

2017 Preliminary Results

22 February 2018



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Sir Roger Carr

Chairman



Charles Woodburn

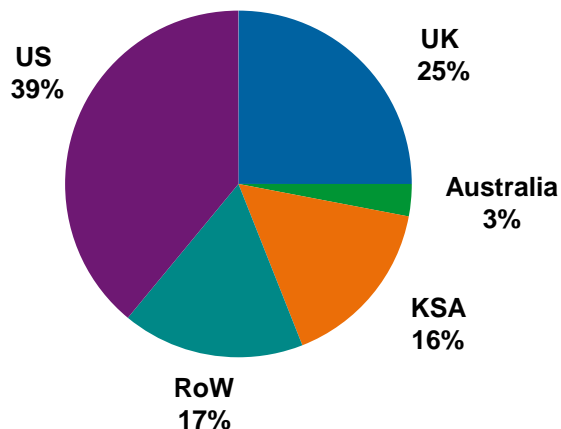
Chief Executive

2017 – Full Year Overview

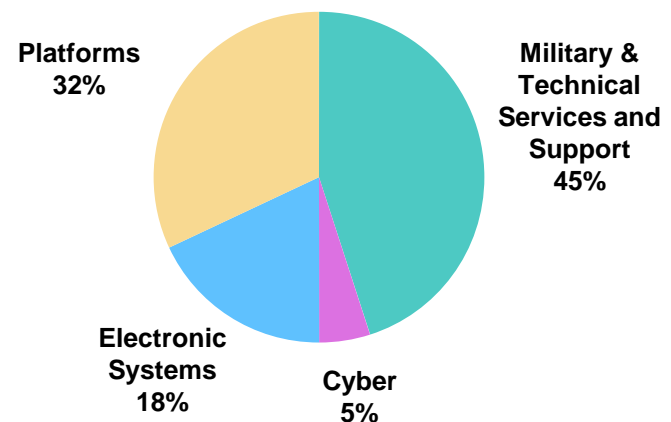
- Earnings in line with expectations
- Cash generation strong
- Operational performance good
- AI goodwill write down
- Pension funding agreement reached
- Large order backlog

	2017 Full Year	2016 Full Year
Sales	£19,626m	£19,020m
Underlying EBITA	£2,034m	£1,905m
Underlying EPS	43.5p	40.3p
Dividend per share	21.8p	21.3p
Order backlog	£41.2bn	£42.0bn

**2017 Full Year
Sales by Destination**



**2017 Full Year
Sales by Activity**



Strategy and focus areas

Our vision is to be the premier international defence, aerospace and security company

Our mission is to provide a vital advantage to help our customers protect what really matters

Our Strategy

- Maintain and grow our defence businesses
- Continue to grow our business in adjacent markets
- Develop and expand our international business
- Inspire and develop a diverse workforce to drive success
- Enhance financial performance and deliver sustainable growth in shareholder value

Strategic priorities

Drive operational excellence

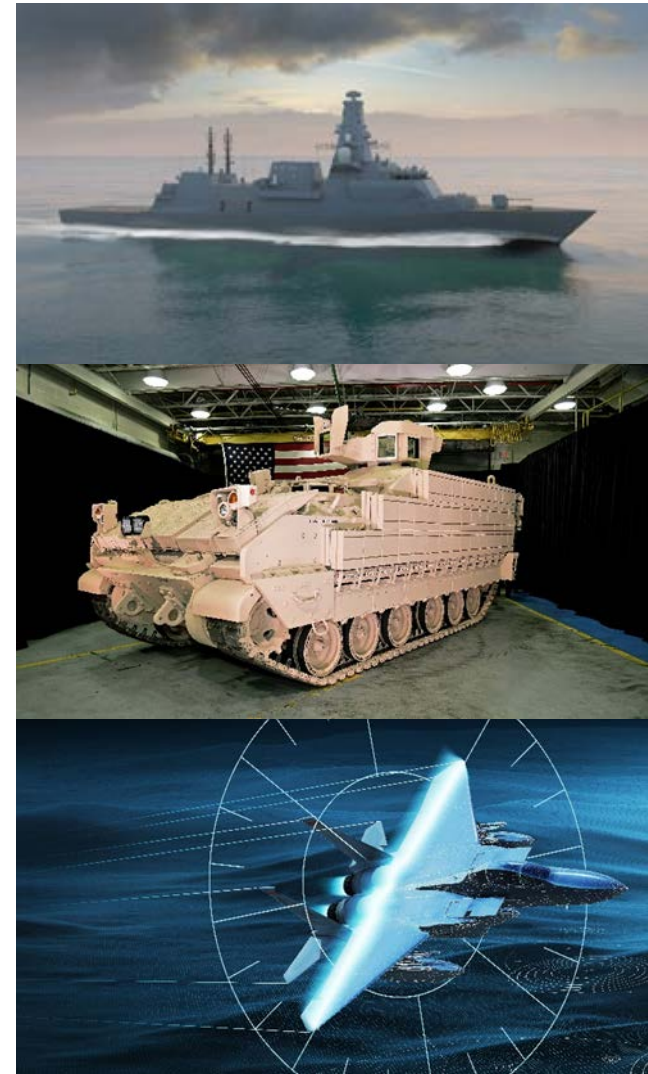
Continuously improve competitiveness and efficiency

