

2016 Half Year Results

28 July 2016



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Ian King

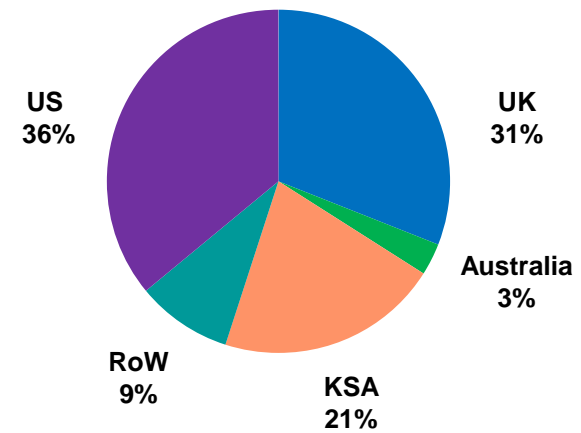
Chief Executive

2016 – Half Year Overview

- Good performance in first half 2016
- Some political and economic uncertainty
- Market environment improving
- Large order backlog
- Good programme execution

	2016 Half Year	2015 Half Year
Sales	£8,714m	£8,472m
Underlying EBITA	£849m	£800m
Underlying EPS	17.4p	17.1p
Dividend per share	8.6p	8.4p
Order backlog	£36.3bn	£36.8bn *

2016 HALF YEAR
Sales by Destination



First Half Performance Supports Full Year Outlook

* as at 31 December 2015

Key Markets - US

- Outlook improving
- Electronic Systems – performing well
 - Electronic Warfare - strong position
 - ISR – continued demand
 - Commercial electronics growth
- Ship repair - transitioning for 'tilt to Pacific'
 - San Diego dry dock - on track
- Commercial Ships – remain challenging
- Land business – improving outlook from a stable base
 - AMPV, Bradley, M109 long term franchises



Key Markets - UK

Military Air

- Typhoon
 - Typhoon deliveries continue
 - Kuwait – long lead funding
 - Typhoon capability development and support
- Hawk
 - KSA deliveries commenced
 - Indian deliveries continue
 - Renewed UK support contracts
- F-35 production rate increasing
- Anglo – French UCAS agreement

Maritime

- QEC Carriers on track
- Type 26 progressing
- Submarine activity rising



Key Markets - International

KSA

- High Tornado / Typhoon availability
- SBDCP - renewal discussions underway

Australia

- Business stable after 2015 actions

MBDA

- Order backlog - underpins future growth

India

- Hawk batch 3 – negotiations underway
- M777 prospect





Cyber

Intelligence and Security

- Solid performance in a competitive market
- Momentum maintained from 2015

Applied Intelligence

- Strong order intake and sales growth
- Investment in product development and brand



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BAE SYSTEMS



Peter Lynas

Group Finance Director

2016 Half Year Financial Summary

	2016 Half Year	2015 Half Year
Sales	£8,714m	£8,472m
Underlying EBITA ⁽¹⁾	£849m	£800m
Underlying Finance Costs ⁽²⁾	£(120)m	£(107)m
Underlying Earnings per share ⁽³⁾	17.4p	17.1p
Operating Business Cash Flow	£(20)m	£(349)m
Net Debt	£(2,036)m	£(1,939)m
Order backlog ⁽⁴⁾	£36.3bn	£36.8bn
Dividend per share	8.6p	8.4p

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) Comparative as at 31 December 2015

5) Average £/\$ rate at 2016 Half Year \$1.43 & 2015 Half Year \$1.52

Balance Sheet

(£m)	30 Jun 2016	31 Dec 2015	Drivers
Intangible fixed assets	10,704	10,117	FX
Tangible fixed assets	1,993	1,818	FX
Investments	224	256	
Working capital	(3,324)	(3,896)	Utilisation of customer advances
Pension deficit	(6,066)	(4,501)	Lower discount rates
Tax assets & liabilities	950	661	Deferred tax on higher pension deficit
Financial assets & liabilities	132	(43)	Mark-to-market movements
Net debt	(2,036)	(1,422)	
Assets held for sale	-	12	
Net Assets	2,577	3,002	

