
- Order backlog underpins good future growth



Cyber



- Rapid pace of Applied Intelligence expansion
 - Order intake up 28%
 - Increased product development activity
 - Recruitment - 1,200 employee intake in year
- SilverSky integration completed
 - Platform for growth in commercial cyber security



Peter Lynas

Group Finance Director

2015 Financial Summary

	2015	2014
Sales	£17,904m	£16,637m
Underlying EBITA ⁽¹⁾	£1,683m	£1,702m
Underlying Finance Costs ⁽²⁾	£(194)m	£(204)m
Underlying Earnings per share ⁽³⁾	40.2p	38.0p
Operating Business Cash Flow	£681m	£1,191m
Net Debt	£(1,422)m	£(1,032)m
Order backlog	£36.8bn	£40.5bn
Dividend per share	20.9p	20.5p

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

Balance Sheet

(£m)	31 Dec 2015	31 Dec 2014	Drivers
Intangible fixed assets	10,117	9,983	FX, amortisation & impairments
Tangible fixed assets	1,818	1,718	FX, investment in Maritime facilities
Investments	256	236	
Working capital	(3,896)	(4,466)	Utilisation of customer advances, provisions
Pension deficit	(4,501)	(5,368)	Higher discount rates
Tax assets & liabilities	661	865	Deferred tax on lower pension deficit
Financial assets & liabilities	(43)	(112)	Mark-to-market movements
Net debt	(1,422)	(1,032)	
Assets held for sale	12	53	Land South Africa disposal completed
Net Assets	3,002	1,877	

Pension Deficit (IAS 19)

(£bn)	31 Dec 2015	30 Jun 2015	31 Dec 2014
Assets	23.8	23.8	23.8
Liabilities	(29.4)	(30.0)	(30.6)
Pension deficit	(5.6)	(6.2)	(6.8)
Group share of deficit	(4.5)	(4.8)	(5.4)
UK – real discount rate	0.7%	0.5%	0.4%
Bond yields	3.9%	3.8%	3.6%
Inflation rate	3.2%	3.3%	3.2%
US – bond yields	4.5%	4.5%	4.1%

Net Cash / (Debt)

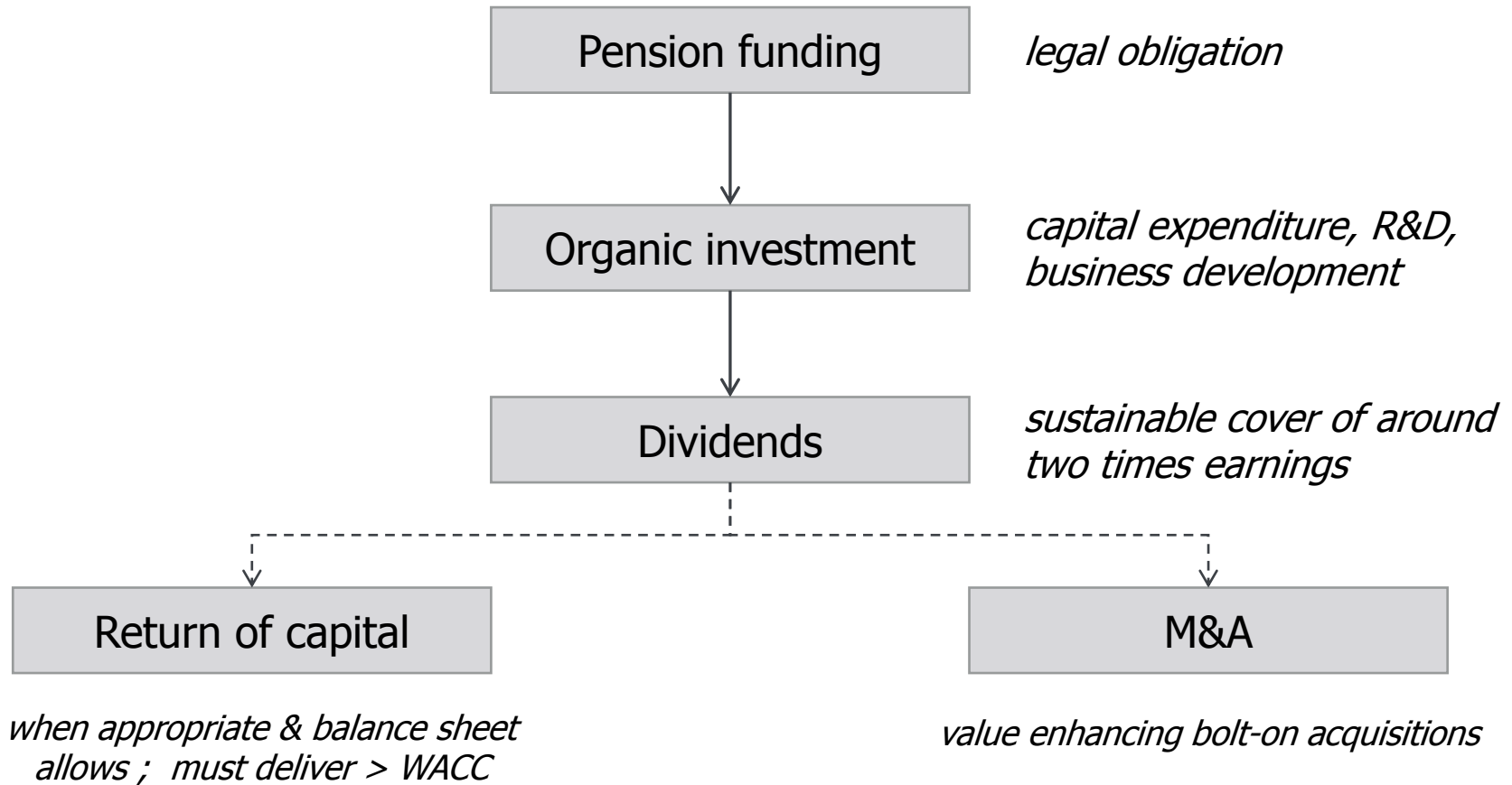
(£m)	2015
Opening Net Debt	(1,032)
Operating business cash flow	681
Interest & Tax	(289)
Equity dividends paid	(655)
Share buyback	(7)
Acquisitions & disposals	16
Other, incl foreign exchange	(136)
Closing Net Debt	(1,422)