Advance and further leverage our technology

Our values are Trusted, Innovative and Bold

Strategic Priorities – Operational Excellence

- Key milestones in 2017
 - Type 26 production commenced
 - US programme ramp
 - Combat Vehicles
 - Electronic systems
 - In-Kingdom Hawk assembly commenced
 - Management changes
- 2018 focus
 - Maritime milestones
 - Ramp to rate in US
 - AI performance improvement
- Performance critical
 - Delivering to customers
 - Winning new business



Strategic Priorities – Competitiveness

Crucial to securing opportunities and addressing customer affordability challenges

- Key milestones achieved in 2017
 - Restructuring actions
 - New organisation structure
 - CPO appointed
- 2018 focus
 - Strategic supply chain changes
 - Embed new organisation structure
 - Increased collaboration



Strategic Priorities – Technological Innovation

Driver of competitive advantage

- Key milestones achieved in 2017
 - Increased R&D spend
 - CTO appointed
 - Collaboration with universities
- 2018 focus
 - CTO to drive value creation
 - Focused spend
 - Technology plan
 - Collaboration increased
 - Within BAE Systems
 - External partners



Organisational Structure

- Effective 1st January 2018
- Air Sector
 - Strengthened and streamlined
 - Focused on delivery and international opportunities
- Maritime Sector
 - Long-term contracted UK maritime programmes
 - Focused on programme execution
- US Businesses unchanged
 - Well placed in improving US environment



Market Outlook

- US
 - CR – minimal impact
 - Budget outlook positive
 - Portfolio well positioned
- UK
 - Defence and Security remains high priority
 - Modernising Defence Programme
 - Long-term contract positions
- International Markets
 - Positive outlook in many of our markets



Key franchises and programmes - US

Sales
outlook

- Electronic Systems
 - ↑
 - Broad portfolio – well placed
 - F-35 and F-15 upgrades ramp up
 - Classified work increasing
 - APKWS – high demand








- US Platforms and Services
 - US Combat Vehicles
 - ↑
 - Production set to double in plan
 - M109, AMPV, Bradley vehicles
 - ACV down select decision in 2018
 - Domestic and Export land opportunities

 - US Ship Repair
 - ↑
 - Good 2017 order intake
 - Support by Naval budget outlook
 - Increased capacity

 - US Weapons Systems
 - ↑
 - Leader in Naval guns – Naval budget outlook
 - M777 India ramp up
 - Robust US army demand

Key franchises and programmes - Air

Sales
outlook

- Typhoon Production 
 - Qatar stabilises outlook post 2018
 - Further orders secured would drive growth
- Typhoon Support 
 - Global fleet still increasing, ongoing upgrades
 - Qatar support package, Oman in place
- F-35 Production & Support 
 - Production ramping up till 2020
 - Support - initial packages won; global fleet growing
- Hawk Support & Production 
 - Long-term support, KSA production through 2019
- Tornado Support 
 - UK out of service 2019
- MBDA 
 - Good growth from existing order backlog
- Australia 
 - Modest growth; downselect decisions on Land400 and SEA5000 in 2018

Key franchises and programmes – Maritime and Cyber

Sales
outlook

- Maritime
 - ➔
 - Long-term contracted programmes
 - Astute and Dreadnought production
 - Type 26
 - Support services and combat systems
 - SEA5000, CSC and Type 31 opportunities

- Cyber & Intelligence
 - US Intelligence & Security
 - ➔
 - High tempo of bid activity
 - Margins and cash performance good
 - Competitive market

 - Applied Intelligence
 - ↑
 - Actions taken to address commercial
 - Government services performing well
 - Improved returns targeted

Overview

- Strategy re-affirmed – strategic priorities
- Pension funding agreement reached – future cash flows de-risked
- Capital Allocation – clear, consistent and disciplined
- Transition earnings year – underpinned by good cash performance
- Sustainable business model – firm base to develop from

Well placed for medium-term growth



Peter Lynas

Group Finance Director

Key Points

2017

- Underlying EPS ⁽¹⁾ up 8%
- Strong cash performance
- Strong order backlog
- Dividend growth for the 14th consecutive year
- UK pension valuations de-risk future cash flow

