



Half Year Results

31 July 2019

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Charles Woodburn

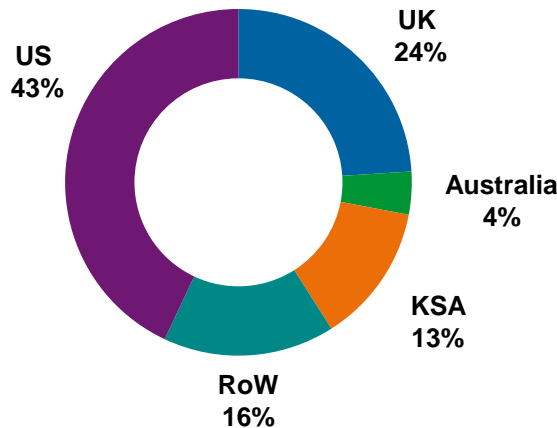
Chief Executive

2019 – Half Year Overview

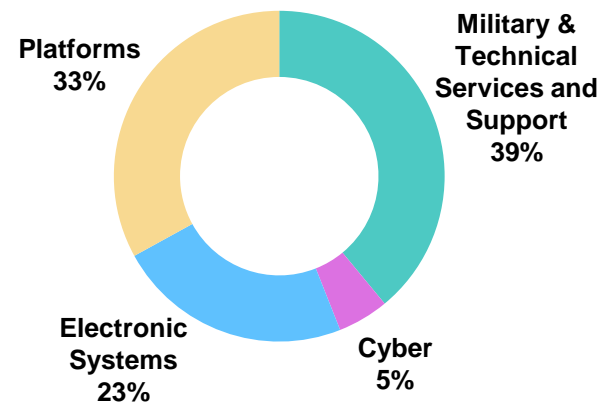
- Half year performance underpins full year
- Focus on operational performance
- US outlook enhanced by further backlog growth
- Portfolio actions being taken
- Interim dividend increased by 4.4%

	2019 Half Year	2018 Half Year
Sales	£9,416m	£8,818m
Underlying EBITA	£999m	£874m
Underlying EPS		
- excl. one-off tax benefit	21.9p	19.8p
- incl. one-off tax benefit	26.9p	19.8p
Dividend per share	9.4p	9.0p
Order backlog	£47.4bn	£48.4bn*