Electronic Systems	323
Cyber & Intelligence	93
Platforms & Services (US)	100
Platforms & Services (UK)	220
Platforms & Services (Int'l)	164
HQ	(219)
Operating business cash flow	681

Gross Debt	Gross Cash
£(4.0)bn	£2.6bn

Capital Allocation



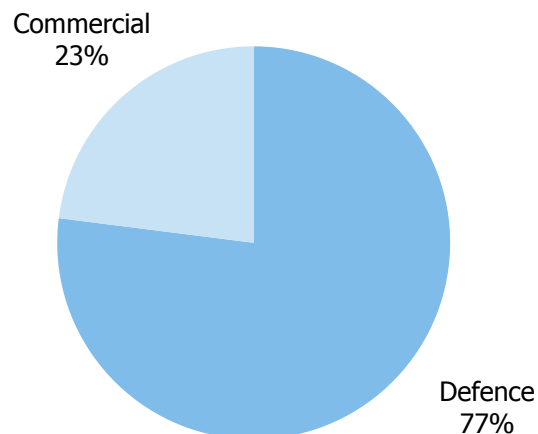
Balance sheet management to maintain **investment grade** rating and ensure **operating flexibility**

Electronic Systems

	2015	2014
Sales	\$4,030m	\$3,978m
Underlying EBITA	\$605m	\$614m
Margin	15.0%	15.4%
Cash flow	\$494m	\$405m
Order backlog	\$6.1bn	\$6.1bn

- Sales up 1%
 - Commercial up 7%, Defence stable
- Margin performance ahead of guidance
 - benefitted from strong programme execution
 - 2014 included 50 bps from pricing settlement
- Cash conversion @ 89% ex-pension deficit funding
- Order backlog sustained;
 - ENVG
 - F-15 electronic warfare upgrades
 - P-8A mission computers
 - F-35 LRIP 9-11

