

Notification of BAE Systems plc Annual Report 2020 and AGM

This notice advises you that you can read the full BAE Systems plc Annual Report 2020 and Notice of Annual General Meeting online at: www.baesystems.com/reporting

It also provides a brief overview of our performance in 2020. For more information on e-communications, see the back page of this document.

Annual General Meeting – 6 May 2021

Dear Shareholder

I am writing to advise you that the Company's Annual Report for 2020 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.

COVID-19 – impact on 2021 AGM

Our preference had been to welcome shareholders in person to our 2021 AGM, particularly given the constraints we faced in holding the 2020 meeting due to the COVID-19 pandemic. However, at the time that this document goes to print, England is still in national lockdown and, under the UK government's current COVID-19 regulations (National Lockdown in England), individuals must not leave their home except where permitted by law, which precludes shareholders' attendance at AGMs. The UK government's 'COVID-19 Response – Spring 2021' guidance sets out a roadmap out of lockdown which would continue to preclude shareholders' attendance at AGMs by 6 May 2021.

Consequently, the meeting will be held at 10.30am on 6 May 2021 at Hall 1, Farnborough International Exhibition & Conference Centre, Farnborough, Hampshire with just a small number of directors present to meet the minimum attendance required to form a quorum and comply with COVID-19 regulations.

Shareholders will not be permitted to attend the AGM in person and you should not attempt to do so.

However, we have taken steps to ensure that you can submit questions on the resolutions and vote electronically before the meeting, and also listen remotely to the real-time proceedings of the AGM. Further details are provided on the enclosed Voting Instruction Card.

The Company's Articles of Association do not, at present, contain provisions specifically providing for shareholder meetings to be held remotely. We are, however, seeking shareholder approval for a change to be made to the Articles, which, if passed, will allow future AGMs to be held with attendees present both physically and via electronic means.

Financial results

Opposite you will see the top-level financial figures in respect of the Company's performance in 2020 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 14.3p per share making a total of 23.7p per share in respect of the year ended 31 December 2020, an increase of 2% over the dividend in respect of the year ended 31 December 2019. Subject to shareholder approval at the 2021 AGM, the 2020 final dividend will be paid on 1 June 2021 to shareholders registered on 23 April 2021.

Yours sincerely



Sir Roger Carr
Chairman
31 March 2021

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 plc Annual Report 2020. 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

£20,862m

(2019 £20,109m)

Underlying EBITA²

£2,132m

(2019 £2,117m)

Underlying earnings per share³

46.8p

(2019 45.8p)
Excluding one-off
tax benefit

(2019 50.8p)
Including one-off
tax benefit

Free cash flow⁴

£1,367m £367m

Before £1bn UK pension
scheme contribution
(2019 £850m)

After £1bn UK pension
scheme contribution

Net debt⁵

£(2,718)m

(2019 £(743)m)

Order intake⁶

£20,915m

(2019 £18,447m)

Order backlog⁷

£45.2bn

(2019 £45.4bn)

Dividend per share

23.7p

(2019 9.4p)

13.8p

interim dividend
in respect of
2019 performance

BAE SYSTEMS

Financial highlights

Sales¹ increased by £0.8bn to £20.9bn (2019 £20.1bn), a 4% increase on a constant currency basis⁸.

Underlying EBITA² increased to £2,132m (2019 £2,117m), giving a return on sales⁹ of 10.2% (2019 10.5%). Excluding the impact of exchange translation, the increase was 1%.

Underlying earnings per share³ for the year increased by 2% to 46.8p (2019 45.8p, excluding the one-off tax benefit).

Free cash flow⁴ was £367m (2019 £850m), which includes the impact of the Group's £1bn contribution into the UK pension scheme. The remaining inflow reflects the Group's strong focus on liquidity.

Net debt⁵ increased to £2,718m, following the £1bn bond issuance to fund the UK pension scheme and the \$2.2bn (£1.7bn) acquisitions of the Airborne Tactical Radios and Military Global Positioning System businesses.

