

2019 Preliminary Results

20 February 2020



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Sir Roger Carr

Chairman



Charles Woodburn

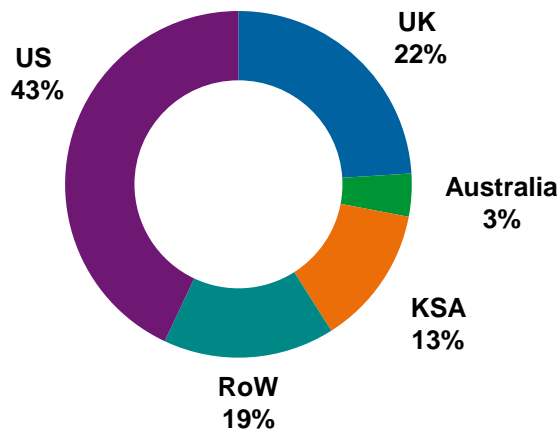
Chief Executive

2019 – Full Year Overview

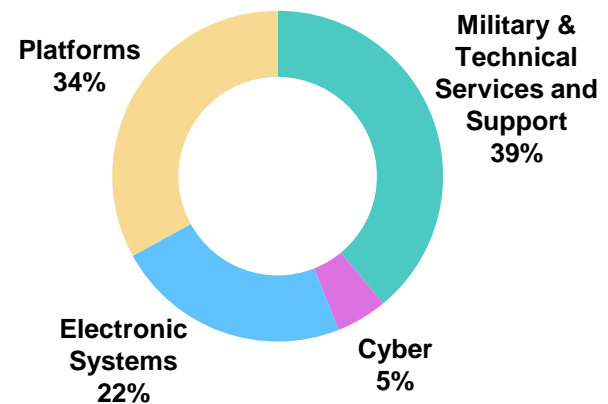
- 2019 good overall operational performance
- US outlook enhanced:
 - Further backlog growth
 - 2 proposed acquisitions
- Pension agreement reached
- Dividend increased by 4.5%

	2019 Full Year	2018 Full Year
Sales	£20,109m	£18,407m
Underlying EBITA	£2,117m	£1,928m
Underlying EPS		
- excl. one-off tax benefit	45.8p	42.9p
- incl. one-off tax benefit	50.8p	42.9p
Dividend per share	23.2p	22.2p
Order backlog	£45.4bn	£48.4bn
Net Debt	£(743)m	£(904)m

**2019 Full Year
Sales by Destination**



**2019 Full Year
Sales by Activity**



Delivered on guidance and improved operational performance

Positive outlook for the business

- Operational performance improvement
- Strong order backlog and programme visibility
- Cash generation improving – to be included in long term incentives
- Market positions and outlook remain strong
- Strategy consistent and working
- Pension actions good for all stakeholders
- Proposed acquisitions unique opportunity to accelerate strategy

Well placed for continued growth



Major Programme Status

- **F-35** – Ramped to 142 sets in 2019; c.160 targeted in 2020
- **Qatar Typhoon and Hawk** – Typhoon deliveries being accelerated, meeting milestones
- **UK Typhoon support** – 4 years in, performing strongly
- **KSA support** – Managing licence position; Platform availability - key contractual requirements being met
- **Astute** – Boats 4-7 in production
- **Dreadnought** – £1.4bn in year funding; revenues on programme now exceed Astute
- **UK OPVs** – 4th ship accepted in February; final ship due to complete in 2020
- **QEC Carriers** – HMS Prince of Wales commissioned in 2019 as planned; now in support phase
- **Type 26 UK** – 2nd ship construction underway; First of class planned for mid 2020s
- **Australia Hunter class** – Design and production readiness phase underway
- **M109** – Met delivery targets in H2; Army decision made to move toward full rate production
- **AMPV** – LRIP production underway; 5 different variants in build - 1st deliveries 2020
- **ACV** – LRIP deliveries underway
- **US Ship Repair** – Significant awards in Q4 2019; working with customer to improve utilisation
- **US Ordnance** – On-going Radford sub contractor performance issue
- **Electronic Systems portfolio** – Production ramps on F-35 and APKWS; delivering classified programmes

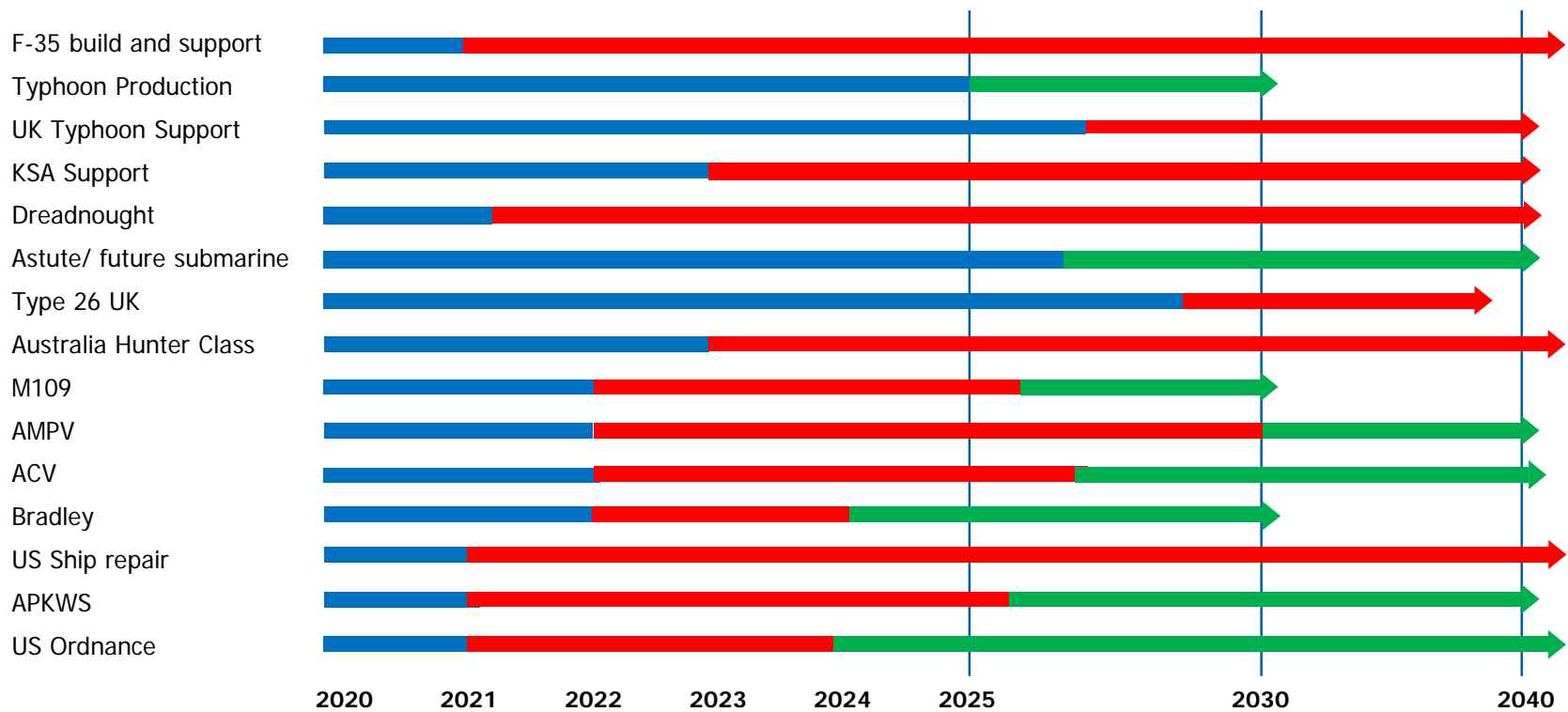
Programme performance improving



Key Franchises and Programmes – Illustrative timeline

- £45.4bn Order Backlog; incumbent positions on key long term programmes; opportunities predominately on aircraft sales and support, electronic systems and land vehicles