2015 Sales

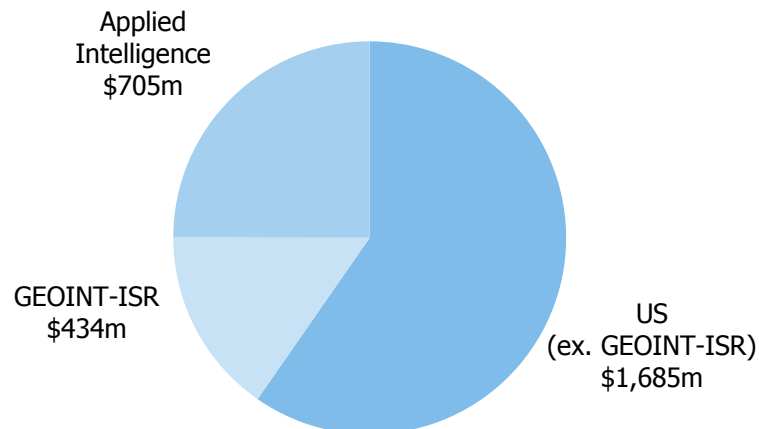


Cyber & Intelligence

	2015	2014
Sales	\$2,824m	\$2,731m
Underlying EBITA	\$221m	\$252m
Margin	7.8%	9.2%
Cash flow	\$142m	\$206m
Order backlog	\$3.5bn	\$3.1bn

- Overall sales up 3%
 - US down 1% - government IT services
 - Applied Intelligence up 31% - Silversky (13%) and organic growth (18%)
- Margin slightly below guidance
 - increased investment in Applied Intelligence
- Cash flow performance reflects capital investment in Applied Intelligence
- Order backlog increased
 - US up 13%
 - Applied Intelligence up 21%

2015 Sales

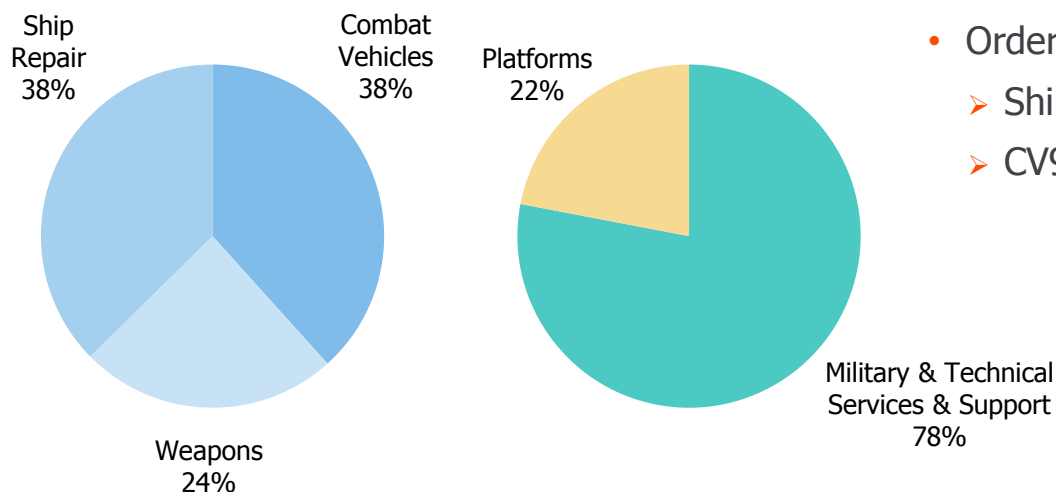


Platforms & Services (US)

	2015	2014
Sales	\$4,246m	\$4,430m
Underlying EBITA	\$271m	\$192m
Margin	6.4%	4.4%
Cash flow	\$152m	\$242m
Order backlog	\$5.8bn	\$7.2bn

- Sales down 4%, ahead of guidance; like-for-like reduction 1%
 - GCV completion
 - increased ship repair / munitions activity
- Margin performance in line with guidance
- Cash performance reflects
 - utilisation of US Commercial Ships provisions
 - utilisation of advances on CV90 Norway
 - investment in San Diego dry dock
- Order backlog lower on trading out of:
 - Ship Repair MSMOs
 - CV90 Norway

