

Notification of BAE Systems Annual Report 2016 and AGM

This notice advises you that you can read the full BAE Systems Annual Report 2016 and Notice of Annual General Meeting online at: www.baesystems.com/reporting

It also provides a brief overview of our performance in 2016.

For more information on e-communications, see the back page of this document.



Dear Shareholder

I am writing to advise you that the Company's Annual Report for 2016 has been published together with the Notice of Annual General Meeting. These documents are available to be viewed on the Company's AGM website page that you can access at: www.baesystems.com/reporting

This year's Annual General Meeting is to be held on 10 May 2017 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 AGM website page. Simply click on the shareholder voting icon and use the numbers on the enclosed instruction 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.

Opposite you will see the top-level financial figures in respect of the Company's performance in 2016 and, overleaf, 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 Annual Report that can be accessed online.

The Board has recommended a final dividend of 12.7p per share making a total of 21.3p per share for the year, an increase of 2% over 2015. Subject to shareholder approval at the 2017 AGM, the 2016 final dividend will be paid on 1 June 2017 to shareholders registered on 21 April 2017.

Yours sincerely

Sir Roger Carr Chairman
31 March 2017

Important information

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 2016. 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.

Financial highlights*

Sales¹

£19,020m

(2015 £17,904m)

Underlying EBITA²

£1,905m

(2015 £1,683m)

Underlying earnings per share³

40.3p

(2015 40.2p)

Operating business cash flow⁴

£1,004m

(2015 £681m)

Net debt⁵

£(1,542)m

(2015 £(1,422)m)

Order intake⁶

£22,443m

(2015 £14,921m)

Order backlog⁷

£42.0bn

(2015 £36.8bn)

Dividend per share

21.3p

(2015 20.9p)

* To be read in conjunction with the information overleaf.

Financial highlights

- Sales¹ increased by £1.1bn to £19.0bn, almost all of which was due to exchange translation.
- Underlying EBITA² increased to £1,905m, or 7% on a constant currency basis.
- Underlying earnings per share³ of 40.3p, 7% higher than adjusted 2015 underlying earnings per share of 37.8p*, in line with guidance.
- Operating business cash flow⁴ increased by £323m to £1,004m.
- Net debt⁵ of £1.5bn.
- Order intake⁶ increased by £7.5bn to £22.4bn.
- Order backlog⁷ increased by £5.2bn to £42.0bn.
- Final dividend of 12.7p per share making a total of 21.3p per share for the year, an increase of 2% over 2015.

* 2015 underlying earnings per share (40.2p) excluding tax provision releases (-4.3p) and adjusted to 2016 exchange rates (+1.9p).

We monitor the underlying financial performance of the Group using alternative performance measures. These measures are not defined in International Financial Reporting Standards (IFRS) and, therefore, are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. The relevant IFRS measures are presented on page 7 of the Annual Report 2016.

1. Revenue including the Group's share of revenue of equity accounted investments.
2. Profit for the year before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items.
3. Basic earnings per share excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and non-recurring items.
4. Net cash flow from operating activities excluding taxation after net capital expenditure, financial investment and dividends from equity accounted investments.
5. Cash and cash equivalents, less loans and overdrafts (including debt-related derivative financial instruments).
6. Funded orders received from customers including the Group's share of order intake of equity accounted investments.
7. Funded and unfunded unexecuted customer orders including the Group's share of order backlog of equity accounted investments.
8. Including share of equity accounted investments.

Segmental performance



Electronic Systems

Electronic Systems, with 13,800 employees⁸, comprises the US and UK-based electronics activities, including electronic warfare systems, 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 and strategic highlights

Delivered the 250th electronic warfare suite for the F-35 Lightning II combat aircraft programme

Initiated our 'Ramp 2 Rate' capital investment strategy to support growth in defence electronics production

Awarded a \$146m (£118m) engineering and manufacturing development contract for the US Air Force's Eagle Passive Active Warning Survivability System

Signed a three-year Indefinite Delivery, Indefinite Quantity contract for Advanced Precision Kill Weapon System (APKWS™) Full-Rate Production Lots 5 to 7, worth up to \$600m (£486m)

Awarded a \$249m (£201m) contract modification on the Common Missile Warning System programme

Awarded a contract on the US Army's Family of Weapon Sights – Crew Served programme worth up to \$384m (£311m)

Integration of the GEOINT-ISR business transferred from Cyber & Intelligence completed

Sales¹

£3,282m



Cyber & Intelligence

Cyber & Intelligence, with 11,800 employees⁸, comprises the US-based Intelligence & Security business and UK-headquartered Applied Intelligence business, and covers the Group's cyber security, secure government, and commercial and financial security activities.