Pension Deficit (IAS 19)

(£bn)	30 Jun 2016	31 Dec 2015 ⁽¹⁾
Assets	23.8	22.0
Liabilities	(30.4)	(26.9)
Pension deficit	(6.6)	(4.9)
Group share of deficit	(6.1)	(4.5)
UK – real discount rate	0.2%	0.7%
Bond yields	3.1%	3.9%
Inflation rate	2.9%	3.2%
US – bond yields	3.7%	4.5%

(1) During 2016 the BAE Systems Pension Scheme (Main Scheme) was sectionalised into a BAE Systems section and an Airbus section. The 31 December 2015 figures above show the impact of sectionalisation as if it had occurred on 31 December 2015. The assets & liabilities at 30 June 2016 are stated post-sectionalisation.

Net Cash / (Debt)

(£m)	2016 Half Year
Opening Net Debt	(1,422)
Operating business cash flow	(20)
Interest & Tax	(169)
Equity dividends paid	(397)
Other, incl foreign exchange	(28)
Closing Net Debt	(2,036)



Electronic Systems	105
Cyber & Intelligence	33
Platforms & Services (US)	(33)
Platforms & Services (UK)	(154)
Platforms & Services (Int'l)	178
HQ	(149)
Operating business cash flow	(20)

Gross Debt	Gross Cash
£(4.2)bn	£2.2bn

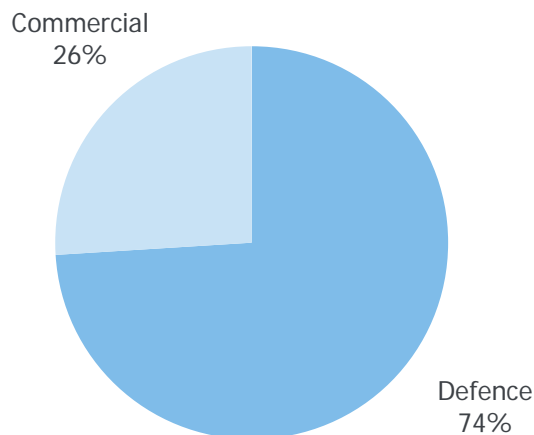
\$350m term debt to be repaid in October 2016

Electronic Systems

<i>Half Year:</i>	2016	2015 (1)
Sales	\$2,067m	\$2,112m
Underlying EBITA	\$300m	\$323m
Margin	14.5%	15.3%
Cash flow	\$150m	\$257m
Order backlog	\$6.3bn	\$6.5bn *

- Sales slightly lower
 - 2nd half weighting of CMWS & EW
 - Commercial +15%
- Margin performance in line with guidance
- Cash flow reflects inventory build
- Order backlog broadly unchanged like-for-like

2016 Sales



(1) 2015 Half Year restated to reflect the transfer of the GEOINT-ISR business from Cyber & Intelligence to Electronic Systems

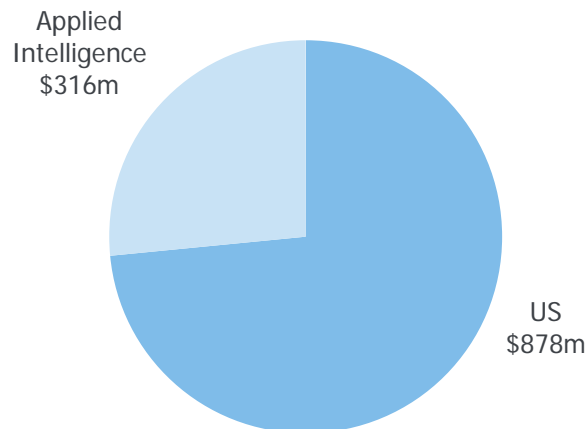
* as at 31 December 2015

Cyber & Intelligence

Half Year:	2016	2015 (1)
Sales	\$1,194m	\$1,136m
Underlying EBITA	\$25m	\$41m
Margin	2.2%	3.6%
Cash flow	\$47m	\$19m
Order backlog	\$3.0bn	\$3.2bn *