Key programmes - Order Backlog, Pipeline/incumbent position, Opportunity



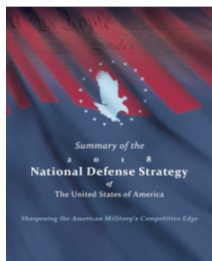
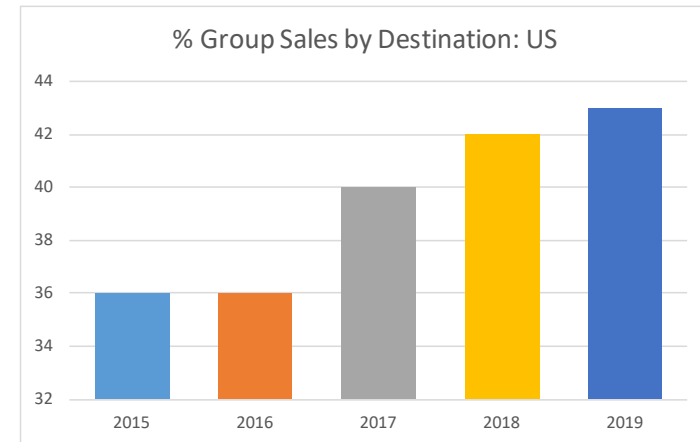
(1) Dates reflect position at 1st January each year

Strong long term visibility - focus on execution of orders and further strengthening backlog



Market Environment - US - 43%⁽¹⁾

- Budgets and programme positions drive good growth
- Strong book to bill in Electronic Systems and Combat Vehicles
- Momentum in support of military readiness and modernisation
- Classified sales increased in 2019
- 2 announced proposed acquisitions totalling \$2.2bn



Growth Areas	BAE Programs & Opportunities
Combat Vehicles	Combat vehicles for Army, Marine Corps, and international partners
Long Range / Precision Fires	Precision-guided munitions, missile seekers, extended range artillery, railgun
Air & Missile Defense	Missile seekers, Hyper-velocity Projectile (HVP)
Unmanned & Autonomous Vehicles	Electronics and ground systems, robotic combat vehicles
Long Range / Survivable Strike	B-21 bomber, F-35, F-15 upgrades, LRASM
Space	Space electronics, space resilience, ground systems
Nuclear Modernization	ICBM & nuclear C3 systems engineering



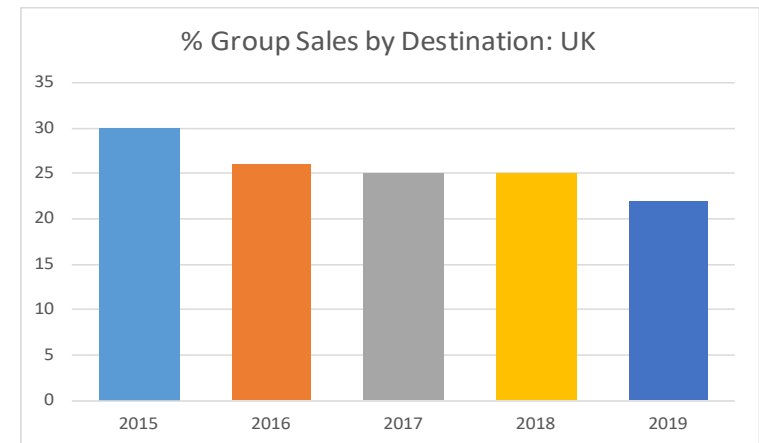
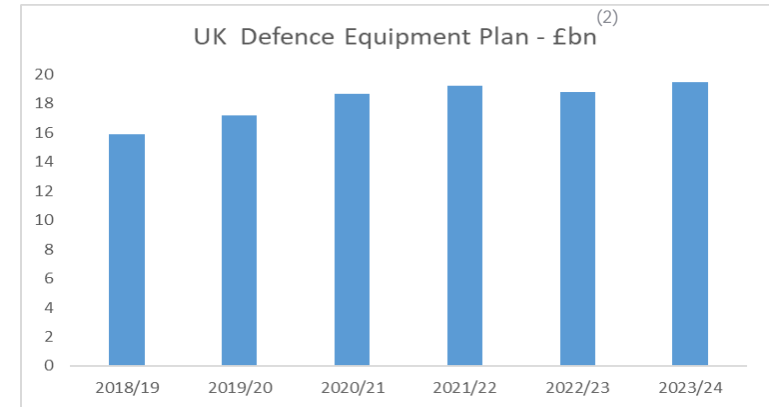
Well positioned against the stated priorities of military services

(1)Group Sales by Destination



Market Environment - UK - 22%⁽¹⁾

- UK Political clarity
- UK largest defence market in Europe
- Defence and security remains high priority
 - Above inflationary spend committed
- Defence and Security review expected in 2020
- Long-term contract positions – stable outlook
- Combat Air Strategy progressing at pace
 - Sweden & Italy working with UK



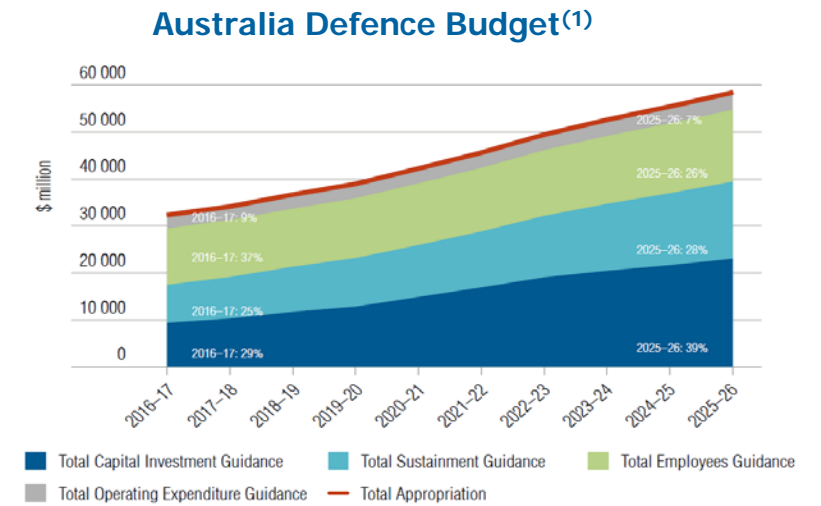
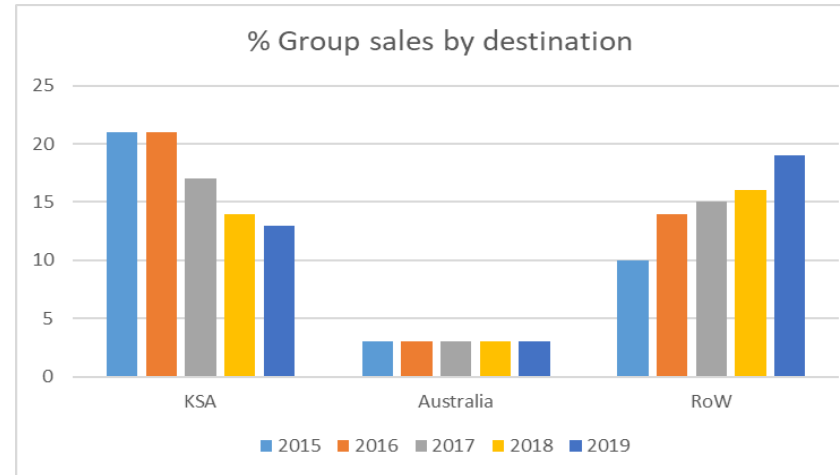
(1) Group Sales by Destination