**2019 Half Year
Sales by Destination**



**2019 Half Year
Sales by Activity**



2019 Group EPS and 3 year cash guidance maintained

* as at 31 December 2018

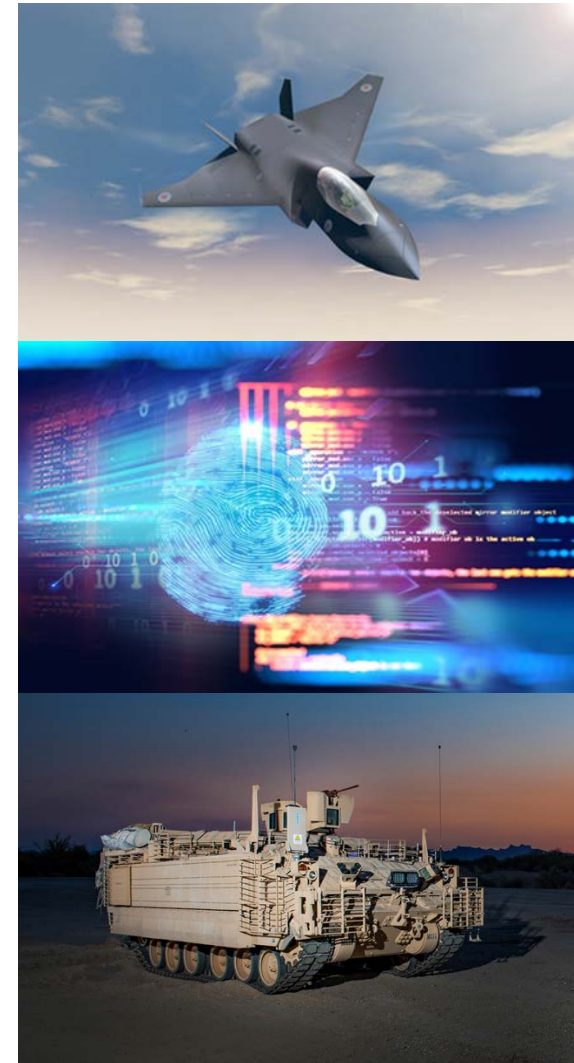
Major Programme Status – Half Year 2019

- **F-35** - Ramp to 140 sets in 2019 progressing well
- **Qatar Typhoon and Hawk production** – Programme mobilised; Typhoon deliveries to be accelerated
- **UK Typhoon support** – 3 years in, performing well
- **KSA support** – Managing licence position
- **Astute** – Boat 4 due to exit Barrow for sea trials in 2019
- **Dreadnought** – Under contract through 2020
- **UK OPVs** – 2nd ship accepted, 3rd ship close to acceptance
- **QEC Carriers** – Prince of Wales sea trials due to commence in 2019
- **Type 26 UK** – First of class planned for mid 2020s
- **Australia Hunter class** – Design and productionisation on contract, mobilisation commenced
- **Paladin M109** – Gradual ramp towards achieving 8 vehicles per month by year end
- **AMPV** – LRIP award in February. Start up on track, 1st deliveries H1 2020
- **ACV** – LRIP 1st deliveries planned for Q3 2019
- **US Ship repair/commercial ships** – Final commercial ship constructed and delivered
- **US Ordnance** – On-going Radford sub contractor performance issue
- **Electronic Systems Portfolio** – Production ramps on F-35, APKWS, classified programmes being delivered

2019 guidance underpinned by programme performance

Driving Strategic Priorities

- UK future combat air programme
 - Next phase commenced
 - MOU with Sweden
- Applied Intelligence – action taken on commercial division
- Acquisition of Riptide Autonomous Solutions
- Land JV completed
- Saudi partner companies
 - AACC sale completed
 - AEC proposed disposal
- Balance sheet continues to be strengthened
 - Bond repayment
 - Overseas tax agreement



Summary

Focus on driving strong and consistent programme performance

- Strategy and capital allocation clear and consistent
 - Portfolio actions being taken
- Balance sheet strong
- Diverse portfolio - long term programme positions
- Strong customer relationships and in country partnerships
- Multi year growth visibility underpinned by order backlog
- Evolving pipeline of opportunities



Free cash flow generation supports shareholder rewards and sustainable value creation



Peter Lynas

Group Finance Director

2019 Half Year Financial Summary

	2019 Half Year	2018 Half Year
Sales	£9,416m	£8,818m
Underlying EBITA ^(1,2)	£999m	£874m
Underlying Finance Costs ^(1,3)	£(130)m	£(101)m
Underlying Earnings per Share ^(1,4)		
- excluding one-off tax benefit ⁽⁵⁾	21.9p	19.8p
- including one-off tax benefit ⁽⁵⁾	26.9p	19.8p
Operating Business Cash Flow ⁽¹⁾	£(309)m	£(436)m
Net Debt	£(1,889)m	£(1,921)m
Order Backlog ⁽⁶⁾	£47.4bn	£48.4bn
Dividend per Share	9.4p	9.0p

(1) Half Year 2019 is presented in accordance with IFRS 16 Leases ; Half Year 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 an overseas tax matter, net of a provision for estimated exposure arising from the EU's decision regarding the UK's CFC regime

(6) Comparative as at 31 December 2018

(7) Average £/\$ rate at 2019 Half Year \$1.29 & Half Year 2018 \$1.38

Balance Sheet

(£m)	30 Jun 2019	31 Dec 2018	Drivers
Intangible fixed assets	10,648	10,658	
Tangible fixed assets ⁽¹⁾	3,314	2,017	Adoption of IFRS 16 (no 31/12/18 restatement)
Investments	346	442	Dividends received, AEC to held-for-sale
Working capital	(2,173)	(3,288)	Timing, advances, 2nd half cash conversion
Pension deficit	(4,304)	(3,932)	Discount rate increase largely offset by asset returns & mortality
Lease liabilities	(1,420)	-	Adoption of IFRS 16 (no 31/12/18 restatement)
Tax assets & liabilities	711	449	One-off tax benefit, increased pension deficit
Financial assets & liabilities	117	70	
Net debt	(1,889)	(904)	
Assets held for sale	164	106	Interest in AEC, UK Land JV
Net Assets	5,514	5,618	