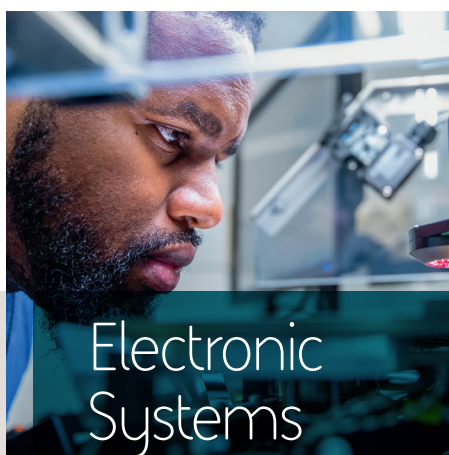
Order intake⁶ increased by £2.5bn to £20,915m (2019 £18,447m).

Order backlog⁷ decreased by £0.2bn to £45.2bn.

Final dividend of 14.3p per share making a total of 23.7p per share in respect of the year ended 31 December 2020.

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 21 of the Annual Report 2020.

1. Revenue plus the Group's share of revenue of equity accounted investments, excluding subsidiaries' revenue from equity accounted investments.
2. Operating profit excluding amortisation and impairment of intangible assets, finance costs and taxation expense of equity accounted investments (EBITA), and 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, including net capital expenditure and lease principal amounts, financial investment, dividends from equity accounted investments and net interest paid. During 2020 the Group has determined that Free cash flow is its key performance measure for utilisation of cash at a Group level. The Group continues to use Operating business cash flow as its key segment metric, to monitor operational cash generation.
5. Cash and cash equivalents, less loans and overdrafts (including debt-related derivative financial instruments). Net debt does not include lease liabilities.
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. Current year compared with prior year translated at current year exchange rates.
9. Underlying EBITA as percentage of Sales.
10. Including share of equity accounted investments.
11. Ratio of Order intake to Sales.



Electronic Systems

Electronic Systems, with 16,600¹⁰ employees, comprises the US- and UK-based electronics activities, including electronic warfare systems, navigation systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, space electronics and electric drive propulsion systems.

Operational and strategic key points

- Airborne Tactical Radios and Military Global Positioning System acquisitions completed, performing well and integrations are progressing.
- F-35 electronic warfare systems for Lot 12 completed, surpassing cumulative programme deliveries of 800 electronic warfare systems as of year end.
- Successful demonstration of APKWS® ground-launch capability.
- Terminal High Altitude Area Defense (THAAD) seeker executing at full-rate production, and receipt of additional order to design and manufacture next-generation infrared seekers.
- Continued classified work.
- Demand in the commercial business lines of Controls & Avionics Solutions and Power & Propulsion Solutions has been negatively impacted by COVID-19.

Sales¹

£4,557m



Cyber & Intelligence

Cyber & Intelligence, with 9,700¹⁰ employees, comprises the US-based Intelligence & Security business and UK-headquartered Applied Intelligence business, and covers the Group's cyber security, secure government and commercial financial security activities.

Operational and strategic key points

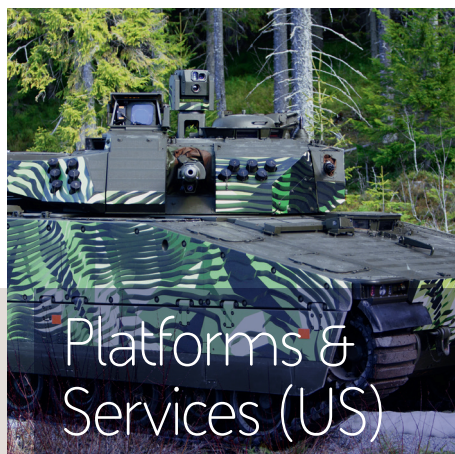
- US-based Intelligence & Security business continues to maintain its bid pipeline, perform on existing contracts and win new orders. All three businesses delivered a book-to-bill¹¹ ratio of over one.
- Awarded a seven-year, \$495m (£362m) contract on Instrumentation Range Support Programme.
- Multi-year Indefinite Delivery, Indefinite Quantity contract received to provide electronic hardware and engineering services for a US government customer.
- Our Federated Secure Cloud technology approach and processes are being employed to maintain and secure US Army Cyber Command's virtual desktop infrastructure.

Applied Intelligence

- Strong order intake, revenue and profitability performance in the core underlying business driven by the Government business unit.
- Significant profit growth year-on-year due to cycling the restructuring of the Technology & Commercial business in 2019.
- Sale of the US-based software-as-a-service business completed in November.