(2) Source: UK MoD Defence Equipment Plan 2018



Market Environment - International

- Saudi Arabia - 13%⁽²⁾
 - Managing licence position
 - Long standing support contracts
 - Continue to support 2030 vision
- Australia - 3%⁽²⁾
 - Hunter Class frigate programme
 - Business expected to double over time
- Qatar - major defence spending underway
 - Typhoon & Hawk
- Europe - defence spending increasing
 - Typhoon opportunities
 - MBDA
 - Land vehicles
- Asia Pacific



(1) Australian Department of Defence White Paper 2016

(2) Group Sales by Destination



Delivering the strategy


- Strategic actions - portfolio shaping:
 - 2 proposed acquisitions announced totalling \$2.2bn
 - 2 unmanned technology bolt-on acquisitions
 - Saudi partner companies
 - AACC sale completed
 - AEC proposed sale
 - UK Land JV completed
 - Ex-Silversky disposal process on-going
- Balance sheet robust – positive actions in year
 - Bond repayment; Overseas tax agreement
- Pension agreement reached – good for all stakeholders
- People management and workforce planning
- Increased self funded R&D in year by 7%



Drive
operational
excellence



Improve our
competitiveness
and efficiency

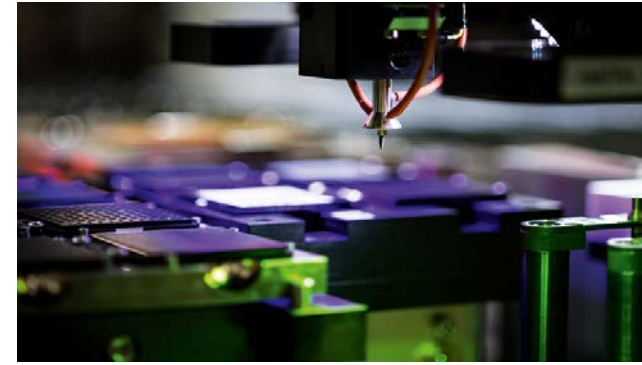


Advance and
further leverage
our technology

Strategic priorities are the right focus areas and delivering results

Summary

- Focus on strong programme performance
- Strategy and capital allocation clear and consistent
- Multi year growth visibility underpinned by order backlog
- Balance sheet – maintain investment grade rating
- Diverse portfolio:
 - Long term programme positions
 - Geographic mix
 - Support, electronics and platforms
- Strong customer relationships and in country partnerships
- Pensions agreement – near term clarity
- Proposed acquisitions accelerate strategy



Free cash flow generation supports shareholder returns and sustainable value creation



Peter Lynas

Group Finance Director

Key Points

- 2019 Underlying EPS of 45.8p* in line with guidance
- 2019 Free Cash Flow of £850m slightly ahead of guidance
- Dividend growth for 16th consecutive year
- Reduced UK pension funding deficit
- Looking ahead:
 - Targeting mid-single digit underlying EPS growth in 2020
 - 2020 - 2022 Free Cash Flow generation targeted at £3.5bn - £3.8bn
 - Accelerated UK pension deficit funding plan
 - Recently announced US acquisitions excluded from guidance

* excluding one-off tax benefit

2019 Financial Summary

	2019	2018
Sales	£20,109m	£18,407m
Underlying EBITA ^(1,2)	£2,117m	£1,928m
Underlying Finance Costs ^(1,3)	£(257)m	£(215)m
Underlying Earnings per Share ^(1,4)		
- excluding one-off tax benefit ⁽⁵⁾	45.8p	42.9p
- including one-off tax benefit ⁽⁵⁾	50.8p	42.9p
Operating Business Cash Flow ⁽¹⁾	£1,307m	£993m
Net Debt	£(743)m	£(904)m
Order Backlog	£45.4bn	£48.4bn
Dividend per Share	23.2p	22.2p

(1) 2019 is presented in accordance with IFRS 16 Leases; 2018 not restated for IFRS 16

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

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

(4) Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives and non-recurring items

(5) One-off tax benefit of £161m following agreements reached in respect of overseas tax matters, net of a provision for estimated exposure arising from the EU's decision regarding the UK's CFC regime

(6) Average £/\$ rate at 2019 \$1.28 & 2018 \$1.33

Balance Sheet

£m	31 Dec 2019	31 Dec 2018	Drivers
Intangible fixed assets	10,371	10,658	Foreign exchange
Tangible fixed assets ⁽¹⁾	3,188	2,017	Adoption of IFRS 16 (no 31/12/18 restatement)
Investments	441	442	
Working capital ^(1,2)	(2,854)	(3,191)	Inventory build, receivables timing & provision utilisation
Pension deficit ⁽²⁾	(4,455)	(4,029)	Discount rate decrease largely offset by asset returns & mortality change
Lease liabilities	(1,291)	-	Adoption of IFRS 16 (no 31/12/18 restatement)
Tax assets & liabilities	690	449	One-off tax benefit, increased pension deficit
Financial assets & liabilities	34	70	
Net debt	(743)	(904)	
Assets held for sale	130	106	Assets of AEC, Silversky
Net Assets	5,511	5,618	

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

(2) Saudi Arabia end of service benefit of £97m at 31 December 2018 reclassified from working capital to pension deficit

Pensions – IAS 19

£bn	31 Dec 2019	31 Dec 2018
Assets	27.7	25.7
Liabilities	(32.5)	(30.0)
Pension deficit	(4.8)	(4.3)
Group share of deficit	(4.5)	(4.0)
UK - Bond yields	2.1%	2.9%
Inflation rate	2.8%	3.1%
US - Bond yields	3.1%	4.2%

Pensions – UK Deficit Funding

- 6 of the 9 UK schemes consolidated in October 2019
- Funding valuation accelerated to 31 October 2019
- Agreement reached with Trustees:
 - Funding deficit @ £1.9bn
 - New deficit recovery plan:
 - £1.0bn payable in near future, to be debt-funded
 - £240m payable in scheme year ending 31 March 2020
 - £250m by 31 March 2021
 - 50bps asset outperformance assumed

<i>£m, Company Contributions *</i>	2020	2021	2022	2023-26
Previous Deficit Recovery Plan	242	251	197	779
New Deficit Recovery Plan	1,240	250	-	-

Underlying funding requirements almost £2.5bn lower than accounting deficit

Notes:

- three smaller UK schemes now fully funded
- US deficit funding @ c.\$80m in 2020, c.\$40m p.a. through 2025

* contributions payable in scheme years ending 31 March

Net Cash / (Debt)

£m	2019
Opening Net Debt	(904)
Operating business cash flow	1,307
Interest & Tax	(457)
Free Cash Flow	850
Dividends paid, incl. minorities	(780)
Net proceeds from M&A	74
Other	17
Closing Net Debt	(743)



