

Trading Statement

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BAE SYSTEMS PLC
12 November 2015

BAE Systems - Trading update

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BAE Systems today issues this statement to provide an update on its business to reflect developments affecting near-term trading performance.

Ian King, Chief Executive BAE Systems plc, commented: "Overall the company is operating in an improving business environment and we continue to win new orders, with good prospects for the future. In the short term, action to extend the production life of Typhoon aircraft by reducing the current production rate and a charge to impair the carrying value of the Williamstown shipyard in Australia will impact the Group's 2015 results. Including a benefit of some 2 pence from adjustment of certain overseas tax provisions in the light of rulings received, the Group's underlying earnings per share for 2015 are expected to be around 38 pence."

Business environment

Defence and security remain the first priority of governments in all of our markets. In the UK, budget commitments to defence spending provide greater certainty and stability ahead of the forthcoming 2015 Strategic Defence and Security Review. In the US, the Group welcomed the recent Congressional budget approval which is expected to result in defence spend increasing above the previous Budget Control Act caps. We continue to achieve good growth in our businesses in adjacent commercial markets including cyber security and commercial electronics.

Military aircraft

In the Middle East, an agreement for the supply of 28 Typhoon aircraft for the Kuwait Air Force was announced in September. Subject to the formal contract, deliveries from the Italian Typhoon final assembly line are likely to commence around the end of the decade. To ensure production continuity at competitive costs over the medium term, actions

are being taken to reduce the Group's current Typhoon production rate. As a result, the Group is today announcing a proposal to reduce the workforce of the Military Air & Information business by up to 371 roles. These changes will impact the Group's 2015 results. The lower production rate, together with the existing profile of contracted aircraft deliveries, is expected to result in Typhoon production sales reducing from approximately £1.3 billion in 2015 to approximately £1.1 billion in 2016.

Although there can be no certainty as to the timing of orders, discussions with current and prospective operators of the Typhoon aircraft continue to support the Group's expectations for additional Typhoon contract awards in the months ahead.

Agreement has been reached confirming the requirement for 22 Hawk advanced jet trainer aircraft, associated ground equipment and training aids for the Royal Saudi Air Force, which form part of an enhancement to the Kingdom's pilot training capacity.

Australia

In Australia, whilst the Group welcomed the announcement by the Government of its intention to launch a naval shipbuilding strategy, it is unclear whether this initiative will be sufficient to provide for the viability of the Williamstown, Melbourne shipyard. With no near-term prospect of work beyond the LHD programme and Air Warfare Destroyer block manufacture, the Group has announced further headcount reductions and a consolidation of its operating divisions from 3 to 2 to reduce management costs and remain competitive. A non-cash impairment of the carrying value of the Williamstown shipyard assets will be charged to the Group's 2015 results.

US

In October, BAE Systems was awarded the contract to provide the digital electronic warfare system for the US Air Force's Eagle Passive Active Warning Survivability System (EPAWSS) programme to upgrade up to 450 F-15 aircraft. The Group's initial EPAWSS contract is valued at \$67 million and is expected to rise beyond \$1 billion over the life of the programme. In September, the Group was notified that its solution for the US Army's Common Infrared Countermeasures (CIRCM) programme had not been selected.

BAE Systems' US ship repair business is responding to changes in the profile of its US Navy workload. Anticipated reductions in its Norfolk, Virginia, based work load on the Atlantic Coast will occur during 2015/16, with activity increasing subsequently following investment in capital facilities at the Group's San Diego shipyard on the Pacific Coast.

In October, BAE Systems' Platforms & Services (US) sector was awarded two contracts totalling \$0.5 billion to supply armoured vehicles to US and international customers.

Following external interest, in April BAE Systems announced a strategic review of the manpower and services activities of its US-based Intelligence and Security (I&S) sector. The review has concluded that retaining the businesses delivers greater value. The business continues its good performance and order intake.

Conclusion

Overall, the Group expects good sales growth in 2015 and a robust order backlog at the half year of £37.3 billion underpins confidence in the future prospects for the business.

Full year results

BAE Systems will announce its financial results for the year ending 31 December 2015 on 18 February 2016.

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