- Sales increased by 5%
 - US up 4%
 - Applied Intelligence up 16% (2)
- Margin performance reflects first half investment and brand campaign in Applied Intelligence
- Cash flow performance improved on reduced working capital requirements in Applied Intelligence
- Order backlog reduced
 - Applied Intelligence up 13% (2)
 - US down 8% on trading out of certain longer term contracts

2016 Sales



(1) 2015 Half Year restated to reflect the transfer of the GEOINT-ISR business from Cyber & Intelligence to Electronic Systems

(2) Applied Intelligence growth based on £ figures

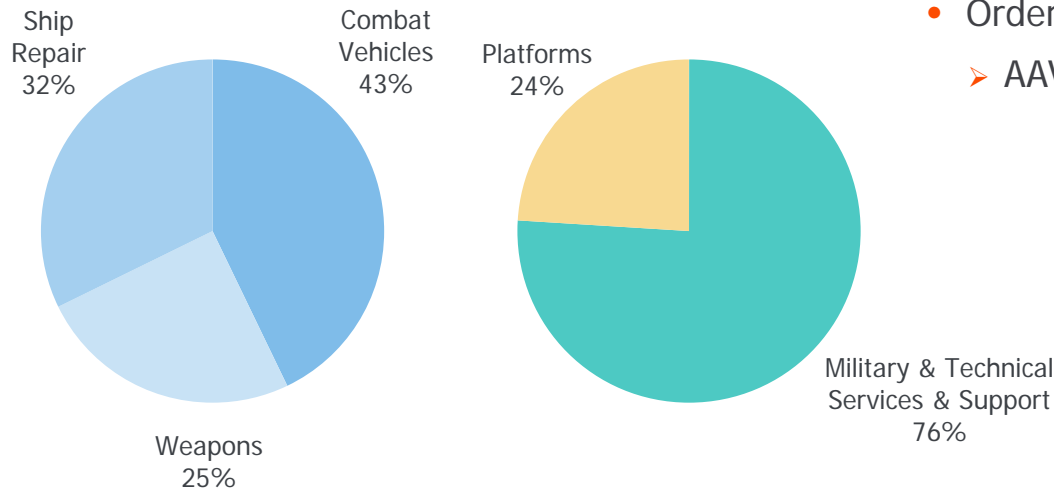
* as at 31 December 2015

Platforms & Services (US)

Half Year:	2016	2015
Sales	\$1,844m	\$2,022m
Underlying EBITA	\$123m	\$140m
Margin	6.7%	6.9%
Cash flow	\$(47)m	\$(30)m
Order backlog	\$5.9bn	\$5.8bn *

- Sales down 9% per guidance
 - lower US ship repair activity
 - increased CV90 Norway deliveries
- \$49m charge on commercial shipbuild
- Cash performance reflects
 - US commercial shipbuild
 - CV90 Norway advances utilisation
 - San Diego dry dock investment
- Order backlog increase
 - AAV Japan, BvS10 Austria, Sweden CV90