Electronic Systems	672
Cyber & Intelligence	68
Platforms & Services (US)	241
Air	408
Maritime	150
HQ	(232)
Operating business cash flow	1,307



Gross Debt	Gross Cash
£(3.3)bn	£2.6bn

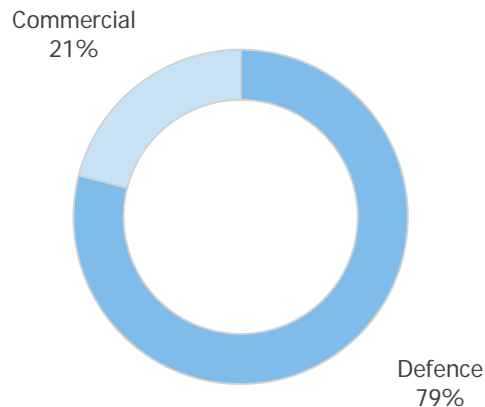
\$1bn bond repaid from cash in June 2019

Electronic Systems

	2019	2018
Sales	\$5,668m	\$5,293m
Underlying EBITA	\$877m	\$809m
Margin	15.5%	15.3%
Cash flow	\$858m	\$575m
Order backlog	\$7.9bn	\$6.9bn

- Sales growth at 7%
 - F-35
 - APKWS
 - Increased classified activity
 - Commercial sales @ \$1.2bn
- Margin performance in line with guidance
- Cash conversion close to 100%
- Record order backlog
 - F-35 LRIP 14 & Block 4 development
 - APKWS volumes
 - Radar Warning Receiver development upgrade

2019 Sales

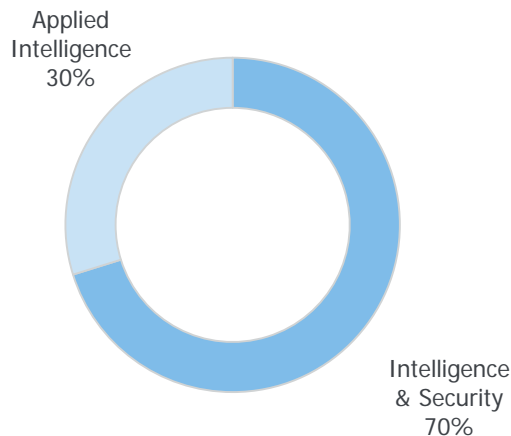


Cyber & Intelligence

	2019	2018
Sales	\$2,211m	\$2,240m
Underlying EBITA	\$116m	\$148m
Margin	5.3%	6.6%
Cash flow	\$86m	\$113m
Order backlog	\$2.3bn	\$2.4bn

- Sales broadly unchanged
 - Intelligence & Security 2% lower
 - Applied Intelligence up 4% ⁽¹⁾
- Margin performance
 - Intelligence & Security again at 9%
 - Applied Intelligence loss of £20m includes restructuring charge
- Order backlog stable after adjusting for disposals

2019 Sales



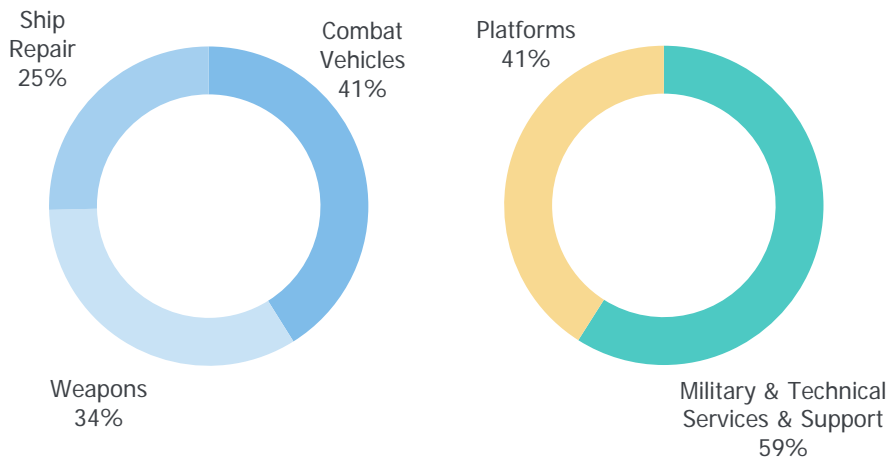
(1) Applied Intelligence based on £ figures

Platforms & Services (US)

	2019	2018
Sales	\$4,261m	\$4,011m
Underlying EBITA	\$341m	\$281m
Margin	8.0%	7.0%
Cash flow	\$309m	\$(40)m
Order backlog	\$7.7bn	\$6.8bn

- Sales growth at 6%
 - M109A7 delivery ramp up met
- Margin improved:
 - 2018 programme charges
 - AMPV & ACV margin at initial low levels
- Cash flow improving:
 - Working capital liquidation at Combat Vehicles
- Order backlog higher:
 - In-year Combat Vehicles awards of \$2.5bn

2019 Sales

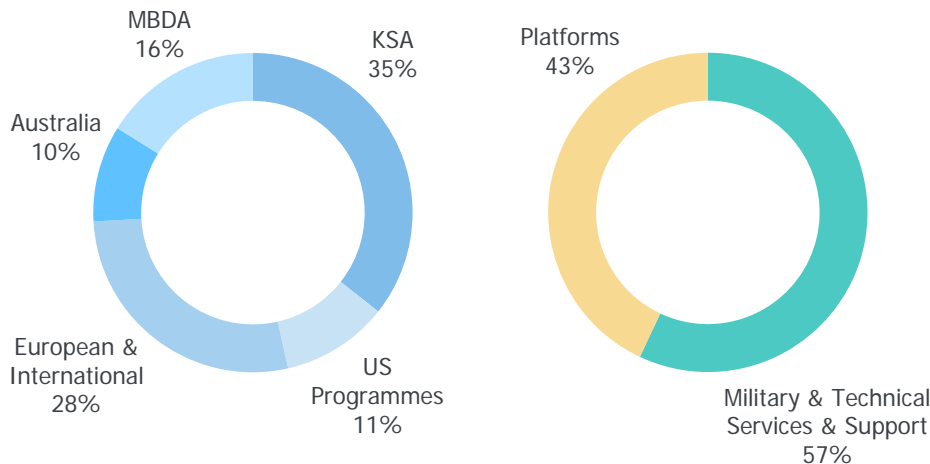


Air

	2019	2018
Sales	£7,457m	£6,712m
Underlying EBITA	£887m	£859m
Margin	11.9%	12.8%
Cash flow	£408m	£666m
Order backlog	£23.9bn	£27.4bn

- Sales up 11%:
 - Qatar Typhoon/Hawk
 - F-35
 - MBDA
- Margin:
 - 70bps benefit in 2018 on completing Oman contract
 - Low initial margin recognition on Qatar programme
 - Tempest self-funded R&D increasing
- Cash flow
 - Receivables timing, EAI profits/dividends & utilisation of provisions
- Order backlog reduction on trading of Saudi support & Qatar contracts

