

BAE Systems

2011 Preliminary Results

16 February 2012



Ian King



Strategy and business environment

Strategy to sustain and provide platform for growth

- Improve profit and cash generation
- Grow Cyber, Intelligence and Security
- Grow Electronic Systems
- Drive value from Platforms and Services positions
- Increase International business

US

- Budget passed following Continuing Resolution
- January announcements align with planning assumptions

UK

- SDSR impacts clear
- Mitigating actions well underway

Near term focus on delivering bottom line performance

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Near term focus on delivering bottom line performance

International Markets

- **India**
 - Continued Hawk order intake
 - MMRCA – Typhoon bid
 - Land opportunities progressing

- **Brazil OPV**
 - New business
 - Opportunity to expand Brazilian Navy business relationship

- **Australia**
 - Good positions across defence domains

- **Oman**
 - Typhoon RFP released

- **KSA**
 - Budgets approved
 - Increasing business opportunities

Summary

- **Strong performance in challenging environment**
 - Cost reduction and efficiency improvement
 - Good programme execution
 - Broad international footprint
 - Strong positions in priority capabilities
- **Resilient platform for future growth**
- **Unambiguous focus on shareholder value**

Peter Lynas



Financial Highlights

Sales ⁽¹⁾	£19,154m	- 14%
Underlying EBITA ^(1,2)	£2,025m	- 7%
Underlying Earnings per Share ^(1,3)		
- including R&D tax benefit	45.6p	
- excluding R&D tax benefit	39.7p	
Operating Business Cash Flow	£634m	
Net Debt	£(1,439)m	
Order Book	£36.2bn	
Dividend per Share	18.8p	+ 7%

(1) Continuing operations

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

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

Summary Income Statement (continuing operations)

£m	2011 Underlying	2010 Underlying	2011 Reported	2010 Reported
Sales	19,154	22,275	19,154	22,275
EBITA	2,025	2,179	1,947	2,164
Amortisation / impairment				
- goodwill			(94)	(84)
- other intangibles			(254)	(433)
Finance costs *	(199)	(191)	(106)	(194)
Profit before tax	1,826	1,988	1,493	1,453
Tax				
- underlying	(472)	(588)	(430)	(462)
- R&D tax benefit	197	-	197	-
Minority Interest	(16)	(29)	(16)	(29)
Earnings	1,535	1,371	1,244	962

* 2011 underlying finance costs exclude charges relating to the early redemption of debt (£13m)

Balance Sheet

as at 31 December (£m)	2011	2010
Intangible fixed assets	11,465	11,216
Tangible fixed assets	2,626	2,848
Investments	788	798
Working capital	(5,677)	(6,641)
Pension deficit	(4,217)	(3,146)
Tax assets & liabilities	975	580
Financial assets & liabilities	(219)	(10)
Net debt	(1,439)	(242)
Liabilities held for sale	(3)	-
Net assets	4,299	5,403

Pension Deficit (IAS 19)

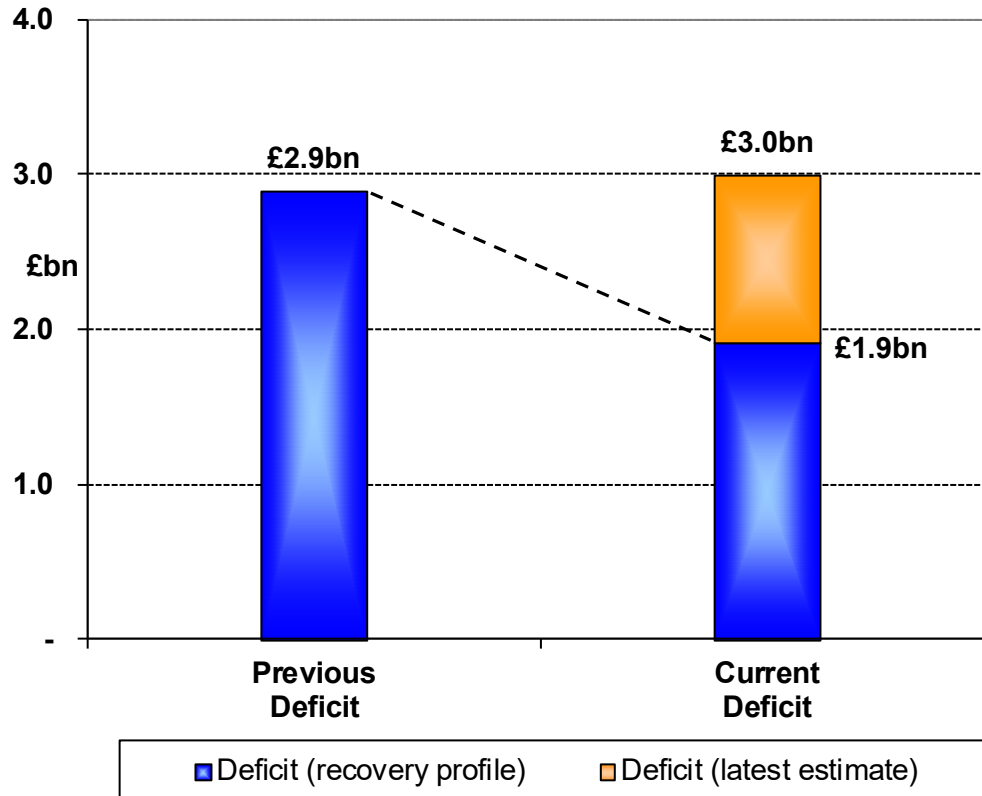
£bn	31 Dec 11	30 Jun 11	31 Dec 10
Assets *	18.1	17.9	17.5
Liabilities	(23.3)	(21.9)	(21.3)
Pension Deficit	(5.2)	(4.0)	(3.8)
Group share of deficit, pre-tax	(4.2)	(3.2)	(3.1)
Group share of deficit, post-tax	(3.0)	(2.2)	(2.1)