(1) Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives and non-recurring items and, in 2017, a credit in respect of US tax reform enacted in December 2017

Key Points

2018

- Earnings ⁽¹⁾ expected to be in line with 2017, post-IFRS 15 restatement
- Headwind from USD translation broadly matched by lower effective tax rate
- Overall, US growth projected to be strong
- Applied Intelligence moving back to break-even
- Free cash flow of c.£2bn across 2017 & 2018

(1) 2018 Underlying Earnings per Share assuming an FX rate of \$1.40, as outlined on slide 28

2017 Financial Summary

	2017	2016
Sales	£19,626m	£19,020m
Underlying EBITA ⁽¹⁾	£2,034m	£1,905m
Underlying Finance Costs ⁽²⁾	£(245)m	£(257)m
Underlying Earnings per Share ⁽³⁾	43.5p	40.3p
Operating Business Cash Flow	£1,752m	£1,004m
Net Debt	£(752)m	£(1,542)m
Order Backlog	£41.2bn	£42.0bn
Dividend per Share	21.8p	21.3p

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

(2) Finance costs excluding pension interest and mark-to-market revaluation of financial instruments and investments

(3) Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives and non-recurring items and, in 2017, a credit in respect of US tax reform enacted in December 2017

(4) Average £/\$ rate at 2017 \$1.29 & 2016 \$1.35

Balance Sheet

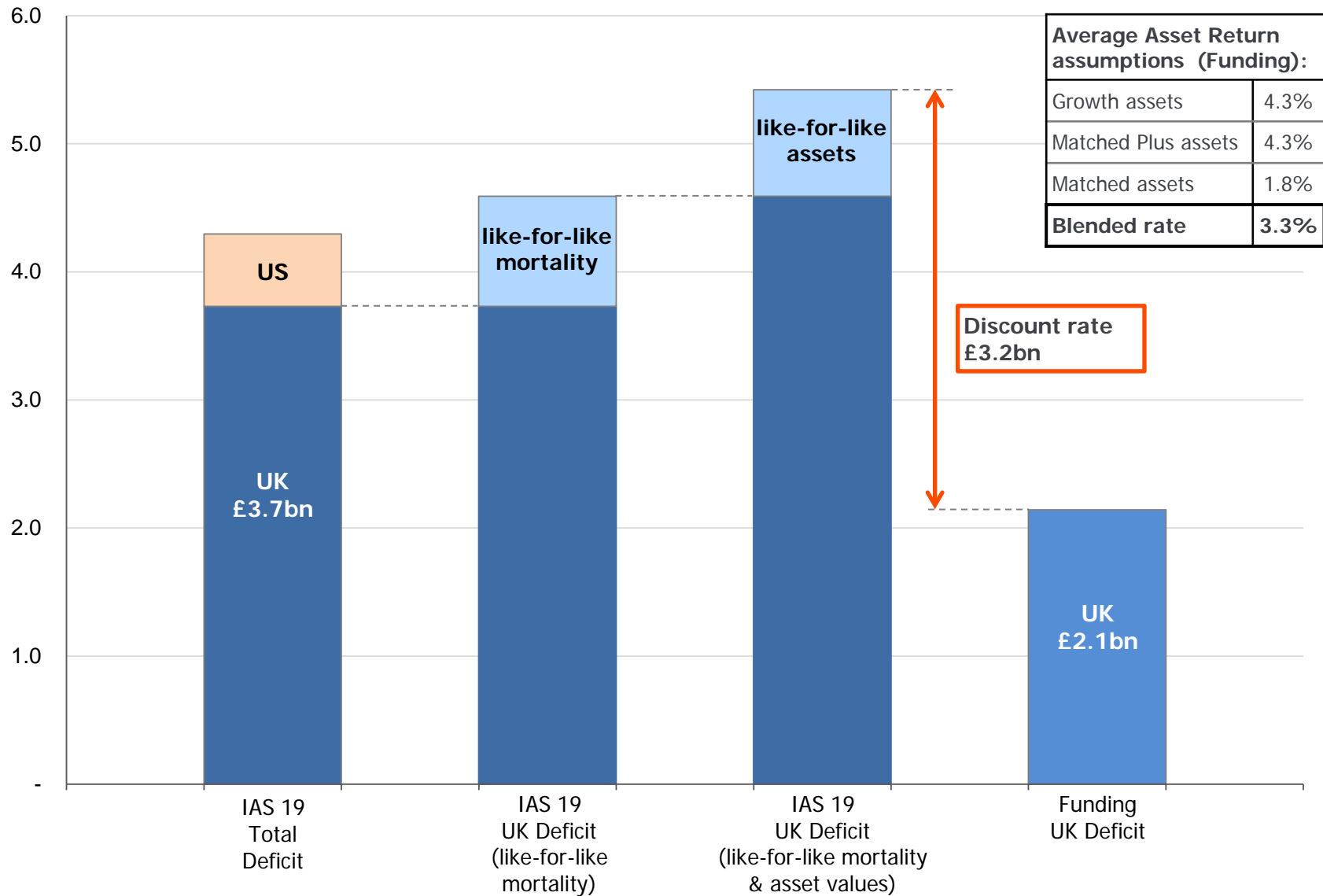
(£m)	31 Dec 2017	31 Dec 2016	Drivers
Intangible fixed assets	10,378	11,264	FX, £0.4bn Applied Intelligence goodwill impairment
Tangible fixed assets ⁽¹⁾	1,977	1,999	FX
Investments	390	305	share of lower pension deficit
Working capital	(3,752)	(3,564)	£0.4bn re advances & VAT timing
Pension deficit	(3,920)	(6,054)	asset returns & mortality assumptions
Tax assets & liabilities	435	935	deferred tax on pension deficit, US tax reform
Financial assets & liabilities	18	121	
Net debt	(752)	(1,542)	
Assets held for sale	10	-	
Net Assets	4,784	3,464	