2019 Sales

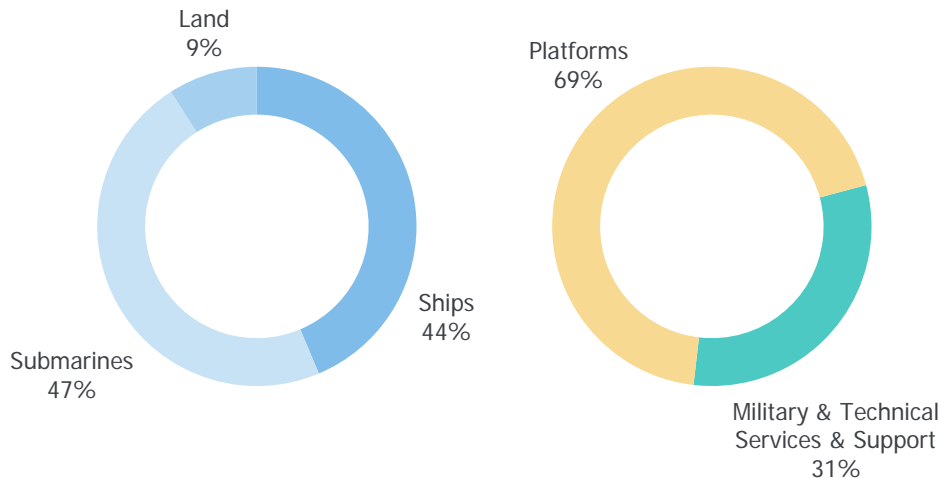


Maritime

	2019	2018
Sales	£3,116m	£2,975m
Underlying EBITA	£268m	£209m
Margin	8.6%	7.0%
Cash flow	£150m	£67m
Order backlog	£8.6bn	£9.0bn

- Sales up 5%
 - Dreadnought & Type 26 ramping up
 - Carrier & OPVs completing
- Margin performance per guidance
- Cash flow
 - Naval Ships, utilisation of provisions
 - Completion of Carrier
- Order backlog
 - Further funding on Dreadnought
 - Trading on Astute, Carrier & Type 26

2019 Sales



2020 Guidance – Trading ⁽¹⁾

	2019 Actual		2020 Guidance ⁽²⁾	
	Sales (£m)	Margin (%)	Sales	Margin
Electronic Systems	4,439	15.5%	mid-single digit	14% - 16%
Cyber & Intelligence	1,732	5.3%	stable	7% - 8%
Platforms & Services (US)	3,337	8.0%	high-single digit	8% - 9%
Air	7,457	11.9%	mid-single digit	11% - 13%
Maritime	3,116	8.6%	stable	8% - 9%
Group	20,109	10.5%		
HQ (EBITA)	(83)		slightly lower	
Underlying Finance Costs	(257)		10% lower	
Tax rate ⁽³⁾	19%		c.20%	
Minority interest	(56)		c.(75)	
Earnings per Share ⁽³⁾	45.8p			

Targeting **mid-single digit growth** for 2020 underlying EPS ⁽²⁾

(1) The guidance excludes any impact of the proposed acquisitions of the Military Global Positioning System & Airborne Tactical Radios businesses announced on 20 January 2020

(2) Whilst the Group is subject to geopolitical uncertainties, the guidance is provided on current expected operational performance. Guidance for US Sectors in US dollars (planning rate \$1.30)

(3) Excluding the one-off tax benefit

Free Cash Flow ⁽¹⁾

	2019 £bn	2020-22 £bn ^(2,3)	Comments
Underlying EBITA ⁽⁴⁾	1.9	6.2 – 6.4	Excludes EAIs (c.£0.2bn p.a)
Dividends received from EAIs	0.1	0.3	Cash dividends received
Capex over depreciation	(0.2)	(0.4) – (0.3)	Supports future growth
Working capital growth	(0.3)	(0.5)	Supports future growth
Pension deficit funding	(0.2)	(0.6)	Excluding £1.0bn contribution
	1.3	5.0 – 5.3	
Interest & tax	(0.5)	(1.5)	
FREE CASH FLOW	0.8	3.5 – 3.8	

Free Cash Flow of around £1bn expected in 2020

(1) Free Cash Flow is defined as operating business cash flow less interest paid (net) and taxation

(2) Whilst the Group is subject to geopolitical uncertainties, the guidance is provided on current expected operational performance. Guidance for US Sectors in US dollars (planning rate \$1.30)

(3) The guidance excludes any impact of the proposed acquisitions of the Military Global Positioning System & Airborne Tactical Radios businesses announced on 20 January 2020

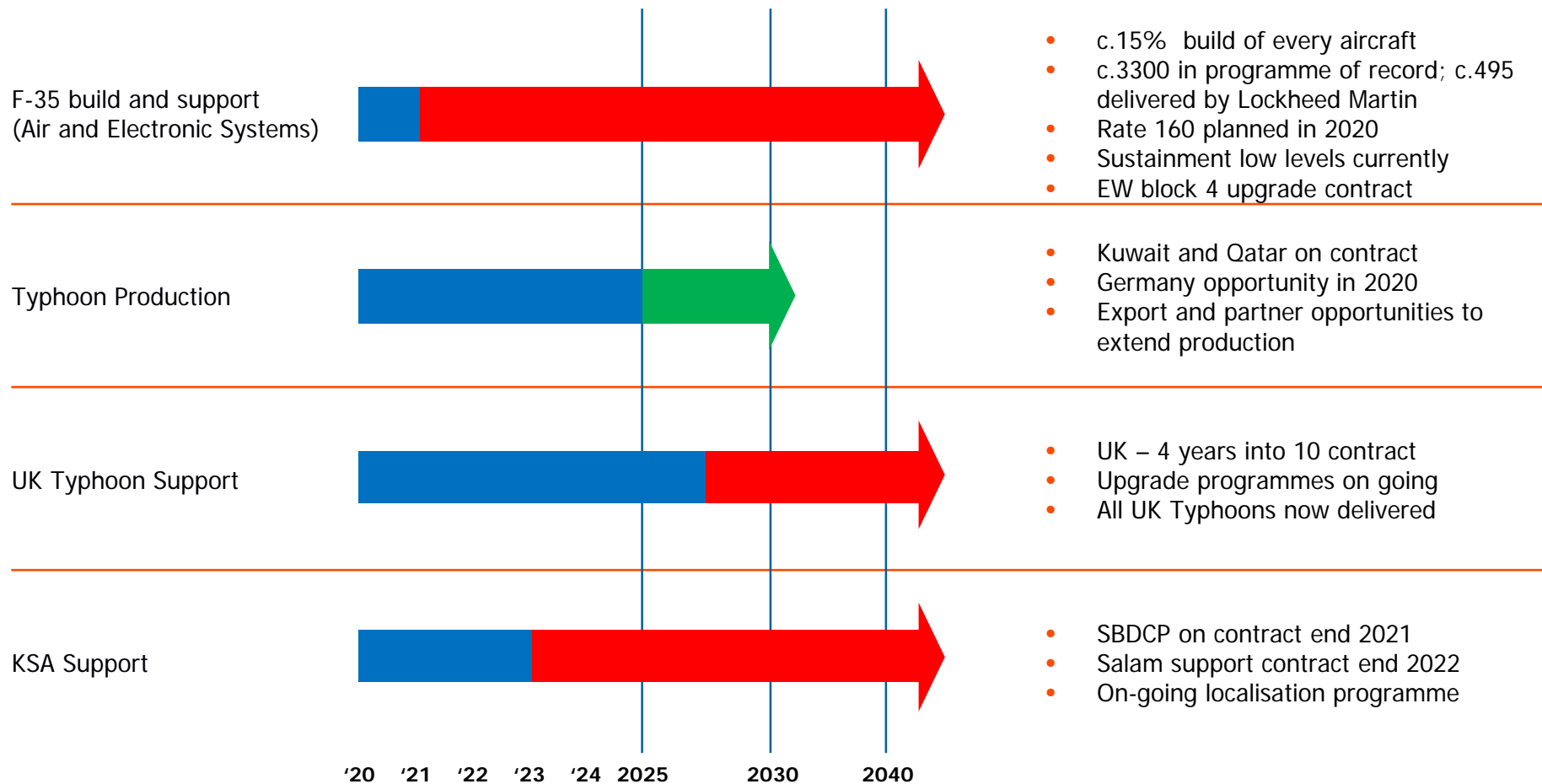
(4) 2020–22 EBITA provided as an illustrative range for this cash guidance; it does not constitute a profit forecast