2016 Sales



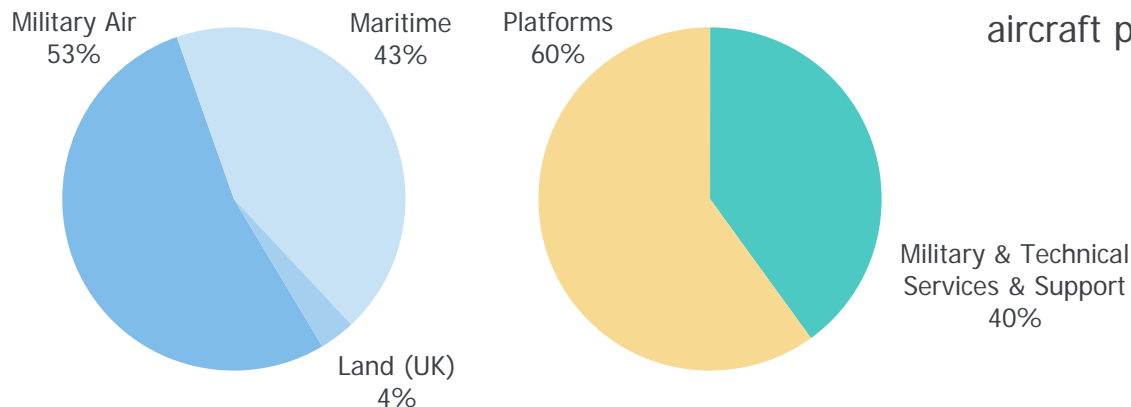
* as at 31 December 2015

Platforms & Services (UK)

Half Year:	2016	2015
Sales	£3,664m	£3,544m
Underlying EBITA	£414m	£355m
Margin	11.3%	10.0%
Cash flow	£(154)m	£(296)m
Order backlog	£16.3bn	£17.8bn *

- Sales up 3%
- Margin
 - 2015 included 50bps dilution for Typhoon equipment
 - 2016 includes benefit on Astute from pricing of Batch 1, and profit recognition on later boats
- Cash outflows on advance utilisation
 - Oman programme, European Typhoon and Saudi Training aircraft
- Order backlog reduced on trading of Typhoon aircraft programmes, Carrier & Astute

2016 Sales



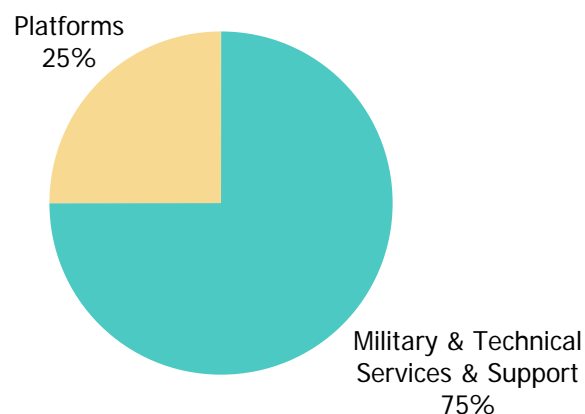
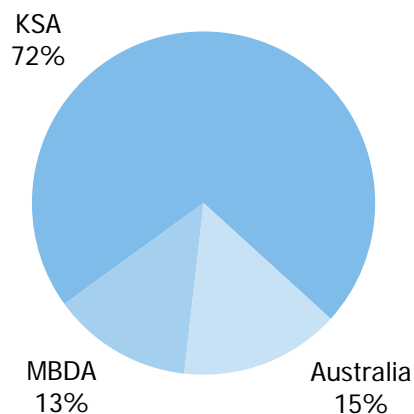
* as at 31 December 2015

Platforms & Services (International)

<i>Half Year:</i>	2016	2015
Sales	£1,739m	£1,621m
Underlying EBITA	£158m	£155m
Margin	9.1%	9.6%
Cash flow	£178m	£(49)m
Order backlog	£10.1bn	£10.2bn *

- Sales up 7%
 - increased support in Saudi Arabia
- Margin reflects higher margin MBDA weapon systems deliveries in 2nd half year
- Cash flow consistent with profit generation
- Order backlog reduced pending renewal of 5-year Saudi support contract

2016 Sales



* as at 31 December 2015

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%

In aggregate, underlying EPS to be **5% - 10% higher** than 2015 **adjusted** position of **36.6p**

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

(2) Guidance for US Sectors in US dollars; £/\$ planning rate = \$1.45 ; EPS sensitivity 10 cents = c.0.8 pence

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

Cash Guidance

(£bn)

