


NOTIFICATION OF BAE SYSTEMS ANNUAL REPORT 2012 AND AGM

This notice advises you that you can read the full BAE Systems Annual Report 2012 and Notice of Annual General Meeting online at: www.baesystems.com/reporting. It also provides a brief overview of our performance in 2012.

 For more information on the benefits of e-communications see back page

Dear Shareholder,

I am writing to advise you that the Company's Annual Report for 2012 has been published together with the Notice of Annual General Meeting. These documents are available to be viewed on the Company's Shareholder Reporting website that you can access at:

www.baesystems.com/reporting

You will see from the following that BAE Systems has delivered a robust performance in a challenging environment. The Board has recommended a final dividend of 11.7p per share making a total of 19.5p per share for the year, an increase of 4% over 2011. Subject to shareholder approval at the 2013 Annual General Meeting (AGM), the 2012 final dividend will be paid on 3 June 2013 to shareholders registered on 19 April 2013.

As was the case last year, the Company is utilising the electronic communications provisions that shareholders agreed several years ago which enable us to deliver documents to shareholders via our website. Environmental and financial savings will result from this.

The Annual Report 2012 is provided on the Shareholder Reporting website in a format that we hope will help you access easily the information you require from the Report. You will also find the Notice of Annual General Meeting on the website. This year's meeting is to be held on 8 May 2013 at FIVE (Farnborough International Venue & Events), Farnborough, Hampshire starting at 11.00am. If you are unable to attend the meeting but wish to vote by proxy you can do so via the Shareholder Reporting website. Simply click on the shareholder voting icon and use the numbers on the enclosed card to access the voting system – even if you will be attending the meeting you can still vote by proxy and, if you wish, change your vote during the meeting. Alternatively, you can vote by proxy using the enclosed card.

The AGM is an important part of the Company's governance that allows shareholders to understand more about BAE Systems and ask questions on the resolutions that are to be put to the meeting. If, ahead of the meeting, you would like to ask a question in relation to the business to be discussed at the AGM, you can do so online

on the Shareholder Reporting website. We will provide written answers dealing with those topics that feature most frequently in your questions. These will be published on the day of the AGM and be available to everyone attending the meeting; they will also be posted on our website.

Overleaf you will see the top-level financial figures in respect of the Company's performance in 2012 and an overview of the different businesses within the BAE Systems Group. This is just a brief summary and is not a substitute for the full Report that can be accessed online.

Finally, I would like to highlight the importance I place on communications with our shareholders and the central role the AGM plays in this. I want attendance at our AGM to be an interesting and worthwhile experience, allowing directors to report on their stewardship of the Company and to answer shareholders' questions on this. I hope as many shareholders as possible are able to attend and participate in the meeting on 8 May.

Yours sincerely



Dick Oliver
Chairman
28 March 2013



It is recommended that you read the full Notice of Annual General Meeting before taking a decision on how to vote at the Annual General Meeting. It is also recommended that you read the full BAE Systems Annual Report 2012. This notice does not set out the matters on which shareholders are being asked to vote at the Annual General Meeting and is not a substitute for such documents.

If you have sold or otherwise transferred all your shares in BAE Systems plc, please forward this document at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of shares, you should retain this document.

BAE SYSTEMS

BAE SYSTEMS AT A GLANCE

BAE Systems is a global defence, aerospace and security company with approximately 88,200 employees¹ worldwide. The Group delivers a wide range of products and services for air, land and naval forces, as well as advanced electronics, security, information technology solutions and support services.

Results in brief

	2012	2011
Results from continuing operations		
Sales ¹	£17,834m	£19,154m
Underlying EBITA ²	£1,895m	£2,025m
Operating profit	£1,640m	£1,580m
Underlying earnings ³ per share:		
– including R&D tax benefit	n/a	45.6p
– excluding R&D tax benefit	38.9p	39.7p
Basic earnings per share ⁴	32.8p	37.0p
Order backlog ^{1,5}	£42.4bn	£39.1bn
Other results including discontinued operations		
Dividend per share	19.5p	18.8p
Operating business cash flow ⁶	£2,692m	£634m
Net cash/(debt) (as defined by the Group)	£387m	£(1,439)m