Operational and strategic highlights Intelligence & Security

Established prime positions under a five-year imagery analysis, training and support contract worth an estimated \$350m (£283m)

Awarded a five-year contract valued at up to \$368m (£298m) to integrate weapon systems aboard US and UK submarines

Awarded task orders totalling more than \$240m (£194m) to provide information technology services to the US government

Applied Intelligence

Second year of expanded investment in product development, and sales and marketing driving continued growth in commercial cyber security and counter-fraud

'Business Defence' marketing campaign is generating new leads in the commercial business

Continued shift towards multi-year managed services and subscription-based, cloud-delivered products in the commercial sector

Good execution of cyber defence and intelligence programmes for UK and international government customers

Sales¹

£1,778m



Platforms & Services (US)

Platforms & Services (US), with 11,300 employees⁸, has operations in the US, UK and Sweden. It produces combat vehicles, weapons and munitions, and delivers services and sustainment activities, including ship repair and the management of government-owned munitions facilities.

Operational and strategic highlights

Roll-out of the first prototype Armored Multi-Purpose Vehicle for the US Army and delivery of the first prototype Amphibious Combat Vehicles for the US Marine Corps

34 vehicle sets delivered to the US Army under the M109A7 Paladin self-propelled howitzer programme

Commenced production of 30 Assault Amphibious Vehicles for Japan under a \$160m (£129m) contract

£183m contract received in July for the gun system on the UK Type 26 frigate

Secured a \$542m (£439m) contract to provide 145 M777 lightweight howitzers to India in January 2017

Received a \$182m (£147m) contract to refurbish and upgrade 262 CV90 Infantry Fighting Vehicles for Sweden

FNSS awarded a contract to supply 260 Anti-Tank Vehicles to the Turkish Land Forces worth more than €278m (£237m)

The arrival of a new dry dock at the San Diego shipyard to expand capabilities for servicing US Navy ships

Sales¹

£2,874m



Platforms & Services (UK)

Platforms & Services (UK), with 30,100 employees⁸, comprises the Group's UK-based air, maritime, land and shared services activities.

Operational and strategic highlights

£1.0bn of orders for our workshare on 28 Typhoon aircraft for Kuwait

Partnership arrangement for support to the UK Typhoon fleet expected to be worth at least £2.1bn over a ten-year period

F-35 Lightning II orders worth £637m, including Lot 10 production and construction of engineering and training facilities in the UK, and the UK selected as European regional avionics and component repair hub

£472m extension to the Type 26 frigate demonstration phase contract and UK government commitment to manufacture eight ships

£287m contract awarded for two additional Offshore Patrol Vessels, including support services for the five-ship programme

Reactor core successfully loaded on the fourth Astute Class submarine

£1.3bn of funding received for Dreadnought Class submarine design, initial manufacture, materials and facilities investment

Down-selected as one of two contenders for the Challenger 2 Life Extension Programme

£445m order on the Munitions Acquisition Supply Solution partnering agreement for five years of supply

Sales¹

£7,806m



Platforms & Services (International)

Platforms & Services (International), with 13,700 employees⁸, comprises the Group's businesses in Saudi Arabia, Australia and Oman, together with its 37.5% interest in the pan-European MBDA joint venture.

Operational and strategic highlights

BAE Systems celebrated 50 years in Saudi Arabia

11 Typhoon aircraft delivered on the Salam programme in the year

Continued provision of support agreed under the Saudi British Defence Co-operation Programme to the Royal Saudi Air Force and Royal Saudi Naval Forces through to 2021, against which we have booked initial order intake in 2016

BAE Systems Australia selected to provide maintenance, repair, overhaul and upgrade to support a range of F-35 Lightning II system components

Awarded a contract for the Risk Mitigation Activity phase of the Land 400 vehicle competition in Australia

Contracts totalling A\$430m (£252m) awarded for sustainment and upgrade of Anzac Class frigates under the Warship Asset Management Alliance

UK Ministry of Defence awarded MBDA a contract for additional Common Anti-air Modular Missiles

MBDA signed two significant contracts in Qatar for naval air defence and coastal battery defence systems

MBDA secured weapons package orders with India as part of agreed export contracts for Rafale aircraft

Sales¹

£3,943m

At **BAE Systems**, our advanced defence technology protects people and national security, and keeps critical information and infrastructure secure.

We search for new ways to provide our customers with a competitive edge across the air, maritime, land and cyber domains. We employ a skilled workforce of 83,100 people¹ in over 40 countries, and work closely with local partners to support economic development by transferring knowledge, skills and technology.

Financial calendar

Financial year end	31 December
Annual General Meeting	10 May 2017
2016 final ordinary dividend payable	1 June 2017
2017 half-yearly results announcement	2 August 2017
2017 interim ordinary dividend payable	30 November 2017
2017 full-year results:	
– preliminary announcement	February 2018
– Annual Report	March 2018
2017 final ordinary dividend payable	June 2018

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.

1. Including share of equity accounted investments.

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- what we do;
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Designed and produced by Radley Yeldar.

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Registered in England and Wales No. 1470151

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