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

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



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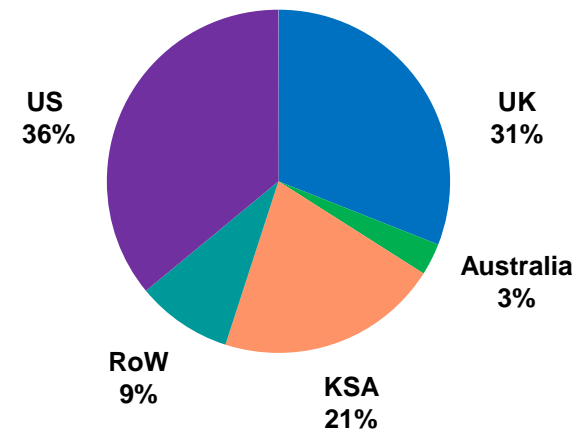
Chief Executive

Summary

- Good performance in first half 2016
- Some political and economic uncertainty
- Market environment improving
- Robust strategy
- Large order backlog
- Good programme execution
- Attractive returns to shareholders

	2016 Half Year	2015 Half Year
Sales	£8,714m	£8,472m
Underlying EBITA	£849m	£800m
Underlying EPS	17.4p	17.1p
Dividend per share	8.6p	8.4p
Order backlog	£36.3bn	£36.8bn *