(1) net of funding received for the Dreadnought submarine programme

Pension Deficit (IAS 19)

(£bn)	31 Dec 2017	30 Jun 2017	31 Dec 2016
Assets	27.0	26.3	25.9
Liabilities	(31.2)	(32.7)	(32.5)
Pension deficit	(4.2)	(6.4)	(6.6)
Group share of deficit	(3.9)	(5.9)	(6.1)
UK - Bond yields	2.6%	2.6%	2.7%
Inflation rate	3.1%	3.1%	3.2%
US - Bond yields	3.7%	3.9%	4.2%

UK Pension Deficit - Accounting v Funding (£bn)



Net Cash / (Debt)

(£m)	2017
Opening Net Debt	(1,542)
Operating business cash flow	1,752
Interest & Tax	(408)
Equity dividends paid	(684)
Other, incl foreign exchange	130
Closing Net Debt	(752)



Electronic Systems	450
Cyber & Intelligence	116
Platforms & Services (US)	222
Platforms & Services (UK)	427
Platforms & Services (Int'l)	671
HQ	(134)
Operating business cash flow	1,752

Gross Debt	Gross Cash
£(4.0)bn	£3.2bn

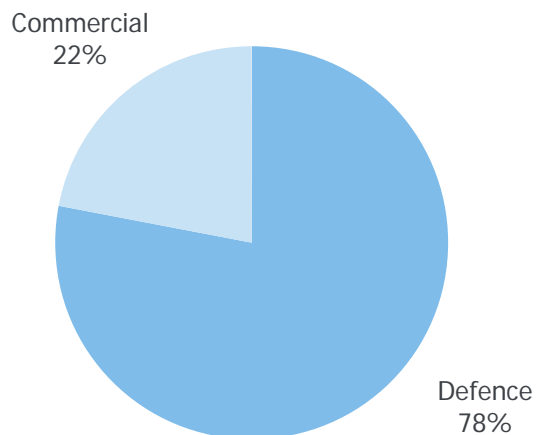
\$1bn 6.375% bond maturing in 2019

Electronic Systems

	2017	2016
Sales	\$4,685m	\$4,445m
Underlying EBITA	\$724m	\$670m
Margin	15.5%	15.1%
Cash flow	\$580m	\$635m
Order backlog	\$7.3bn	\$6.5bn

- Sales up 5%
 - F-35, DEWS, APKWS
- Margin performance on strong programme execution
- Cash conversion at 85% ex-pension
- Order backlog record high
 - F-35
 - DEWS
 - APKWS

2017 Sales

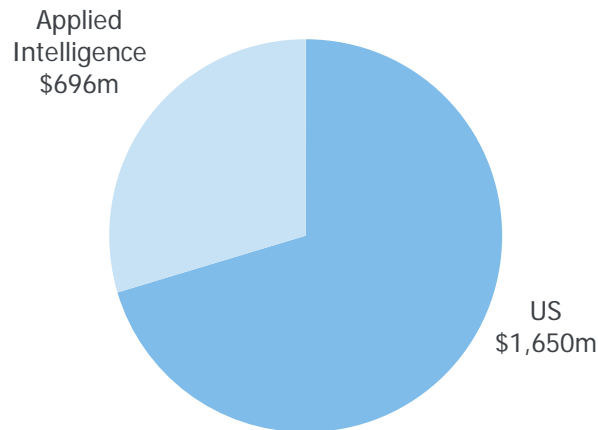


Cyber & Intelligence

	2017	2016
Sales	\$2,346m	\$2,408m
Underlying EBITA	\$67m	\$121m
Margin	2.9%	5.1%
Cash flow	\$149m	\$112m
Order backlog	\$2.9bn	\$3.0bn