Real Discount Rates

UK	1.9%	2.0%	2.1%
bond yields	4.8%	5.5%	5.5%
inflation rate	2.9%	3.5%	3.4%
US	2.5%	2.5%	2.5%
bond yields	5.0%	5.5%	5.5%
inflation rate	2.5%	3.0%	3.0%

* includes assets held in Reservoir Trust

Funding Deficit



- Funding deficit increased by £1.1bn
- Revised deficit recovery plans agreed
- Deficit recovery periods sustained
- Incremental funding of £0.2bn over next 5 years
- Next funding valuation date April 2014

Operating Cash Flow

£m	2011	2010
Cash flow from operating activities	951	1,535
Capital expenditure (net)	(268)	(364)
Dividends from equity accounted investments	88	71
Contribution to Trust (re: pensions)	(137)	(25)
Cash held for charitable contribution to Tanzania	-	(30)
Operating business cash flow	634	1,187
Electronic Systems	268	367
Cyber & Intelligence	123	89
Platforms & Services (US)	410	967
Platforms & Services (UK)	69	191
Platforms & Services (International)	80	190
HQ	(308)	(671)
Discontinued Operations	(8)	54
Operating business cash flow	634	1,187

Movement in Net Debt

£m	2011	2010
Opening Net (Debt) / Cash	(242)	403
Operating business cash flow	634	1,187
Interest and Tax	(433)	(525)
Equity dividends paid	(606)	(574)
Share purchases	(509)	(520)
Acquisitions and disposals	(256)	(88)
Foreign exchange and other movements	(27)	(125)
Closing Net Debt	(1,439)	(242)

Capital Allocation

£bn		Gross Debt	Cash	Net Debt
31 December 2010		(3.0)	2.8	(0.2)
Cash Flow		-	(1.2)	(1.2)
Debt redemption	- term debt	1.0	(1.0)	-
Debt issuance	- term debt	(0.8)	0.8	-
	- commercial paper	(0.4)	0.4	-
31 December 2011		(3.2)	1.8	(1.4)

Near-term cash utilisation includes:

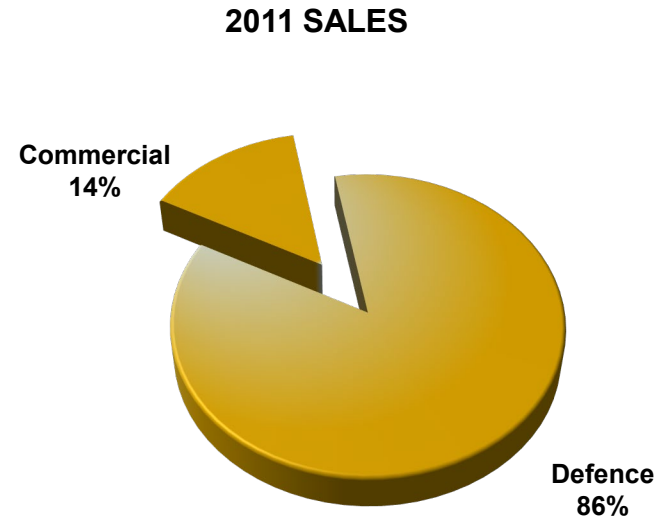
- debt redemption
- pension deficit funding
- final dividend

(0.4)
(0.2)
(0.4)