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

Net Cash / (Debt)

(£m)	2019 Half Year
Opening Net Debt	(904)
Operating business cash flow	(309)
Interest & Tax	(265)
Dividends paid, incl. minorities	(449)
Other	38
Closing Net Debt	(1,889)



Electronic Systems	137
Cyber & Intelligence	23
Platforms & Services (US)	5
Air	(163)
Maritime	(92)
HQ	(219)
Operating business cash flow	(309)



Gross Debt	Gross Cash
£(3.4)bn	£1.5bn

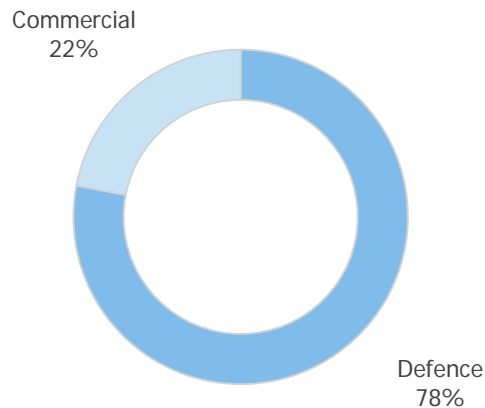
\$1bn bond repaid from cash in June 2019

Electronic Systems

Half Year:	2019	2018
Sales	\$2,772m	\$2,503m
Underlying EBITA	\$409m	\$358m
Margin	14.8%	14.3%
Cash flow	\$177m	\$161m
Order backlog	\$7.6bn	\$6.9bn ⁽¹⁾

- Sales growth at 11%
 - F-35 ramp up
 - APKWS ramp up
 - Increasing classified activity
 - Commercial sales up 14%
- Margin performance in line with full year guidance
- Usual 2nd half cash bias
- Order backlog at record high
 - F-35 & APKWS awards

2019 Sales



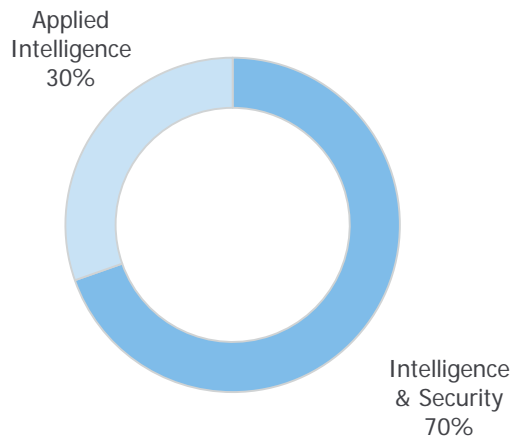
(1) as at 31 December 2018

Cyber & Intelligence

Half Year:	2019	2018
Sales	\$1,103m	\$1,122m
Underlying EBITA	\$32m	\$66m
Margin	2.9%	5.9%
Cash flow	\$30m	\$87m
Order backlog	\$2.4bn	\$2.4bn ⁽¹⁾

- Sales broadly unchanged
 - Intelligence & Security down 2%
 - Applied Intelligence up 6%
- Margin performance
 - Intelligence & Security at 9%
 - £25m restructuring charge at Applied Intelligence
- Cash to improve in 2nd half
- Order backlog stable