Supplementary Information

Key Franchises and Programmes – Outlook (illustrative timeline)

Key programmes - Order Backlog, Pipeline/incumbent position, Opportunity

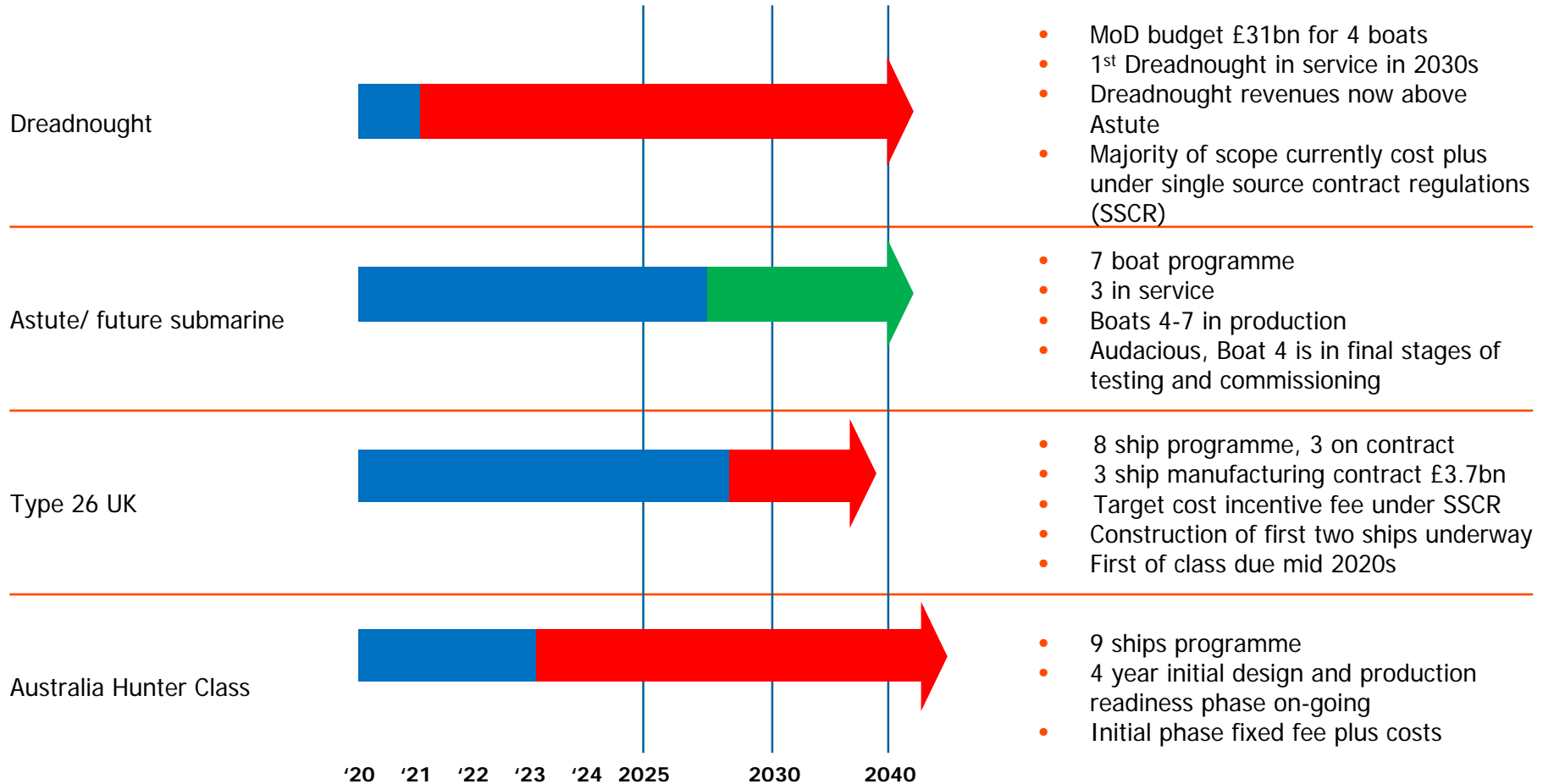


- c.15% build of every aircraft
 - c.3300 in programme of record; c.495 delivered by Lockheed Martin
 - Rate 160 planned in 2020
 - Sustainment low levels currently
 - EW block 4 upgrade contract
-
- Kuwait and Qatar on contract
 - Germany opportunity in 2020
 - Export and partner opportunities to extend production
-
- UK – 4 years into 10 contract
 - Upgrade programmes on going
 - All UK Typhoons now delivered
-
- SBDCP on contract end 2021
 - Salam support contract end 2022
 - On-going localisation programme

(1) Dates reflect position at 1st January each year

Key Franchises and Programmes – Outlook (cont.)

Key programmes - Order Backlog, Pipeline/incumbent position, Opportunity



- MoD budget £31bn for 4 boats
- 1st Dreadnought in service in 2030s
- Dreadnought revenues now above Astute
- Majority of scope currently cost plus under single source contract regulations (SSCR)

- 7 boat programme
- 3 in service
- Boats 4-7 in production
- Audacious, Boat 4 is in final stages of testing and commissioning