- Sales slightly below guidance
 - US business down 4%
 - Applied Intelligence up 6% ⁽¹⁾
- Margin performance
 - US business at 8.8%
 - Applied Intelligence underlying loss of £61m, including £24m restructuring charge
- Cash conversion in excess of 100%
- Order backlog reduced marginally

2017 Sales



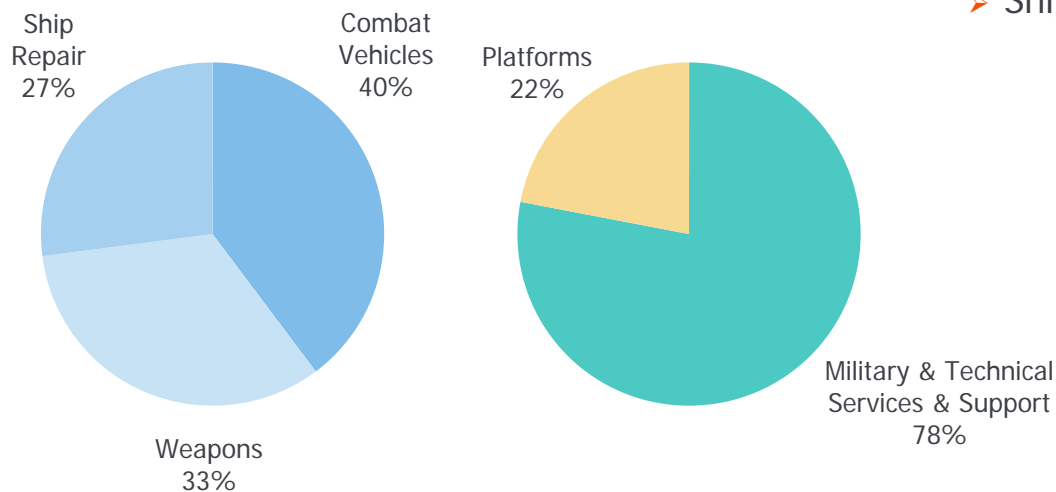
(1) Applied Intelligence growth based on £ figures

Platforms & Services (US)

	2017	2016
Sales	\$3,774m	\$3,893m
Underlying EBITA	\$312m	\$286m
Margin	8.3%	7.3%
Cash flow	\$286m	\$79m
Order backlog	\$6.3bn	\$5.7bn

- Sales slightly behind guidance
 - land vehicle deliveries to Brazil, Japan delayed
- Margin after \$16m charge for commercial ships
- Cash performance enhanced as commercial ships near completion
- Order backlog increased:
 - India M777 \$0.5bn
 - Paladin production \$0.4bn
 - Ship Repair \$1.3bn

2017 Sales

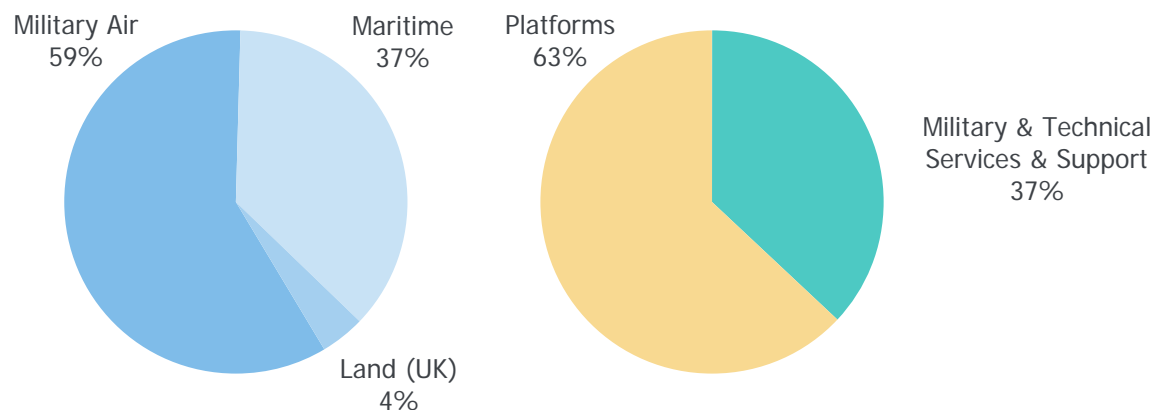


Platforms & Services (UK)

	2017	2016
Sales	£7,682m	£7,806m
Underlying EBITA	£794m	£810m
Margin	10.3%	10.4%
Cash flow	£427m	£199m
Order backlog	£16.8bn	£17.8bn