£2.2bn returned to shareholders over 2 years

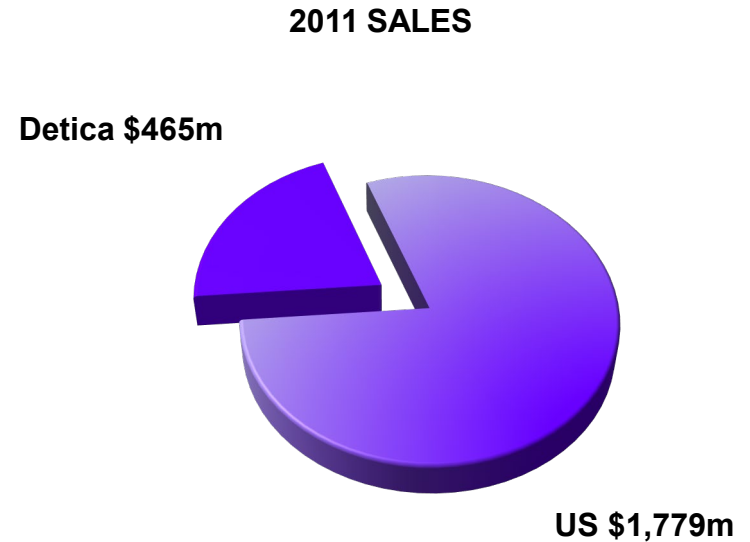
Electronic Systems

	2011	2010
Sales	\$4,243m	\$4,587m
Underlying EBITA	\$619m	\$703m
Margin	14.6%	15.3%
Cash flow	\$430m	\$567m
Order backlog	\$5.6bn	\$5.5bn



Cyber & Intelligence

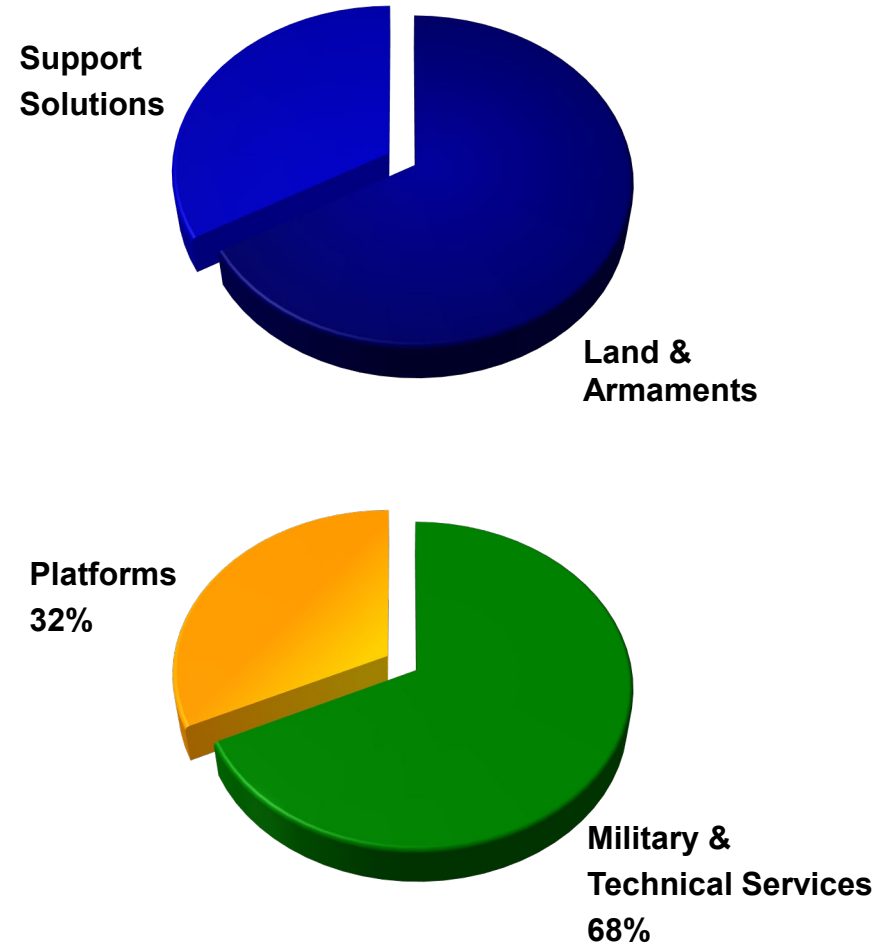
	2011	2010
Sales	\$2,244m	\$1,856m
Underlying EBITA	\$218m	\$167m
Margin	9.7%	9.0%
Cash flow	\$197m	\$138m
Order backlog	\$1.7bn	\$1.4bn