2019 Sales



(1) as at 31 December 2018

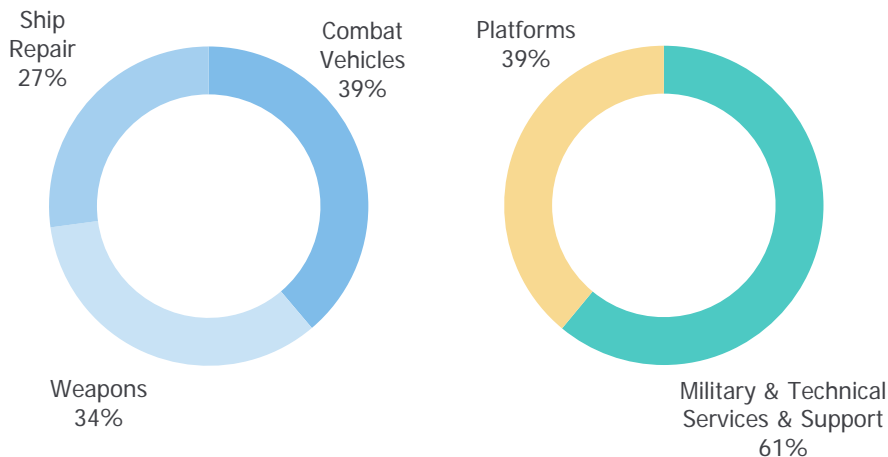
(2) Applied Intelligence based on £ figures

Platforms & Services (US)

Half Year:	2019	2018
Sales	\$1,970m	\$1,902m
Underlying EBITA	\$175m	\$77m
Margin	8.9%	4.1%
Cash flow	\$7m	\$(64)m
Order backlog	\$7.2bn	\$6.8bn ⁽¹⁾

- Sales up 4%
 - 2nd half bias re Combat Vehicles
- Margin improved to 8.9%
 - 2018 programme charges @ 350bps
 - Lower margin US Combat Vehicles sales in 2nd half
- Cash flow ahead of 2018
 - Significant working capital in Combat Vehicles
 - Cash conversion in Q4 2019 & into 2020
- Order backlog increased on AMPV LRIP award

2019 Sales



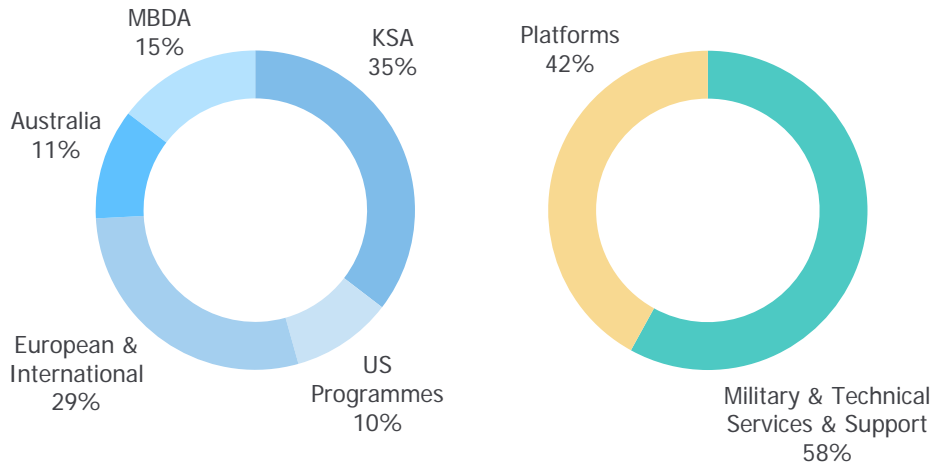
(1) as at 31 December 2018

Air

Half Year:	2019	2018
Sales	£3,366m	£3,305m
Underlying EBITA	£438m	£459m
Margin	13.0%	13.9%
Cash flow	£(163)m	£(167)m
Order backlog	£25.9bn	£27.4bn ⁽¹⁾

- Sales 2nd half weighted
 - Qatar Typhoon/Hawk
 - MBDA
- Margin performance above guidance
 - 2nd half weighting of lower margin Qatar sales
 - Higher 2nd half spend on Tempest
- Cash flow
 - Timing on international Typhoon programmes
 - Advance utilisation – Qatar, Saudi Support
- Order backlog reduction on trading of Saudi support contracts