- Sales slightly ahead of guidance
 - Submarine programme activity
- Margin in line with expectation
- Cash performance includes £106m VAT timing benefit
- Order backlog as expected
 - Qatar contract not yet booked

2017 Sales

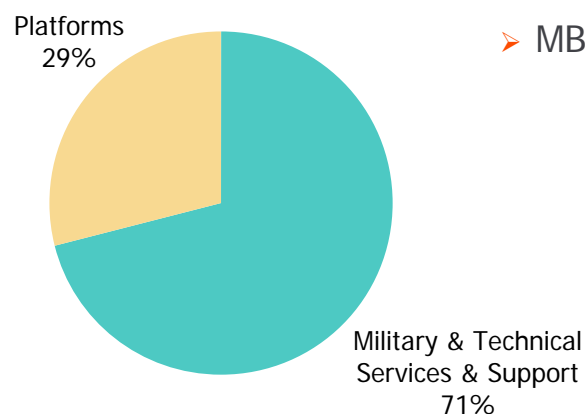
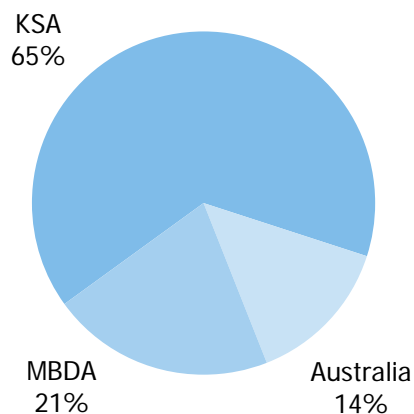


Platforms & Services (International)

	2017	2016
Sales	£4,138m	£3,943m
Underlying EBITA	£472m	£400m
Margin	11.4%	10.1%
Cash flow	£671m	£435m
Order backlog	£13.3bn	£13.1bn

- Sales increase at 5%
 - higher KSA Typhoon support
 - increasing MBDA volumes
- Margin ahead of guidance
 - KSA partner companies
 - MBDA performance
- Operating cash flow includes £0.3bn advance
- Order backlog sustained
 - KSA support contracts
 - MBDA international awards

2017 Sales



2018 Guidance - Trading

	2017 Actual ⁽¹⁾		2018 Guidance ⁽²⁾	
	Sales (£m)	Margin (%)	Sales	Margin
Electronic Systems	3,598	15.0	high single digit	14% - 16%
Cyber & Intelligence	1,818	3.2	marginally higher	c.5%
Platforms & Services (US)	2,951	8.0	10% - 15%	9% - 10%
Air	7,210	13.4	c.(5)%	11% - 13%
Maritime	2,877	8.7	stable	8% - 9%
Group	18,487	10.7%		
HQ (EBITA)	(80)		similar	
Underlying Finance Costs	(245)		c.15% lower	
Tax rate	21%		c.18%	
Earnings per Share (restated IFRS 15)	42.1p			

In aggregate, 2018 underlying EPS to be **in line with** 2017

(1) Re-presented in the new sector structure and restated for adoption of International Financial Reporting Standard 15 ; a reconciliation to the reported results is provided in the appendix

(2) Guidance for US Sectors in US dollars; £/\$ planning rate = \$1.40 ; EPS sensitivity 10 cents = c.1.5p

Cash Guidance

(£bn)

	2017	2018 Guidance
Operating items:		
Net capital expenditure, disposals & depreciation	(0.1)	(0.2)
Working capital		
- provision utilisation	(0.1)	(0.1)
- advances movement (net)	0.2	nil – (0.3)
- other working capital movements	0.2	(0.1)
Pension deficit funding	(0.3)	(0.3)
Non-operating items:		
Interest & Tax	(0.4)	(0.4)
Dividends	(0.7)	(0.7)

2018 expected to see Net Debt **broadly unchanged**

c.£2bn of Free Cash Flow in 2017 & 2018 ; c.£1.4bn expected dividends to shareholders



Charles Woodburn

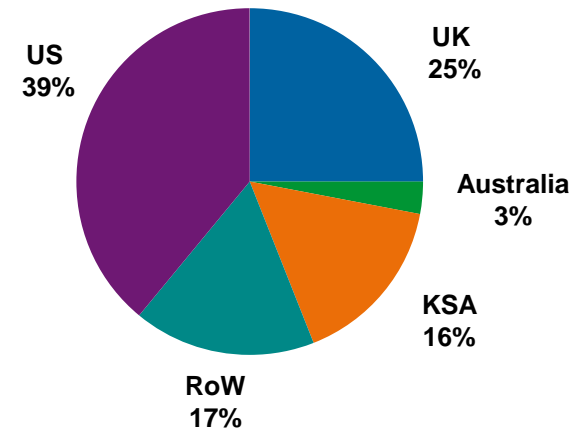
Chief Executive

2017 – Summary

- 2017 – good performance
- Cash generation strong
- Disciplined capital allocation
- Long-term franchises and contracts
- Executing on strategic priorities to generate further opportunities
- Good returns to shareholders