Platforms & Services (US)

	2011	2010
Sales	\$8,511m	\$11,852m
Underlying EBITA	\$767m	\$1,125m
Margin	9.0%	9.5%
Cash flow	\$658m	\$1,494m
Order backlog	\$13.9bn	\$14.2bn

2011 SALES



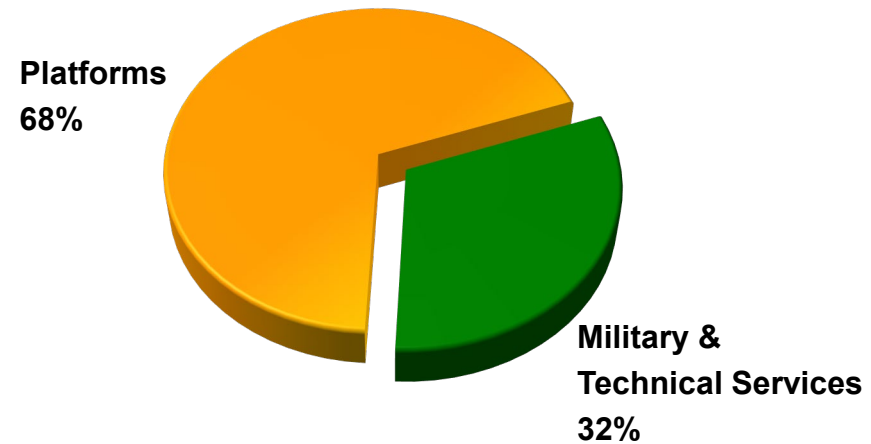
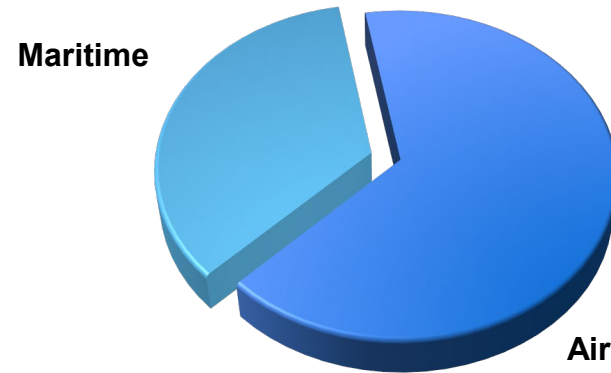
Platforms & Services (US)

	Land & Armaments		Support Solutions	
	2011	2010	2011	2010
Sales	\$5,678m	\$9,162m	\$2,833m	\$2,690m
Underlying EBITA	\$530m	\$933m	\$237m	\$192m
Margin	9.3%	10.2%	8.4%	7.1%
Cash flow	\$443m	\$1,326m	\$215m	\$168m
Order backlog	\$8.7bn	\$9.7bn	\$5.2bn	\$4.5bn

Platforms & Services (UK)

	2011	2010
Sales	£6,258m	£6,529m
Underlying EBITA	£658m	£522m
Margin	10.5%	8.0%
Cash flow	£69m	£191m
Order book	£18.7bn	£21.0bn