2016 HALF YEAR
Sales by Destination



First Half Performance Supports Full Year Outlook



Supplementary Information

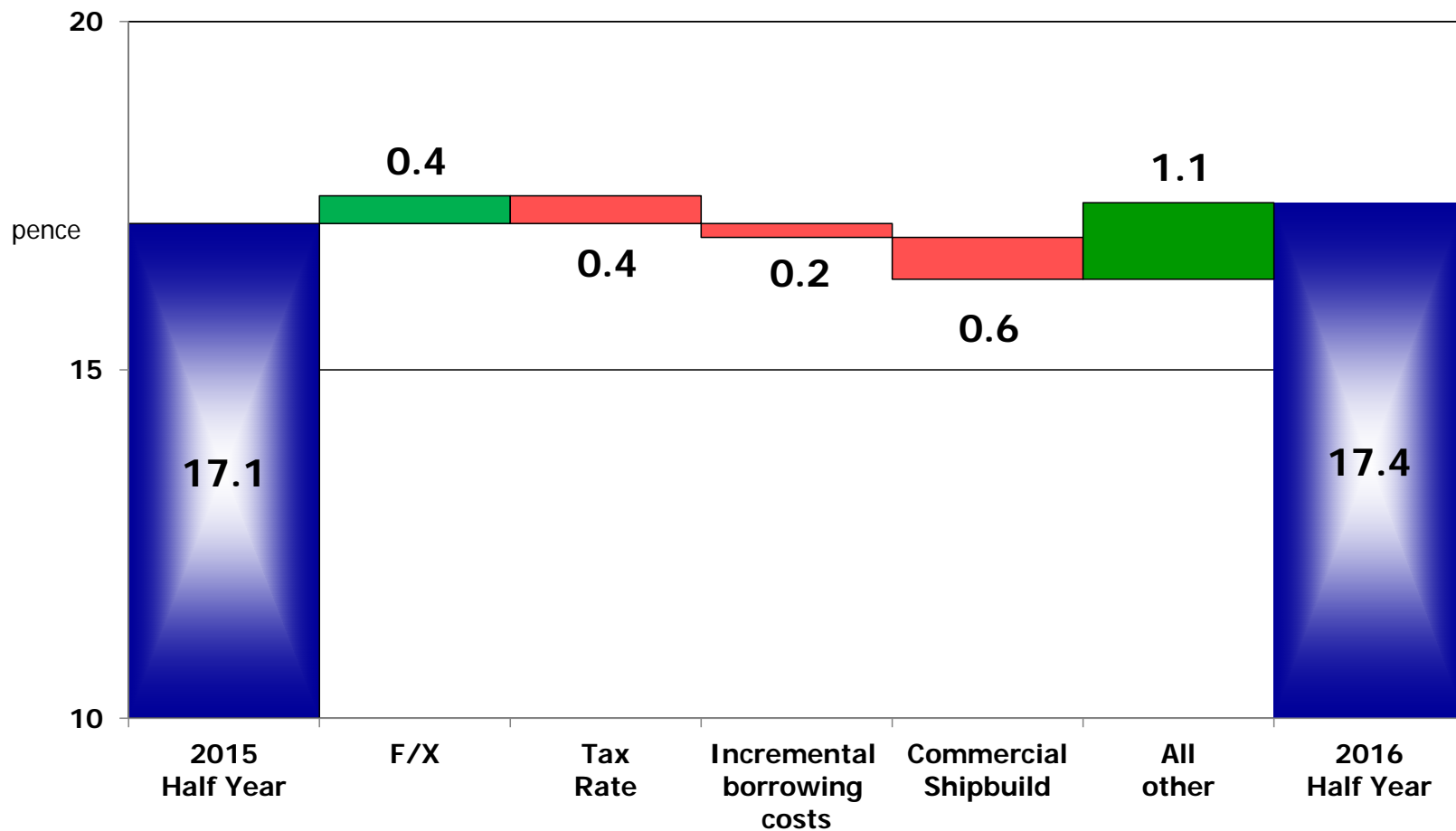
2016 Half Year Financial Performance

<i>(£m / £bn backlog)</i>	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	1,443	209	14.5%	105	4.7
Cyber & Intelligence	833	18	2.2%	33	2.2
Platforms & Services (US)	1,287	86	6.7%	(33)	4.4
Platforms & Services (UK)	3,664	414	11.3%	(154)	16.3
Platforms & Services (Int'l)	1,739	158	9.1%	178	10.1
HQ	104	(36)		(149)	
Eliminations	(356)				(1.4)
	8,714	849	9.7%	(20)	36.3

Underlying earnings per share

17.4p

EPS Bridge



Like-for-Like Sales & Underlying EBITA

<i>Half Year</i>	Sales			Underlying EBITA		
	2016	2015	<i>Yr-on-Yr</i>	2016	2015	<i>Yr-on-Yr</i>
As Reported	8,714	8,472	<i>3%</i>	849	800	<i>6%</i>
Foreign exchange:						
USD		187			21	
EUR		18			1	
Other		8			-	
Adjusted for foreign exchange	8,714	8,685	<i>0%</i>	849	822	<i>3%</i>
Transactions:						
Acquisitions & Disposals	-	(17)		-	2	
Adjusted for f/x and transactions	8,714	8,668	<i>1%</i>	849	824	<i>3%</i>

Reconciliation of Earnings (Half Year)

(£m / pence EPS)

	2016 Underlying	2015 Underlying	2016 Reported	2015 Reported
Underlying EBITA	849	800	849	800
Non-recurring items			-	(24)
EBITA			849	776
Amortisation/Impairment			(43)	(65)
Underlying Finance Costs	(120)	(107)	(120)	(107)
Pensions/Fair Value/FX movements			(143)	(94)
Finance Costs			(263)	(201)
Underlying Tax	(168)	(146)	(168)	(146)
Tax - amort'n/impair/pensions/fair value			43	34
Tax			(125)	(112)
Non-controlling interest	(10)	(8)	(10)	(8)
Earnings	551	539	408	390
Earnings per share	17.4p	17.1p		

Working Capital Movements - reconciliation to Cash Flow

(£m)

	Movement analysed between:						
	30 Jun 2016	31 Dec 2015	Mvmt	F/X	M&A	Other	Cash Flow
Inventories	766	726	(40)	(58)	-	(11)	29
Receivables – current	3,286	2,940					
Receivables – non-current	310	275					
Total Receivables	3,596	3,215	(381)	(219)	-	(7)	(155)
Payables – current	(5,926)	(6,162)					
Payables – non-current	(1,151)	(1,020)					
Total Payables	(7,077)	(7,182)	(105)	272	-	93	(470)
Liability Provisions – current	(224)	(301)					
Liability Provisions – non-current	(385)	(354)					
Total Liability Provisions	(609)	(655)	(46)	30	-	8	(84)
Working Capital per Balance Sheet	(3,324)	(3,896)					