	2017 Full Year	2016 Full Year
Sales	£19,626m	£19,020m
Underlying EBITA	£2,034m	£1,905m
Underlying EPS	43.5p	40.3p
Dividend per share	21.8p	21.3p
Order backlog	£41.2bn	£42.0bn

2017 Full Year
Sales by Destination



Well placed for medium-term growth



Supplementary Information

2017 Financial Performance – As Reported

<i>(£m / £bn backlog)</i>	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	3,635	562	15.5%	450	5.4
Cyber & Intelligence	1,820	52	2.9%	116	2.1
Platforms & Services (US)	2,928	242	8.3%	222	4.6
Platforms & Services (UK)	7,682	794	10.3%	427	16.8
Platforms & Services (Int'l)	4,138	472	11.4%	671	13.3
HQ	287	(88)		(134)	-
Eliminations	(864)				(1.0)
	19,626	2,034	10.4%	1,752	41.2

Underlying Earnings per Share

43.5p

Segment Changes – Sales – 2017 Full Year

<i>(£m)</i>	Old Structure	Reorg.	IFRS 15	New Structure	
Electronic Systems	3,635	-	(37)	3,598	Electronic Systems
Cyber & Intelligence	1,820	-	(2)	1,818	Cyber & Intelligence
Platforms & Services (US)	2,928	-	23	2,951	Platforms & Services (US)
Platforms & Services (UK)	7,682	(7,682)			
Platforms & Services (Int'l)	4,138	3,921	(849)	7,210	Air
		3,151	(274)	2,877	Maritime
HQ	287	49	-	336	HQ
Eliminations	(864)	561	-	(303)	Eliminations
	19,626	-	(1,139)	18,487	

Segment Changes – Underlying EBITA – 2017 Full Year

<i>(£m)</i>	Old Structure	Reorg.	IFRS 15	New Structure	
Electronic Systems	562	-	(21)	541	Electronic Systems
Cyber & Intelligence	52	-	6	58	Cyber & Intelligence
Platforms & Services (US)	242	-	(5)	237	Platforms & Services (US)
Platforms & Services (UK)	794	(794)			
Platforms & Services (Int'l)	472	528	(33)	967	Air
		258	(7)	251	Maritime
HQ	(88)	8	-	(80)	HQ
	2,034	-	(60)	1,974	

2017 Financial Performance – Re-presented

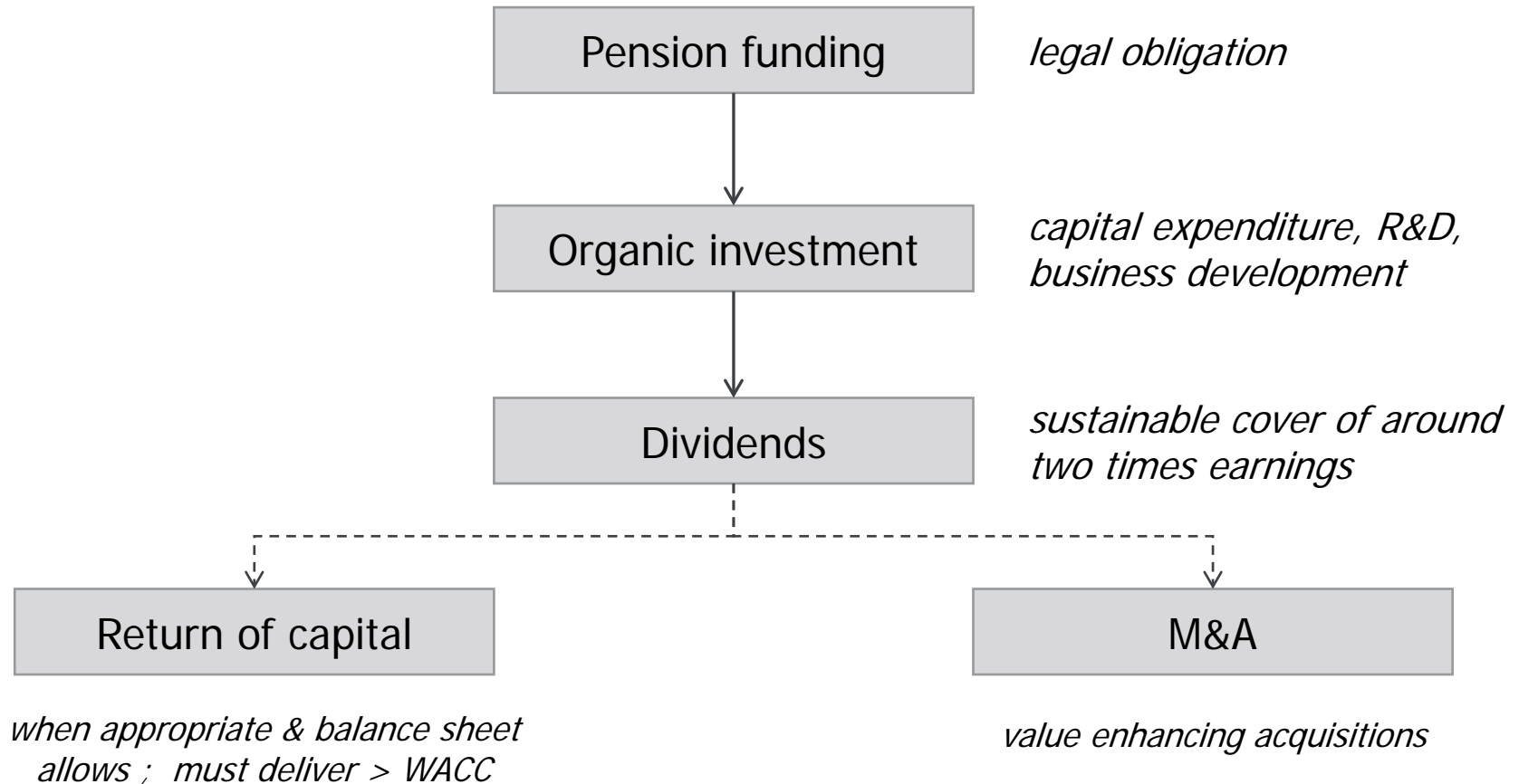
Re-presented for reporting segments changes and adoption of IFRS 15

