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To all BAE Shareholders

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# Newsletter No. 4

## BAE results impress the market, but it's not all roses

BAE Systems issued their preliminary results this morning and basic earnings per share fell by 11% which you would normally expect to be rather a dampener on shareholders' enthusiasm for the stock. But instead the share price rose during the day by over 4% when most of the market was falling. This contrary response probably arose because an increase in the dividend was announced – up 4% to 19.5p giving a yield of 5.6% on the share price at the time of writing of 346p. In addition there was an announcement of an aggressive share buy-back programme of up to £1bn over three years. These aspects may have pleased many shareholders who often hold the stock for income.

Underlying earnings per share only fell slightly but sales fell by 7% to £17.8bn and it's no secret that BAE has been operating in tough markets for some time. However, the order backlog increased by 8% to 42.5bn so there looks to be a reliable income stream in the future. Indeed the company stated that it anticipates modest growth in underlying earnings per share growth in 2013. But the underlying figure ignores some exceptional items which are a recurring feature of BAE's accounts as with many large FTSE-100 companies. The difference between basic and underlying earnings might better be viewed as being "out of sight, and hence and out of mind".

Uncertainties about the US defence budget cloud the picture and the pricing negotiations on the Salam contract are still continuing. In essence UK and US defence expenditure is flat or declining and although there is some growth in international markets for defence equipment and in specific areas, this is not enough the offset the negative areas. For example, the US contributed 40% of group sales in 2012 so it is difficult to overturn that impact. The only positive aspect is that many of the contracts are long term in nature so that has a smoothing effect.

This picture was reinforced by a recent report in the Daily Telegraph that BAE's share of global arms sales had slipped to third place from second according to a report from SIPRI (that data excludes China due to shortage of information). Lockheed Martin is now the leader with Boeing in second place. This data is based on US$ figures though so might have been affected by exchange rates.

So in summary, the company may be making positive hints about future prospects by raising the dividend, but it might also be simply trying to keep its shareholders happy by doing that and undertaking share buy-backs. Which applies might become clearer at the AGM on the 8th May.
No clarity on when Dick Olver might step down as Chairman was supplied in the announcement and that might no doubt be another question shareholders will ask at the meeting.

Yours sincerely
Roger Lawson
Chairman

*More background information about the campaign on the BAE Systems campaign is present on this web page where further news will be posted as it becomes available:*
*www.sharesoc.org/campaigns4.html*