Sales¹

£1,812m



Platforms & Services (US)

Platforms & Services (US), with 12,600¹⁰ employees, and operations in the US, UK and Sweden, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including naval ship repair, and the management and operation of government-owned munitions facilities.

Operational and strategic key points

- Delivery of the first production Armored Multi-Purpose Vehicles took place in the second half; one of each of the five variants delivered by year end.
- Amphibious Combat Vehicle programme moved to full-rate production phase after Initial Operational Capability declared.
- Delivery of more than 50 production Bradley A4 vehicles.
- New US Navy contract modifications totalling \$114m (£83m) for Mk45 Mod 4 upgrades.
- Initial deliveries of Virginia Payload Module tubes completed.
- Ship Repair secured more than \$1bn (£0.7bn) in US Navy maintenance and modernisation orders.
- Ordnance Systems received \$233m (£170m) in modernisation contracts.
- Contracted to provide five 57Mk3 and ten 40Mk4 naval gun systems for the UK Royal Navy's Type 31 frigates.
- Operational delays and disruptions related to the COVID-19 pandemic were experienced across manufacturing and shipyard facilities.

Sales¹

£3,503m



Air

Air, with 29,300¹⁰ employees, comprises the Group's UK-based air activities for European and International Markets, and US Programmes, and its businesses in Saudi Arabia and Australia, together with its 37.5% interest in the European MBDA joint venture.

Operational and strategic key points

- Contract secured to support the production of 38 Typhoon aircraft for the German Air Force.
- Qatar Typhoon and Hawk aircraft programme met its contractual milestones in the year.
- F-35 programme Lots 12 to 14 contract definitised following price agreement. 126 rear fuselage assemblies completed in the year, below the contracted level as a result of COVID-19 disruption. Ramp up to full-rate production in 2021.
- Governments of Italy and Sweden committed to working with the UK to develop next-generation combat air capability.
- A further six Hawk aircraft assembled in Saudi Arabia were accepted and entered service in-Kingdom.
- The design and production readiness phase of the Hunter Class Frigate programme for the Royal Australian Navy continues to make good progress.
- Sale of Advanced Electronics Company to Saudi Arabian Military Industries completed in February 2021.

Sales¹

£7,910m



Maritime

Maritime, with 17,400¹⁰ employees, comprises the Group's UK-based maritime and land activities.

Operational and strategic key points

- The fourth Astute Class submarine, HMS Audacious, left our Barrow site in April to begin sea trials with the Royal Navy.
- Construction of the first two Dreadnought Class submarines continues to advance.
- The build phase of the River Class Offshore Patrol Vessel programme is now complete, with the fourth ship, HMS Tamar, handed over to the Royal Navy in March, and HMS Spey, the fifth and final ship, handed over in October.
- Construction of the first two City Class Type 26 frigates for the Royal Navy continues to progress.
- Acquisition of Techmodal, a UK data consultancy and digital services business, completed in August.
- Announcement of a 15-year agreement with the UK Ministry of Defence to supply the Next Generation Munitions Solution between 2023 and 2037.
- RBSL has secured its share of the Mechanised Infantry Vehicle Boxer programme.

Sales¹

£3,257m

BAE Systems Who we are

At BAE Systems, we provide some of the world's most advanced, technology-led defence, aerospace and security solutions.

We employ a skilled workforce of 89,600¹ people in more than 40 countries. We help our customers to stay a step ahead when protecting people and national security, critical infrastructure and vital information. We also work closely with local partners to support economic development through the transfer of knowledge, skills and technology.

1. Including share of equity accounted investments.

Financial calendar

| | |
|--|-----------------------------|
| Financial year end | 31 December |
| Annual General Meeting | 6 May 2021 |
| 2020 final ordinary dividend payable | 1 June 2021 |
| 2021 half-yearly results announcement | 29 July 2021 |
| 2021 interim ordinary dividend payable | 30 November 2021 |
| 2021 full-year results: – preliminary announcement – Annual Report | February 2022 March 2022 |
| 2021 final ordinary dividend payable | June 2022 |

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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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Designed and produced by Radley Yeldar.