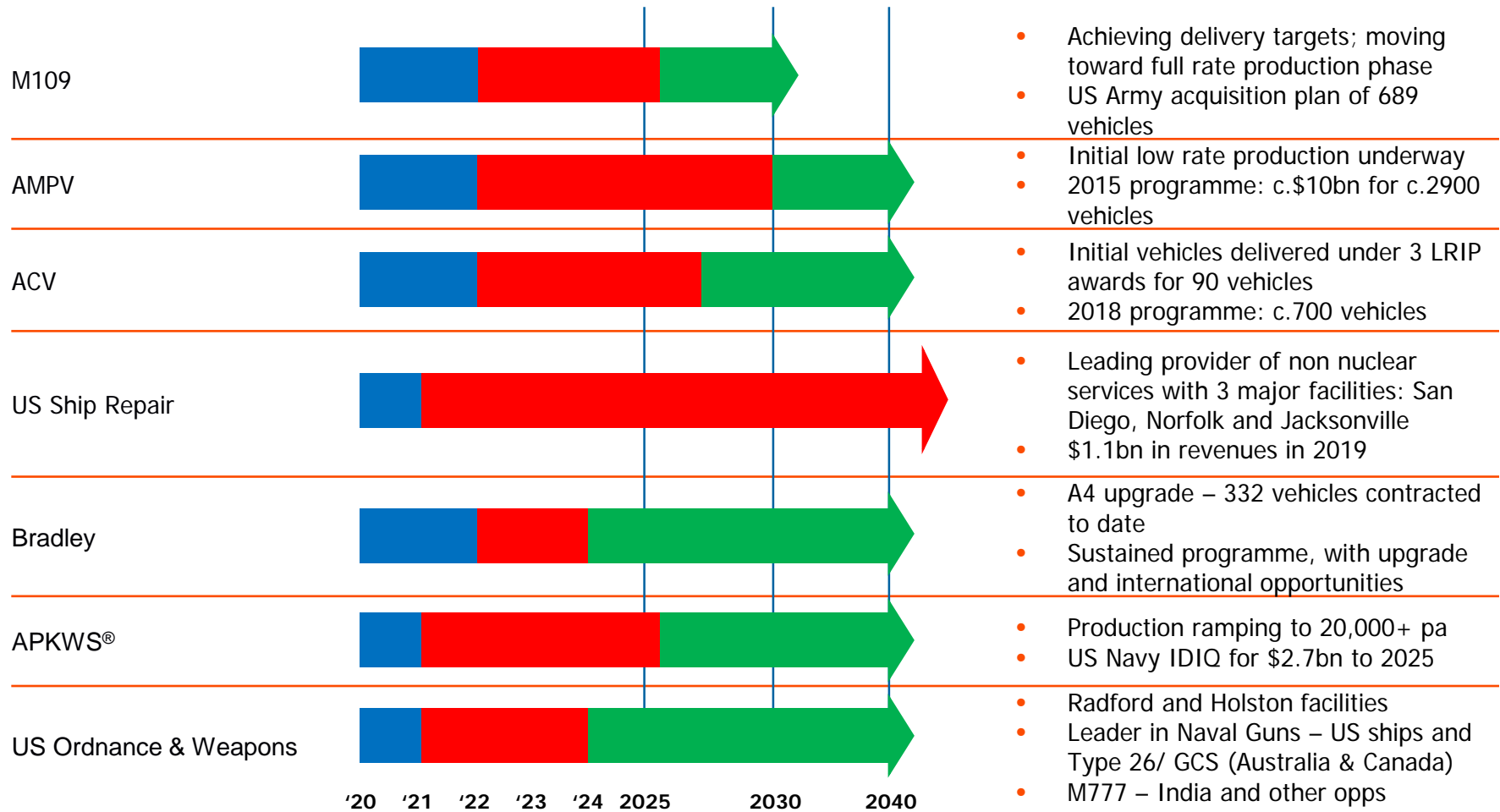
- 8 ship programme, 3 on contract
- 3 ship manufacturing contract £3.7bn
- Target cost incentive fee under SSCR
- Construction of first two ships underway
- First of class due mid 2020s

- 9 ships programme
- 4 year initial design and production readiness phase on-going
- Initial phase fixed fee plus costs

(1) Dates reflect position at 1st January each year

Key Franchises and Programmes – Outlook (cont.)

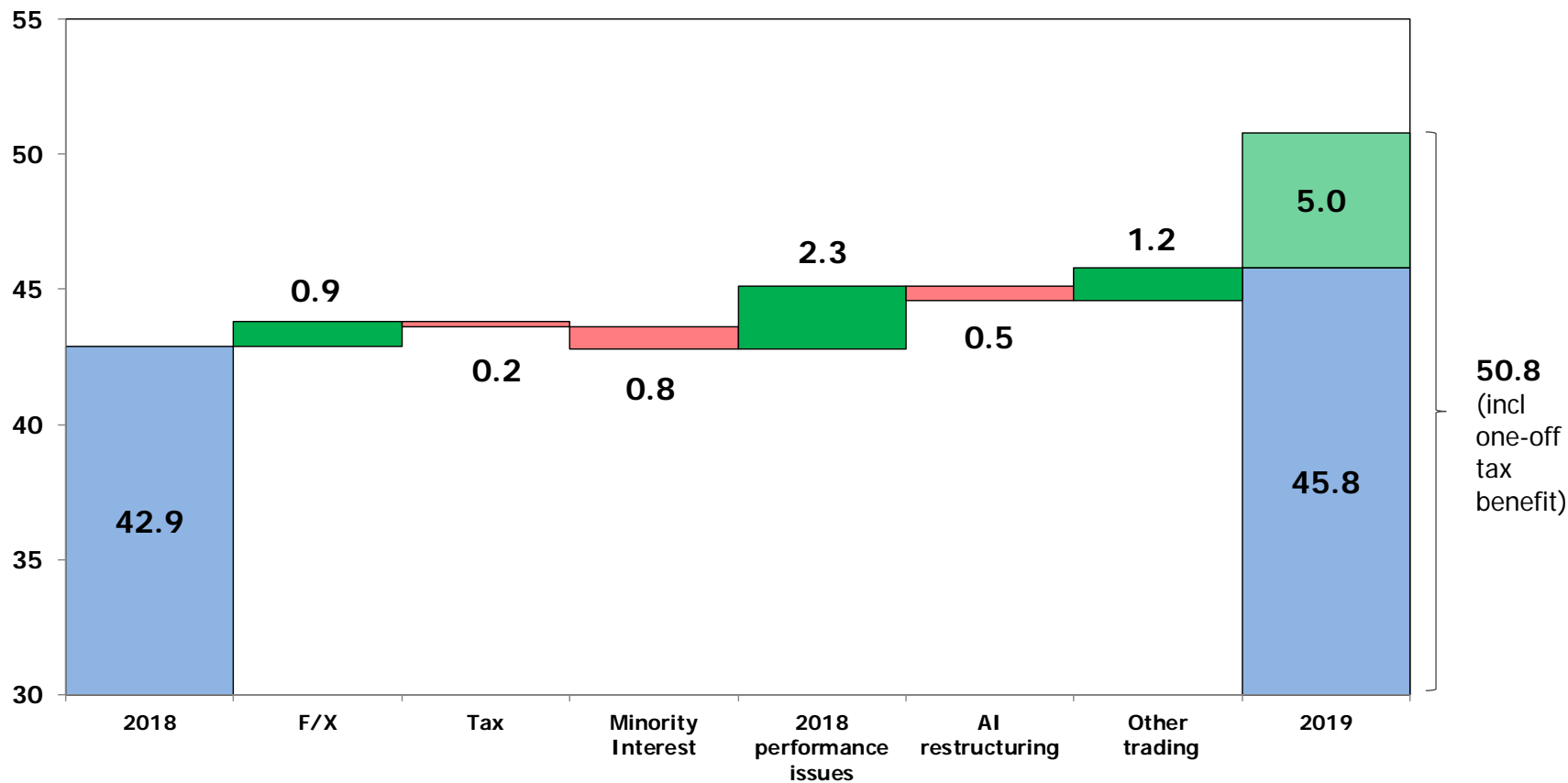
Key programmes - Order Backlog, Pipeline/incumbent position, Opportunity



- Achieving delivery targets; moving toward full rate production phase
- US Army acquisition plan of 689 vehicles
- Initial low rate production underway
- 2015 programme: c.\$10bn for c.2900 vehicles
- Initial vehicles delivered under 3 LRIP awards for 90 vehicles
- 2018 programme: c.700 vehicles
- Leading provider of non nuclear services with 3 major facilities: San Diego, Norfolk and Jacksonville
- \$1.1bn in revenues in 2019
- A4 upgrade – 332 vehicles contracted to date
- Sustained programme, with upgrade and international opportunities
- Production ramping to 20,000+ pa
- US Navy IDIQ for \$2.7bn to 2025
- Radford and Holston facilities
- Leader in Naval Guns – US ships and Type 26/ GCS (Australia & Canada)
- M777 – India and other opps

(1) Dates reflect position at 1st January each year

EPS Bridge (pence)