Financial key points

- Sales¹ reduced by 7%
- Underlying EBITA² reduced by 6% to £1,895m. Deferred recognition of sales and profit relating to the formalisation of price escalation on the Salam Typhoon programme
- Underlying earnings³ per share down by 2% (excluding the benefit in 2011 of the UK tax settlement)
- Order backlog^{1,5} increased by 8% to £42.4bn
- Non-US and UK order intake¹ increased to £11.2bn from £4.8bn in 2011
- Total dividend increased by 4% to 19.5p
- Operating business cash flow⁶ increased to £2.7bn
- Net cash balance of £387m
- Three-year share repurchase programme of up to £1bn initiated
- Longevity risk on £2.7bn of pension scheme liabilities transferred to the insurance market

Electronic Systems

Principal operations

Electronic Systems comprises the US and UK-based electronics activities, including electronic warfare systems and electro-optical sensors, military and commercial digital engine and flight controls, next-generation military communications systems and data links, persistent surveillance capabilities, and hybrid electric drive systems.



Operational key points

- Sustained a leadership position in the airborne electronic warfare market
- Strengthened position in high growth commercial aircraft electronics market
- Won key development contracts in the classified area
- Continued focus on increasing productivity and efficiency
- Business recovery complete following disruption from flood damage at the Johnson City facility

Sales¹

£2,507m

Number of employees¹

13,000

¹ Including share of equity accounted investments.

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

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

⁴ Basic earnings per share in accordance with International Accounting Standard 33, Earnings per Share.

⁵ Order backlog comprises funded and unfunded unexecuted customer orders, and is stated after the elimination of intra-group orders.

⁶ Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.

Cyber & Intelligence

Cyber & Intelligence comprises the US-based Intelligence & Security business and UK-headquartered BAE Systems Detica business, and covers the Group's cyber, secure government, and commercial and financial security activities.



- The US-based business continues to perform well on existing programmes and secured strategic contract awards with existing customers
- The US-based business continues to invest in differentiating technologies, such as activity-based intelligence and cybersecurity, including a leading-edge network operations and security centre environment, to support a pipeline of submitted bids of \$2.9bn (£1.8bn) at the end of 2012
- BAE Systems Detica continues to invest in products and capability, including its Security Operations Centre
- BAE Systems Detica awarded a contract by Vodafone for next-generation enterprise secure networks for mobile devices

£1,402m

8,200

Platforms & Services (US)

Platforms & Services (US) comprises the US-headquartered Land & Armaments business, with operations in the US, UK, Sweden and South Africa, together with US-based services and sustainment activities, including ship repair and munitions services.



- Growth in US ship repair activities
- Executing munitions infrastructure and facility operations management contracts
- Strategic international win with Korean F-16 upgrade down-select
- Continued to protect Bradley franchise with \$376m (£231m) in related awards
- Awarded a \$750m (£462m) contract for CV90 armoured combat vehicles to Norway
- Letter of Request received from Indian government for 145 M777 howitzers
- Continued consolidation in the Land & Armaments business
- Business disposals of Safety Products, Safariland and Tensylon completed

£4,539m

21,300

Platforms & Services (UK)

Platforms & Services (UK) comprises the Group's UK-based air, maritime and combat vehicle activities, and certain shared services activities.



- 46 Typhoon Tranche 2 aircraft delivered to the partner nations
- £2.5bn Typhoon and Hawk contract for Oman secured
- £446m contract awarded for European support on Typhoon
- First F-35 Lightning II aircraft accepted by the UK Ministry of Defence (MoD)
- Fifth Type 45 destroyer accepted off-contract and support provided for all Royal Navy Type 45 deployments
- Settlement reached with the Government of the Republic of Trinidad and Tobago in respect of the cancelled Offshore Patrol Vessels (OPV) programme
- Two OPVs delivered to the Brazilian Navy
- £0.8bn of customer funding received for ongoing design and development of the Successor submarine, and continuing production of the fourth Astute Class submarine

£5,646m

27,900

Platforms & Services (International)

Platforms & Services (International) comprises the Group's businesses in Saudi Arabia, Australia, India and Oman, together with its 37.5% interest in the pan-European MBDA joint venture.



- Salam price escalation negotiations ongoing
- £5.0bn of orders received under the Saudi British Defence Co-operation Programme (SBDCP) for training aircraft and support to the end of 2016
- First Landing Helicopter Dock hull arrived in Australia for completion and second hull launched in Spain
- MBDA export order for MICA air-to-air missiles to India

£4,071m

15,500

Cautionary statement: All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of BAE Systems and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of BAE Systems or the markets and economies in which BAE Systems operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. BAE Systems plc and its directors accept no liability to third parties in respect of this report save as would arise under English law.