2015 Sales

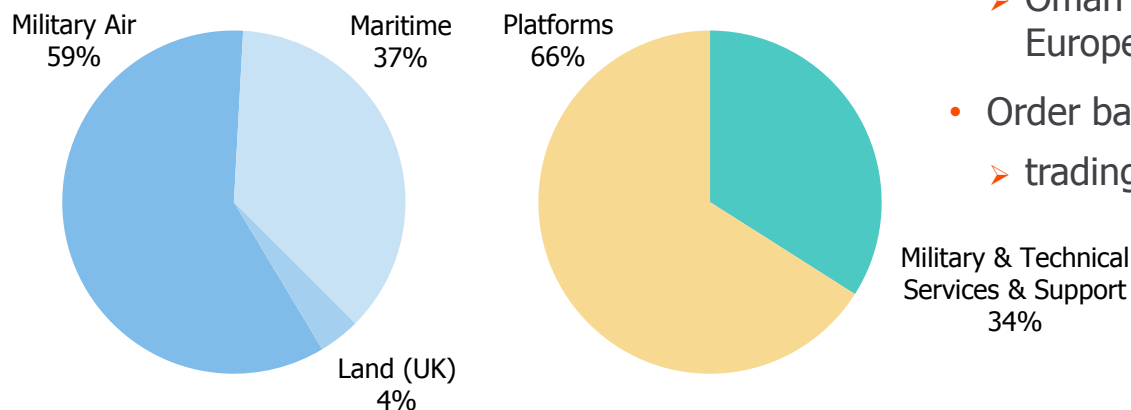


Platforms & Services (UK)

	2015	2014
Sales	£7,405m	£6,623m
Underlying EBITA	£721m	£772m
Margin	9.7%	11.7%
Cash flow	£220m	£173m
Order backlog	£17.8bn	£20.1bn

- Sales up 12%
 - c.£400m on Radar & DASS equipment
 - Saudi aircraft deliveries
 - increased Submarines activity
- Margin performance reflects
 - UK pension discount rates
 - Typhoon production slow-down
- Cash performance reflects advance & rationalisation utilisation
 - Oman programme, Saudi Training aircraft and European Typhoon
- Order backlog lower
 - trading of Typhoon & Carrier

2015 Sales

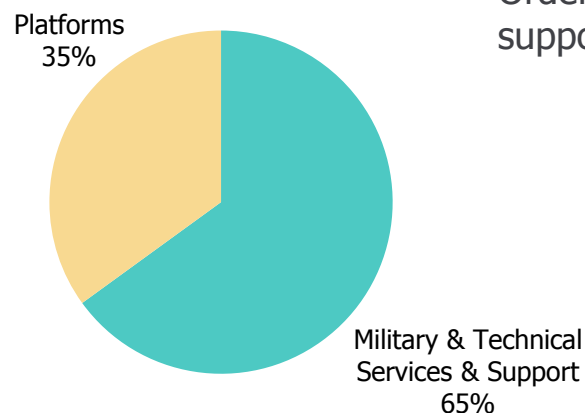
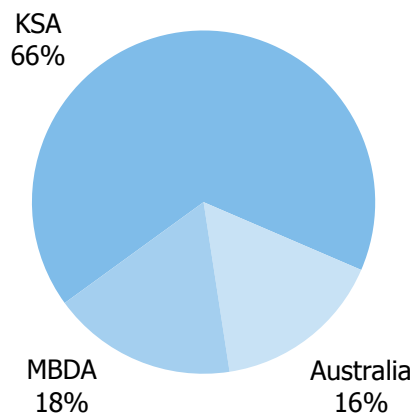


Platforms & Services (International)

	2015	2014
Sales	£3,742m	£3,572m
Underlying EBITA	£335m	£366m
Margin	9.0%	10.2%
Cash flow	£164m	£881m
Order backlog	£10.2bn	£11.6bn

- Sales, like-for-like, up 9%
 - increased Saudi support activity
- Margin reflects £53m Australian shipbuilding impairment & rationalisation charges
- Cash flow performance reflects
 - Salam VOP receipt
 - accelerated customer receipts in 2014
 - utilisation of advances on Saudi training aircraft programme
- Order backlog reduced on trading of 5-year Saudi support contracts

2015 Sales



2016 Guidance - Trading

	2015 Actual ⁽¹⁾		2016 Guidance ⁽²⁾	
	Sales	Margin	Sales	Margin
Electronic Systems	2,922	15.0%	low single digit	13% - 15%
Cyber & Intelligence	1,564	6.6%	low single digit	7% - 9%
Platforms & Services (US)	2,779	6.4%	c.(10)%	7% - 8%
Platforms & Services (UK)	7,405	9.7%	slightly lower	10% - 12%
Platforms & Services (Int'l)	3,742	9.0%	c.5%	10% - 12%