2019 Financial Performance

<i>(£m / £bn backlog)</i>	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	4,439	687	15.5%	672	6.0
Cyber & Intelligence	1,732	91	5.3%	68	1.8
Platforms & Services (US)	3,337	267	8.0%	241	5.8
Air	7,457	887	11.9%	408	23.9
Maritime	3,116	268	8.6%	150	8.6
HQ	387	(83)		(232)	-
Eliminations	(359)				(0.7)
	20,109	2,117	10.5%	1,307	45.4

Underlying Earnings per Share:

- excluding one-off tax benefit

45.8p

- including one-off tax benefit

50.8p

Like-for-Like Sales & Underlying EBITA

<i>(£m / pence EPS)</i>	Sales			Underlying EBITA			Underlying EPS		
	2019	2018	<i>Yr-on-Yr</i>	2019	2018	<i>Yr-on-Yr</i>	2019	2018	<i>Yr-on-Yr</i>
As Reported	20,109	18,407	<i>+9%</i>	2,117	1,928	<i>+10%</i>	45.8p *	42.9p	<i>+7%</i>
IFRS 16 (approx.)				(50)					
Foreign exchange:									
USD		361			45		} 0.9p		
EUR		(10)			(1)				
Other		(27)			(3)				
Adjusted for IFRS 16 & f/x	20,109	18,731	<i>+7%</i>	2,067	1,969	<i>+5%</i>	45.8p	43.8p	<i>+5%</i>

* excluding one-off tax benefit

Reconciliation of Earnings

<i>(£m / pence EPS)</i>	2019 Underlying		2018 Underlying	2019 Reported	2018 Reported
	excl. one-off tax benefit	incl. one-off tax benefit			
Underlying EBITA	2,117	2,117	1,928	2,117	1,928
Non-recurring items				(27)	(154)
EBITA				2,090	1,774
Amortisation/Impairment				(115)	(118)
Underlying Finance Costs	(257)	(257)	(215)	(257)	(215)
Pensions & Fair Value mvmts				(39)	(179)
Finance Costs				(296)	(394)
Underlying Tax	(347)	(347)	(310)	(347)	(310)
Other Tax ⁽¹⁾				39	81
One-off Tax Benefit	-	161		161	-
Tax				(147)	(229)
Non-controlling interest	(56)	(56)	(33)	(56)	(33)
Earnings	1,457	1,618	1,370	1,476	1,000
Earnings per Share	45.8p	50.8p	42.9p	46.4p	31.3p

(1) Tax on non-recurring items, intangible amortisation, pensions & fair value movements

Working Capital Movements - reconciliation to Cash Flow

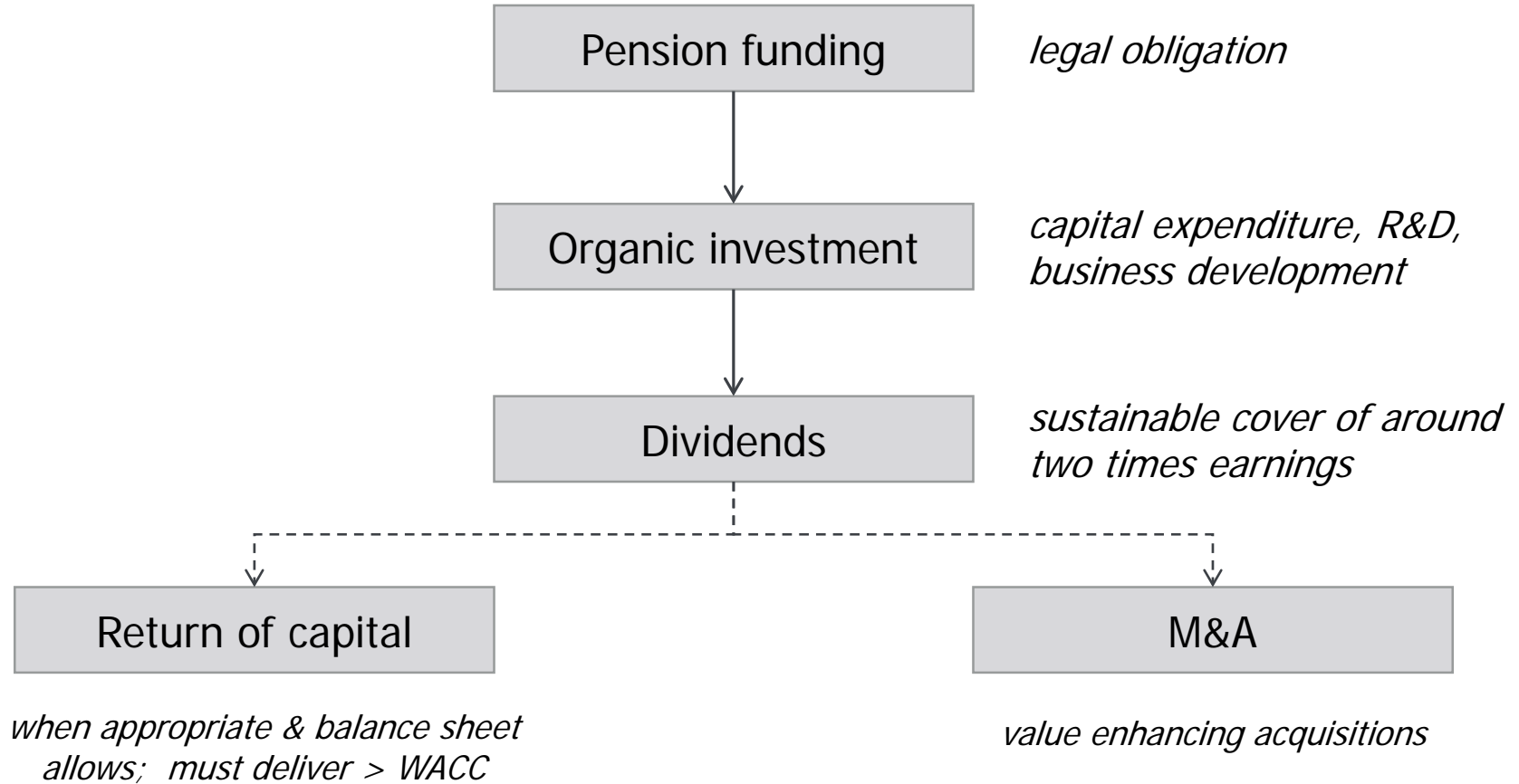
(£m)

	31 Dec 2019	31 Dec 2018	Mvmt	Movement analysed between:				Cash Flow
				F/X	IFRS 16	M&A	Other	
Inventories	835	774	(61)	21	-	-	(6)	(76)
Receivables - non-current	431	352						
Receivables - current	5,448	5,177						
Total Receivables ⁽¹⁾	5,879	5,529	(350)	159	26	6	(60)	(481)
Payables - non-current	(975)	(1,029)						
Payables - current	(7,908)	(7,704)						
Total Payables ⁽²⁾	(8,883)	(8,733)	150	(178)	(28)	16	82	258
Liability Provisions - non-current	(385)	(427)						
Liability Provisions - current	(300)	(334)						
Total Liability Provisions	(685)	(761)	(76)	(18)	(31)	16	30	(73)
Working Capital	(2,854)	(3,191)						

(1) Excluding Finance Lease receivable

(2) Excluding funding received for tangible fixed assets related to the Dreadnought submarine programme

Capital Allocation



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