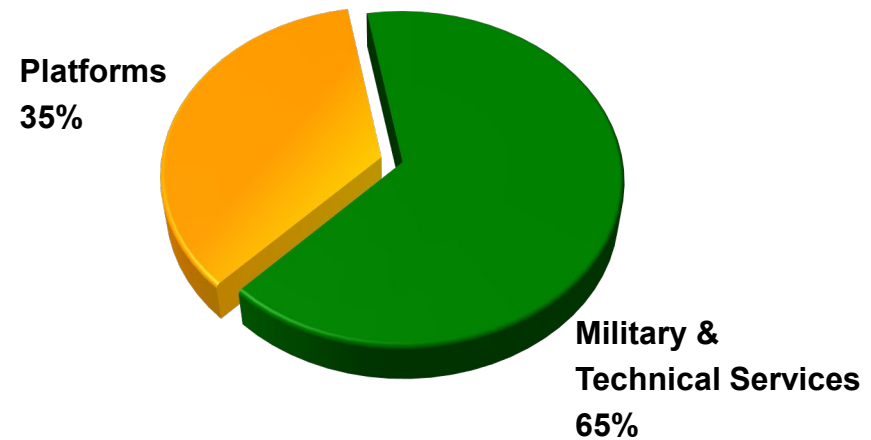
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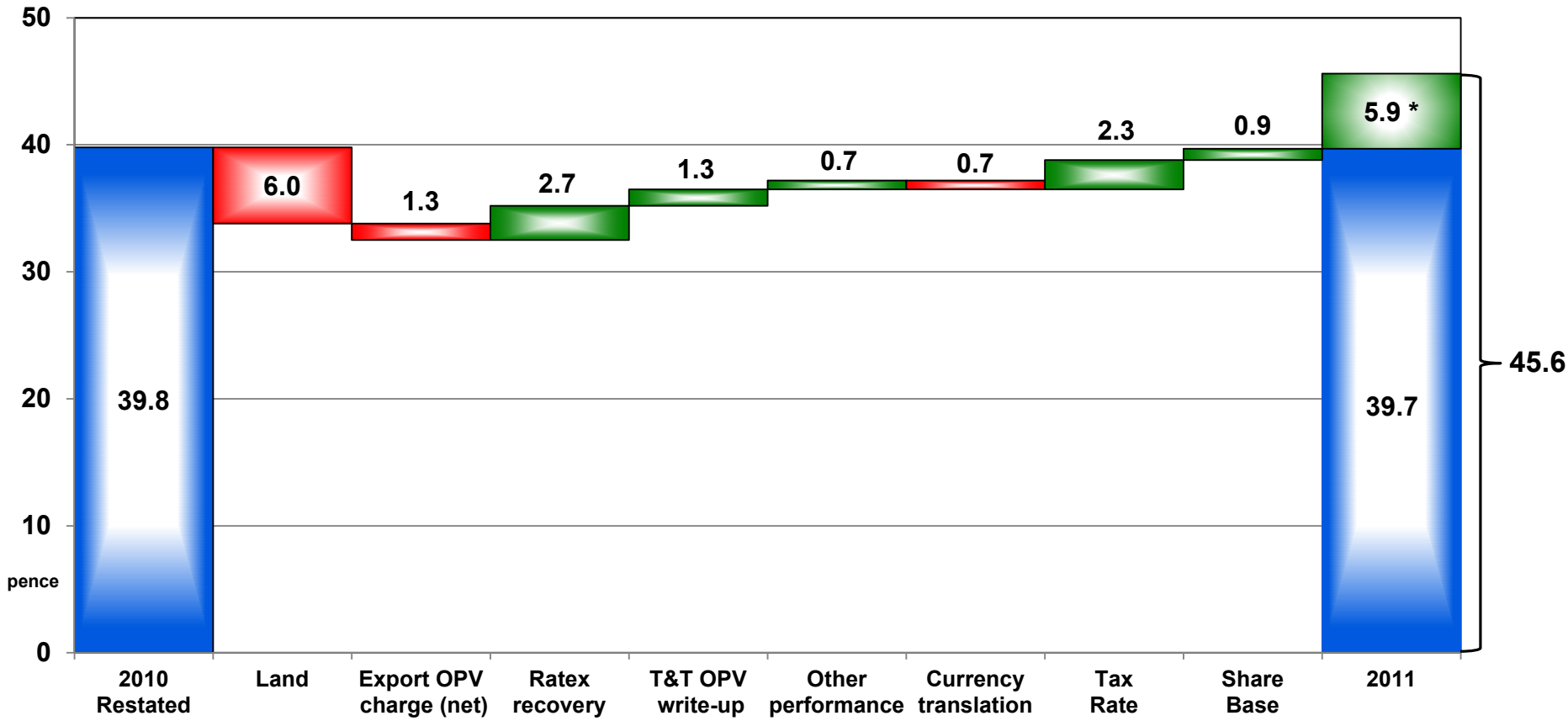
Platforms & Services (International)

	2011	2010
Sales	£3,794m	£4,325m
Underlying EBITA	£449m	£449m
Margin	11.8%	10.4%
Cash flow	£80m	£190m
Order book	£8.3bn	£9.1bn

2011 SALES



Underlying Earnings Per Share



* UK R&D tax benefit

2012 Guidance

	2011 Actual		2012 Guidance	
	Sales	Margin	Sales	Margin
Electronic Systems	2,645	14.6%	stable	12% - 14%
Cyber & Intelligence	1,399	9.7%	+3% - +7%	8.5% - 9.5%
Platforms & Services (US)	5,305	9.0%	(5)% - (10)%	9.0% - 9.5%
Platforms & Services (UK)	6,258	10.5%	stable	10% - 12%
Platforms & Services (International)	3,794	11.8%	> +25%	9.5% - 10.5%
HQ (EBITA)	(82)		broadly similar	
Underlying Finance Costs	(199)		reduced	
Tax rate	26% *		26% - 28%	
Underlying EPS	39.7p *		modest growth	

* excluding R&D tax benefit

2012 Guidance

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