

# Change in key measure of operational profitability to Underlying EBIT

*as set out in the 2020 Preliminary Announcement*

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baesystems.com

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## Measure of Profitability: Underlying EBIT & EPS

- As set out in the 2020 Preliminary Announcement, from 2021 the Group will adopt an Underlying EBIT measure of operational profitability in place of the previously reported Underlying EBITA measure
- This metric better reflects underlying operational profitability of the Group, by including amortisation of software and development intangibles
- Underlying EPS (earnings per share) will also be recalculated to ensure consistency with this updated operational profitability measure
- The underlying financial performance of the Group and the segments are re-presented on this new basis, along with reconciliations from the previous underlying performance measures (pages 3 & 4)
- The change in profit measure has no impact on the Group's business performance or cash guidance
- The re-presented underlying financial performance for 2020 is now the basis for the Group's guidance (pages 5 & 6)

*Further information is set out in the BAE Systems 2020 Annual Report, pages 64-65*

# Re-presentation of year ended 31 December 2020

Year ended 31 December 2020	Sales £m	Underlying EBITA £m	Underlying EBITA margin <sup>1</sup> %	Software and development intangible amortisation £m	Underlying EBIT £m	Underlying EBIT margin <sup>1</sup> %
Electronic Systems	4,557	684	15.0%	(10)	674	14.8%
Platforms & Services (US)	3,503	195	5.6%	(5)	190	5.4%
Air	7,910	941	11.9%	(32)	909	11.5%
Maritime	3,257	306	9.4%	(27)	279	8.6%
Cyber & Intelligence	1,812	136	7.5%	(1)	135	7.5%
HQ/intra-Group	(177)	(130)		(20)	(150)	
<b>Group</b>	<b>20,862</b>	<b>2,132</b>	<b>10.2%</b>	<b>(95)</b>	<b>2,037</b>	<b>9.8%</b>
Underlying net interest		(255)		-	(255)	
Underlying taxation expense		(312)		16	(296)	
Non-controlling interest		(72)		-	(72)	
<b>Underlying earnings</b>		<b>1,493</b>		<b>(79)</b>	<b>1,414</b>	
<b>Underlying EPS (pence)</b>		<b>46.8p</b>		<b>(2.5)p</b>	<b>44.3p</b>	

1. Underlying EBITA / EBIT as a percentage of Sales

# Re-presentation of half year ended 30 June 2020

Half Year ended 30 June 2020	Sales £m	Underlying EBITA £m	Underlying EBITA margin <sup>1</sup> %	Software and development intangible amortisation £m	Underlying EBIT £m	Underlying EBIT margin <sup>1</sup> %
Electronic Systems	2,203	291	13.2%	(5)	286	13.0%
Platforms & Services (US)	1,718	121	7.0%	(3)	118	6.9%
Air	3,610	356	9.9%	(16)	340	9.4%
Maritime	1,505	122	8.1%	(13)	109	7.2%
Cyber & Intelligence	913	59	6.5%	-	59	6.5%
HQ/intra-Group	(78)	(54)		(9)	(63)	
<b>Group</b>	<b>9,871</b>	<b>895</b>	<b>9.1%</b>	<b>(46)</b>	<b>849</b>	<b>8.6%</b>
Underlying net interest		(127)		-	(127)	
Underlying taxation expense		(146)		9	(137)	
Non-controlling interest		(27)		-	(27)	
<b>Underlying earnings</b>		<b>595</b>		<b>(37)</b>	<b>558</b>	
<b>Underlying EPS (pence)</b>		<b>18.7p</b>		<b>(1.2)p</b>	<b>17.5p</b>	

1. Underlying EBITA / EBIT as a percentage of Sales

## 2021 Group guidance<sup>(1)</sup>

Guidance is provided based on a \$1.35:£1 exchange rate

### Sales<sup>(2)</sup>

**+3% to +5%**

(2020 £20,862m)

### Underlying EBIT<sup>(2)</sup>

**+6% to +8%**

(2020 £2,037m)

### Underlying EPS<sup>(3)</sup>

**+3% to +5%**

(2020 44.3p)

### 2021 Free cash flow (FCF)

**>£1bn**

(2020 £1,367m<sup>(4)</sup>)

### 3 year FCF (2021 – 2023)

**>£4bn**

### Other

Sensitivity to 10c movement is c.2p on EPS	Underlying Finance Costs c.£270m
Tax Rate c.18%	Minority Interest c.£85m

**Targeting good top and bottom line growth and 3 year cash expansion**

- 1) Whilst the Group is subject to geopolitical and other uncertainties, the guidance is provided on current expected operational performance
- 2) On a constant currency basis we expect sales growth to be between 5% to 7%, and EBIT growth in excess of 10%
- 3) Underlying EPS recalculated based on Underlying EBIT
- 4) Excluding the £1bn one-off UK pension contribution

# 2021 Guidance<sup>(1)</sup> – Reporting Segments

Guidance is provided based on a \$1.35:£1 exchange rate

	Electronic Systems	Platforms & Services (US)	Air	Maritime	Cyber & Intelligence
<b>2020 Actual</b>					
Sales	£4,557m	£3,503m	£7,910m	£3,257m	£1,812m
Underlying EBIT margin	14.8%	5.4%	11.5%	8.6%	7.5%
<b>Segmental Guidance</b>					
<b>Sales</b>					
Guidance (\$1.35:£1)	Up 4% to 6%	Down 3% to 5%	Up 7% to 9%	Up 2% to 4%	Down 3% to 5%
Constant currency basis <sup>(2)</sup>	Up 10% to 12%	Stable	Up 7% to 9%	Up 2% to 4%	Stable
<b>Underlying EBIT margin<sup>(3)</sup></b>	15% to 16%	8% to 9%	10% to 11%	8% to 9%	7% to 8%

HQ costs are expected to be 10% lower than 2020

(1) Whilst the Group is subject to geopolitical uncertainties, the guidance is provided on current expected operational performance

(2) Constant currency growth rates eliminate the impact of foreign exchange rate translation

(3) Underlying EBIT as percentage of Sales

## Further information

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