HQ (EBITA)	(91)	stable
Underlying Finance Costs	(194)	c.£35m higher
Tax rate ⁽³⁾	21%	c.22%

(1) 2015 figures presented to reflect the transfer of the GEOINT-ISR business from Cyber & Intelligence to Electronic Systems

(2) Guidance for US Sectors in US dollars

(3) 2015 tax rate reflects the Group's underlying effective tax rate excluding research & development expenditure credits and tax provision adjustments

2016 Guidance - Trading : Earnings Per Share

2015 Underlying, as reported		40.2p
Adjusted for:		
- Overseas tax provision release	(2.6)p	
- UK tax provision release	(1.7)p	
- foreign exchange ⁽¹⁾	0.7p	
		(3.6)p
2015 Underlying, adjusted		36.6p

In aggregate, underlying EPS to be **5% - 10% higher** than 2015 **adjusted** position

(1) Impact of applying a \$1.45 exchange rate to 2015 earnings

Cash Guidance

(£bn)

	2015	2016 Guidance	2017
Operating items:			
Net capital expenditure, disposals & depr'n	(0.1)	(0.2)	<i>Some capex > depr'n</i>
Working capital			
- provision utilisation	(0.2)	(0.1)	<i>No major items</i>
- advances movement (net)	(0.5)	(0.3) – (0.6)	<i>Broadly neutral</i>
- other working capital movements	0.2	-	<i>None anticipated</i>
Pension deficit funding	(0.3)	(0.3)	<i>Next valuation end '17</i>
Non-operating items:			
Interest & tax	(0.3)	(0.4)	<i>Broadly consistent with prior years</i>
Dividends	(0.7)	(0.7)	
Share buyback	-	-	
M&A	-	0.1	

Net debt to **increase** in **2016**, post shareholder returns
Strong operating cash flow anticipated in **2017**



Ian King

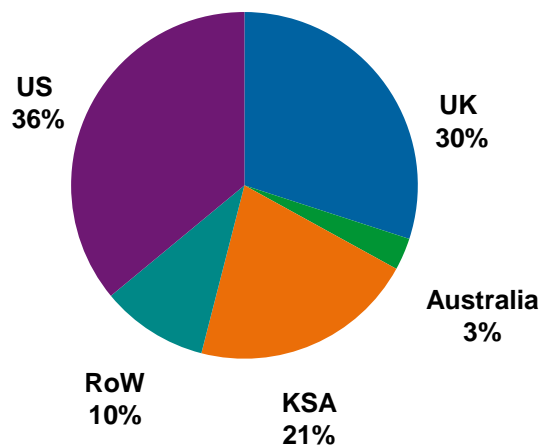
Chief Executive

Summary

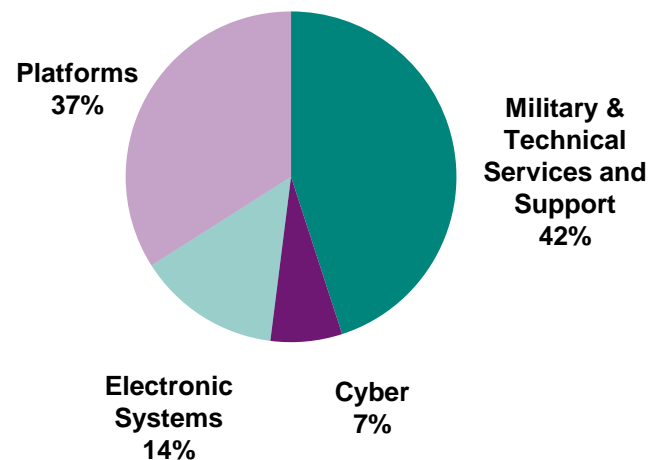
- Solid performance in 2015
- Broad geographic base of business
- Resilience demonstrated
- Well positioned for continued attractive returns

	2015	2014
Sales	£17,904m	£16,637m
Underlying EBITA	£1,683m	£1,702m
Underlying EPS	40.2p	38.0p
Dividend per share	20.9p	20.5p
Order backlog	£36.8bn	£40.5bn