<i>(£m / £bn backlog)</i>	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	3,598	541	15.0%	450	4.8
Cyber & Intelligence	1,818	58	3.2%	116	2.1
Platforms & Services (US)	2,951	237	8.0%	222	4.2
Air	7,210	967	13.4%	832	19.5
Maritime	2,877	251	8.7%	278	8.5
HQ	336	(80)		(146)	-
Eliminations	(303)				(0.4)
	18,487	1,974	10.7%	1,752	38.7

Underlying Earnings per Share

42.1p

Capital Allocation



Balance sheet management to maintain **investment grade** rating and ensure **operating flexibility**

Like-for-Like Sales & Underlying EBITA

	Sales			Underlying EBITA		
	2017	2016	<i>Yr-on-Yr</i>	2017	2016	<i>Yr-on-Yr</i>
As Reported	19,626	19,020	<i>3%</i>	2,034	1,905	<i>7%</i>
Foreign exchange:						
USD		338			37	
EUR		65			7	
Other		70			6	
Adjusted for foreign exchange	19,626	19,493	<i>1%</i>	2,034	1,955	<i>4%</i>
Transactions:						
Acquisitions & Disposals		(33)			-	
Adjusted for f/x and transactions	19,626	19,460	<i>1%</i>	2,034	1,955	<i>4%</i>

Reconciliation of Earnings

(£m / pence EPS)

	2017 Underlying	2016 Underlying	2017 Reported	2016 Reported
Underlying EBITA	2,034	1,905	2,034	1,905
Non-recurring items			(13)	(12)
EBITA			2,021	1,893
Amortisation/Impairment			(470)	(87)
Underlying Finance Costs	(245)	(257)	(245)	(257)
Pensions/Fair Value/FX movements			(135)	(362)
Finance Costs			(380)	(619)
Underlying Tax	(376)	(346)	(376)	(346)
Tax - US deferred tax rate adjustment			40	-
Tax - other (amort'n/impair't etc)			49	97
Tax			(287)	(249)
Non-controlling interest	(30)	(25)	(30)	(25)
Earnings	1,383	1,277	854	913
Earnings per Share	43.5p	40.3p		

Working Capital Movements - reconciliation to Cash Flow

(£m)

Movement analysed between:

	2017	2016	Mvmt	F/X	M&A	Other	Cash Flow
Inventories	723	744	21	52	-	(2)	(29)
Receivables – current	3,586	3,305					
Receivables – non-current	387	351					
Total Receivables	3,973	3,656	(317)	160	18	(46)	(449)
Payables – current	(6,312)	(6,540)					
Payables – non-current	(1,378)	(818)					
Total Payables ⁽¹⁾	(7,690)	(7,358)	332	(153)	(14)	45	454
Liability Provisions – current	(345)	(234)					
Liability Provisions – non-current	(413)	(372)					
Total Liability Provisions	(758)	(606)	152	(24)	9	17	150
Working Capital	(3,752)	(3,564)					

(1) excludes funding received for tangible fixed assets related to the Dreadnought submarine programme