

Trading Statement

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BAE SYSTEMS PLC
10 October 2017

10th October 2017

BAE Systems - Trading update and organisational announcement

Trading update

Trading for the period has been in line with management expectations and the Group's outlook for 2017 remains unchanged. In aggregate, we expect the Group's underlying earnings per share for 2017 to be 5% to 10% higher than full-year underlying earnings per share in 2016 of 40.3p and we continue to expect a small reduction in net debt compared with 31 December 2016.

In the US, a Continuing Resolution went into effect on the 1st October under which the Group does not expect any material impact. The US defence market outlook remains positive and the production ramp up on a number of the Group's long term programmes in the Electronic Systems and Combat Vehicles businesses is progressing to plan and positions the US business for growth in the medium term.

Export campaigns in all domains continue to be well supported by the UK government. A Statement of Intent for the purchase of 24 Typhoon and 6 Hawk aircraft was signed by the government of Qatar with the UK Ministry of Defence in September. Although there can be no certainty as to the timing of additional orders, discussions with current and prospective operators of the Typhoon aircraft continue to support the Group's expectations for future Typhoon contract awards.

In the UK, we are making good progress working with our MoD customer on the Dreadnought and Type 26 programmes and, in August, HMS Queen Elizabeth arrived in Portsmouth following successful initial sea trials. The UK Government's National Shipbuilding Strategy was published in September and confirmed a commitment to build eight Type 26 Frigates at BAE Systems' Glasgow shipyards and continued support for export opportunities.

Re-organisation and rationalisation announcement

From 1 January 2018, BAE Systems will implement organisational changes across the Group, other than at its US-managed business, BAE Systems, Inc. These changes will drive competitiveness; accelerate technology innovation; and deliver continued improvements in efficiency and operational excellence. The current Platforms & Services (P&S) UK and P&S International management structures will be removed with the organisation streamlined and strengthened Air and Maritime sectors created.

In addition, a new role of Chief Technology Officer is being created to enable more effective prioritisation, investment and exploitation of technology.

The revised structure is consistent with, and builds on the focus areas outlined at the half year results of operational excellence, competitiveness and technology. The new air sector will bring together our international capabilities and expertise to compete more effectively for international opportunities and collaborations.

To ensure production continuity at competitive costs over the medium term and based on the profile of currently contracted and expected aircraft deliveries, actions continue to be taken to reduce the Group's current Typhoon and Hawk production rates. As a result, the Group has today announced a proposal to reduce the workforce of the Military Air & Information business by up to 1,400 roles.

Additionally, and to enhance our competitive position we have announced a proposed work force reduction in our Maritime Services business of around 375 roles.

Further, the Applied Intelligence business is planning a refocused and more efficient operating model and have announced a proposed workforce reduction of up to 150 roles.

The resultant charges associated with these actions are included in the re-confirmed 2017 earnings guidance.

Board Directors

Effective from 1 November 2017, Peter Lynas, Group Finance Director and Executive Board Director, will assume responsibility for UK Shared Services, Procurement and Group Mergers & Acquisitions in addition to his existing responsibilities.

Interim Dividend

The Interim dividend of 8.8 pence per share will be paid on 30 November 2017.

Full year results

BAE Systems will announce its financial results for the year ending 31 December 2017 on 22 February 2018.

Investment Market WebEx/Call

In November, the Group will hold a WebEx/call for analysts and investors to run through the changes and reporting impacts of moving to this new organisational structure. On that call, the Group will also address the move to adopt accounting standard IFRS 15 from 1st January 2018.

Cautionary statement

All statements other than statements of historical fact included in this statement 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 statement, save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.

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