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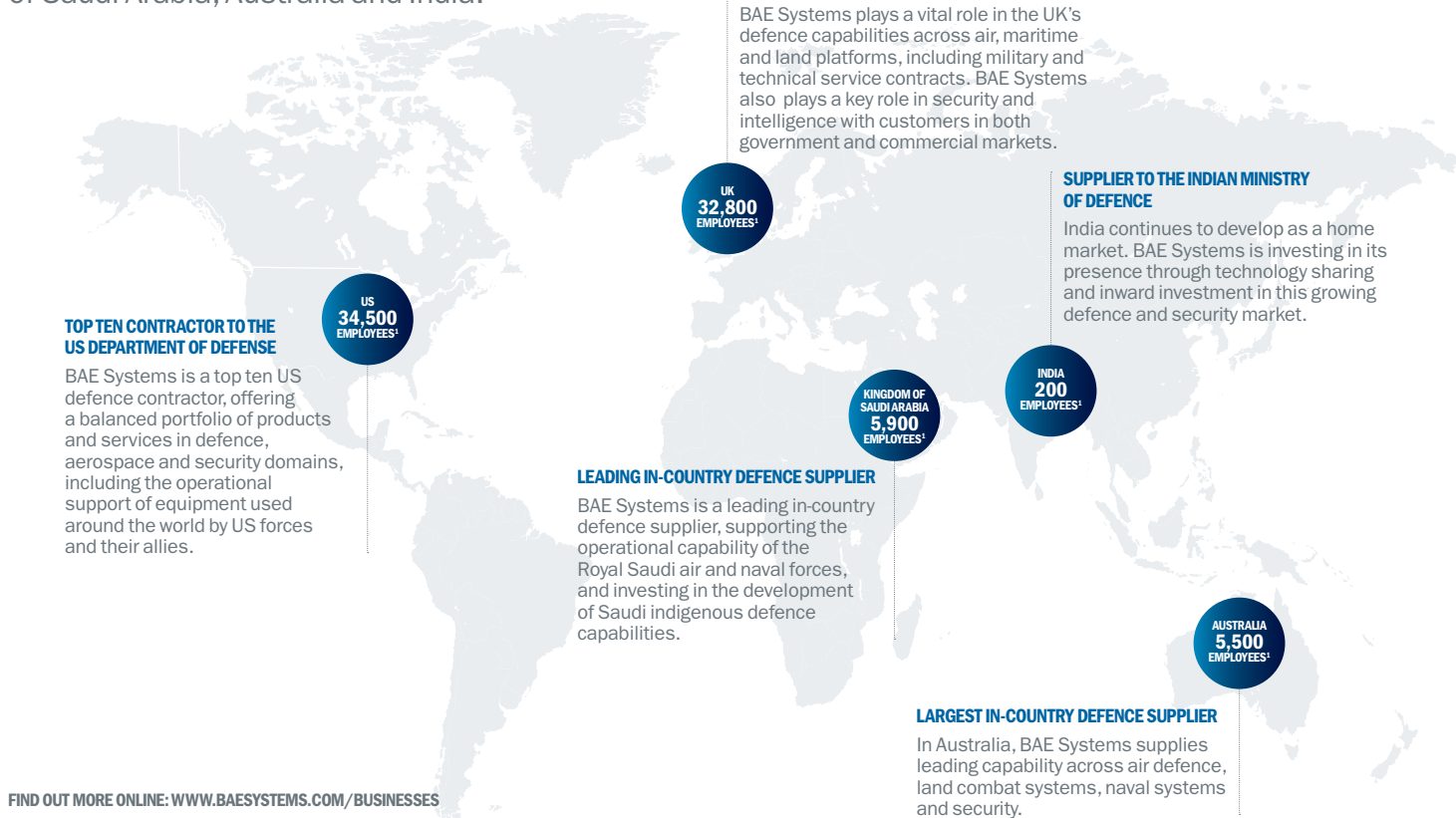
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AN INTERNATIONAL BUSINESS

POSITIONS IN FIVE HOME MARKETS WITH EXPORT OPPORTUNITIES

Today, our business is based around five home markets – the US, the UK, the Kingdom of Saudi Arabia, Australia and India.



1 Including share of equity accounted investments.

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