2015
Sales by Destination



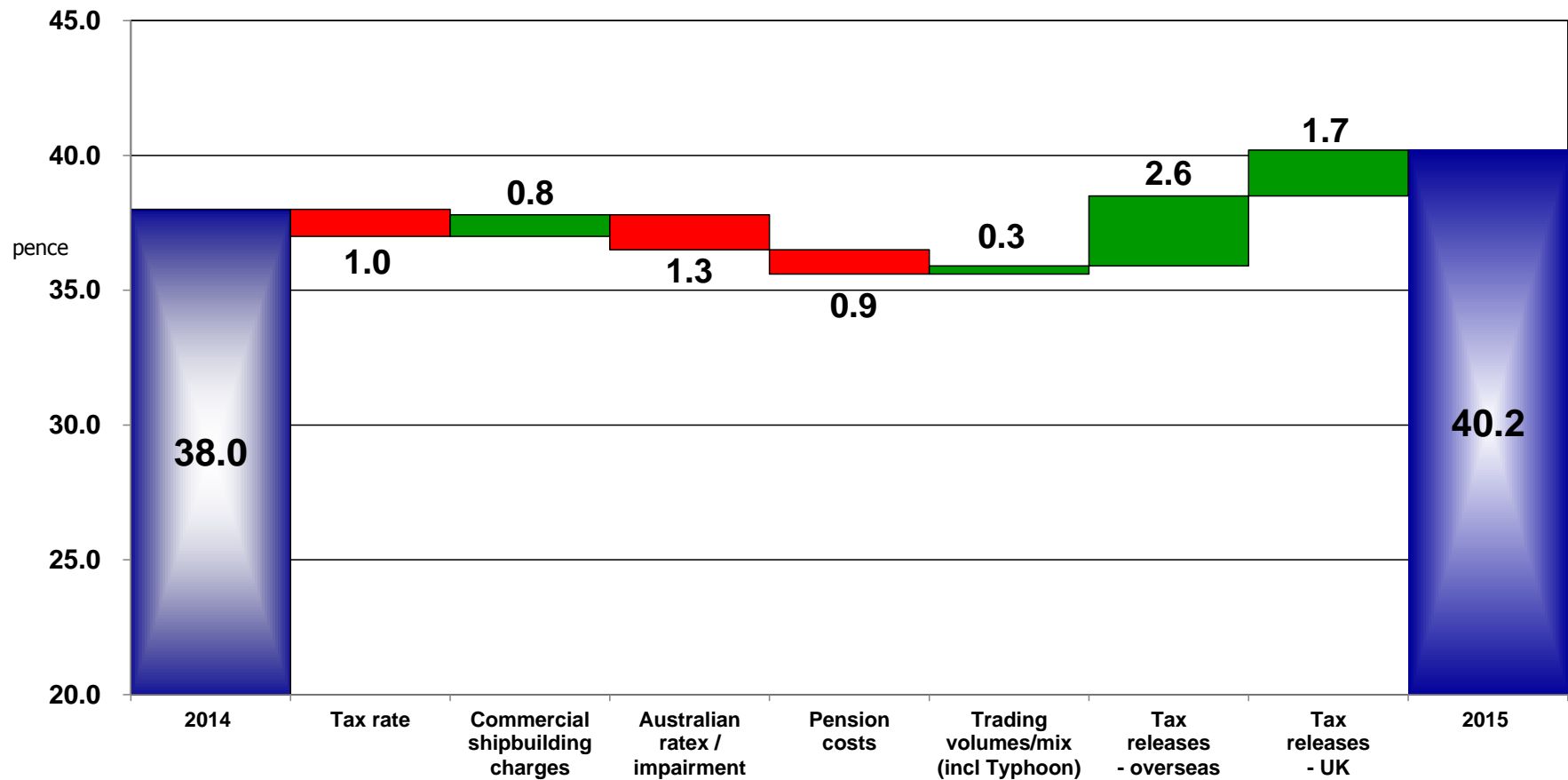
2015
Sales by Activity





Supplementary Information

Underlying EPS Bridge



2015 Financial Performance – As Reported

<i>(£m / £bn backlog)</i>	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	2,638	396	15.0%	323	4.2
Cyber & Intelligence	1,848	145	7.8%	93	2.4
Platforms & Services (US)	2,779	177	6.4%	100	3.9
Platforms & Services (UK)	7,405	721	9.7%	220	17.8
Platforms & Services (Int'l)	3,742	335	9.0%	164	10.2
HQ	237	(91)		(219)	-
Eliminations	(745)				(1.7)
	17,904	1,683	9.4%	681	36.8

Underlying earnings per share

40.2p

Segment Changes – 2015 Full Year

(£m)

	Sales			Underlying EBITA		
	Old Structure	GEOINT Transfer	New Structure	Old Structure	GEOINT Transfer	New Structure
Electronic Systems	2,638	284	2,922	396	41	437
Cyber & Intelligence	1,848	(284)	1,564	145	(41)	104
Platforms & Services (US)	2,779	-	2,779	177	-	177
Platforms & Services (UK)	7,405	-	7,405	721	-	721
Platforms & Services (Int'l)	3,742	-	3,742	335	-	335
HQ	237	-	237	(91)	-	(91)
Eliminations	(745)	-	(745)	-	-	-
	17,904	-	17,904	1,683	-	1,683

(\$m)

Electronic Systems	4,030	434	4,464	605	63	668
Cyber & Intelligence	2,824	(434)	2,390	221	(63)	158

2015 Financial Performance – Restated

<i>(£m / £bn backlog)</i>	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	2,922	437	15.0%	370	4.3
Cyber & Intelligence	1,564	104	6.6%	46	2.3
Platforms & Services (US)	2,779	177	6.4%	100	3.9
Platforms & Services (UK)	7,405	721	9.7%	220	17.8
Platforms & Services (Int'l)	3,742	335	9.0%	164	10.2
HQ	237	(91)		(219)	-
Eliminations	(745)				(1.7)
	17,904	1,683	9.4%	681	36.8

Underlying earnings per share

40.2p

Like-for-Like Sales & Underlying EBITA

	Sales			Underlying EBITA		
	2015	2014	<i>Yr-on-Yr</i>	2015	2014	<i>Yr-on-Yr</i>
As Reported	17,904	16,637	<i>8%</i>	1,683	1,702	<i>(1)%</i>
Foreign exchange:						
USD		446			44	
AUD		(72)			(5)	
EUR		(72)			(6)	
Other		(65)			(18)	
Adjusted for foreign exchange	17,904	16,874	<i>6%</i>	1,683	1,717	<i>(2)%</i>
Transactions:						
Acquisitions & Disposals	(73)	(56)		(3)	5	
Adjusted for f/x and transactions	17,831	16,818	<i>6%</i>	1,680	1,722	<i>(2)%</i>

Reconciliation of Earnings

(£m / pence EPS)

	2015 Underlying	2014 Underlying	2015 Reported	2014 Reported
Underlying EBITA	1,683	1,702	1,683	1,702
Non-recurring items			26	-
EBITA			1,709	1,702
Amortisation/Impairment			(186)	(354)
Underlying Finance Costs	(194)	(204)	(194)	(204)
Pensions/Fair Value/FX movements			(215)	(244)
Finance Costs			(409)	(448)
Underlying Tax *	(305)	(282)	(305)	(282)
Tax - RDEC	(23)		(68)	-
Tax - provision releases	134		134	-
Tax - amort'n/impair/pensions/fair value			68	83
Reassessment of tax provision			-	51
Tax			(171)	(148)
Non-controlling interest	(25)	(12)	(25)	(12)
Earnings	1,270	1,204	918	740
Earnings per share	40.2p	38.0p		

* 2015 excludes impact of £27m research & development credits reported through Underlying EBITA

Working Capital Movements - reconciliation to Cash Flow

(£m)

Movement analysed between:

	31 December		Mvmt	Movement analysed between:			Cash Flow
	2015	2014		F/X	M&A	Other	
Inventories	726	690	(36)	(26)	(4)	-	(6)
Receivables – current	2,940	2,850					
Receivables – non-current	275	347					
Total Receivables	3,215	3,197	(18)	(78)	(4)	4	60
Payables – current	(6,162)	(6,670)					
Payables – non-current	(1,020)	(932)					
Total Payables	(7,182)	(7,602)	(420)	51	2	69	(542)
Liability Provisions – current	(301)	(315)					
Liability Provisions – non-current	(354)	(436)					
Total Liability Provisions	(655)	(751)	(96)	14	(2)	31	(139)
Working Capital per Balance Sheet	(3,896)	(4,466)	(570)				