2019 Sales



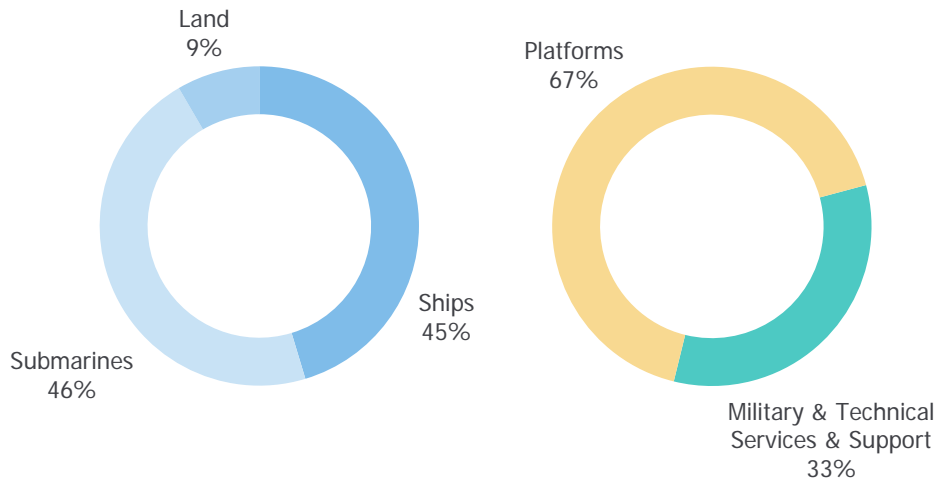
(1) as at 31 December 2018

Maritime

Half Year:	2019	2018
Sales	£1,525m	£1,447m
Underlying EBITA	£133m	£93m
Margin	8.7%	6.4%
Cash flow	£(92)m	£(196)m
Order backlog	£8.7bn	£9.0bn ⁽¹⁾

- Sales up 5%
 - 1st half bias on Carrier & Naval Base Support
- Margin performance in line with full year guidance
- Cash flow
 - Naval Ships, utilisation of provisions & timing
 - UK Munitions funding at end of the year
- Order backlog
 - Further Dreadnought funding received
 - Trading on Astute, Carrier & Type 26

2019 Sales



(1) as at 31 December 2018

2019 Guidance - Trading

	2018 Actual		2019 Guidance ^(1,2)	
	Sales (£m)	Margin (%)	Sales	Margin
Electronic Systems	3,965	15.3	mid-single digit	14% - 16%
Cyber & Intelligence	1,678	6.6	stable	c.7%
Platforms & Services (US)	3,005	7.0	mid to high single digit	8% - 9%
Air	6,712	12.8	+c.10%	11% - 13%
Maritime	2,975	7.0	stable	8% - 9%
Group	18,407	10.5		
HQ (EBITA)	(67)		slightly lower	
Underlying Finance Costs	(215)		c.15% higher	
Tax rate	18%		c.20%	
Minority interest	(33)		c.£(50)m	
Earnings per Share	42.9p			

Targeting **mid-single digit** growth for 2019 underlying EPS⁽³⁾

- (1) 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)
- (2) 2019 Guidance as presented in February 2019, updated for IFRS 16 Leases & presented at 16 May 2019 Capital Markets Day. **Half Year 2019 update:** whilst there is no change to Group-level earnings per share guidance, the first half restructuring charge taken at Applied Intelligence, together with slightly higher HQ costs, are expected to be covered by improved operational performance and a slightly lower effective tax rate
- (3) Excluding the one-off tax benefit

Cash Guidance - 2019

(£bn)

	2019 Half Year	2019 Guidance ⁽¹⁾
Operating items:		
Net capital expenditure above depreciation	(0.1)	(0.2)
Working capital movements	(1.0)	(0.4) - (0.1)
Pension deficit funding	(0.2)	(0.2)
Non-operating items:		
Interest & Tax	(0.3)	(0.5)
Dividends	(0.4)	(0.8)

Net Debt guidance **improved** – 2019 now to **be broadly unchanged from 2018**⁽²⁾

No change to 2019 - 2021 Free Cash Flow⁽³⁾ target > £3bn

(1) Whilst the Group is subject to geopolitical uncertainties, the guidance is provided on current expected operational performance. £/\$ planning rate \$1.30.

(2) Excluding potential disposal proceeds

(3) Operating Business Cash Flow less interest paid (net) and taxation

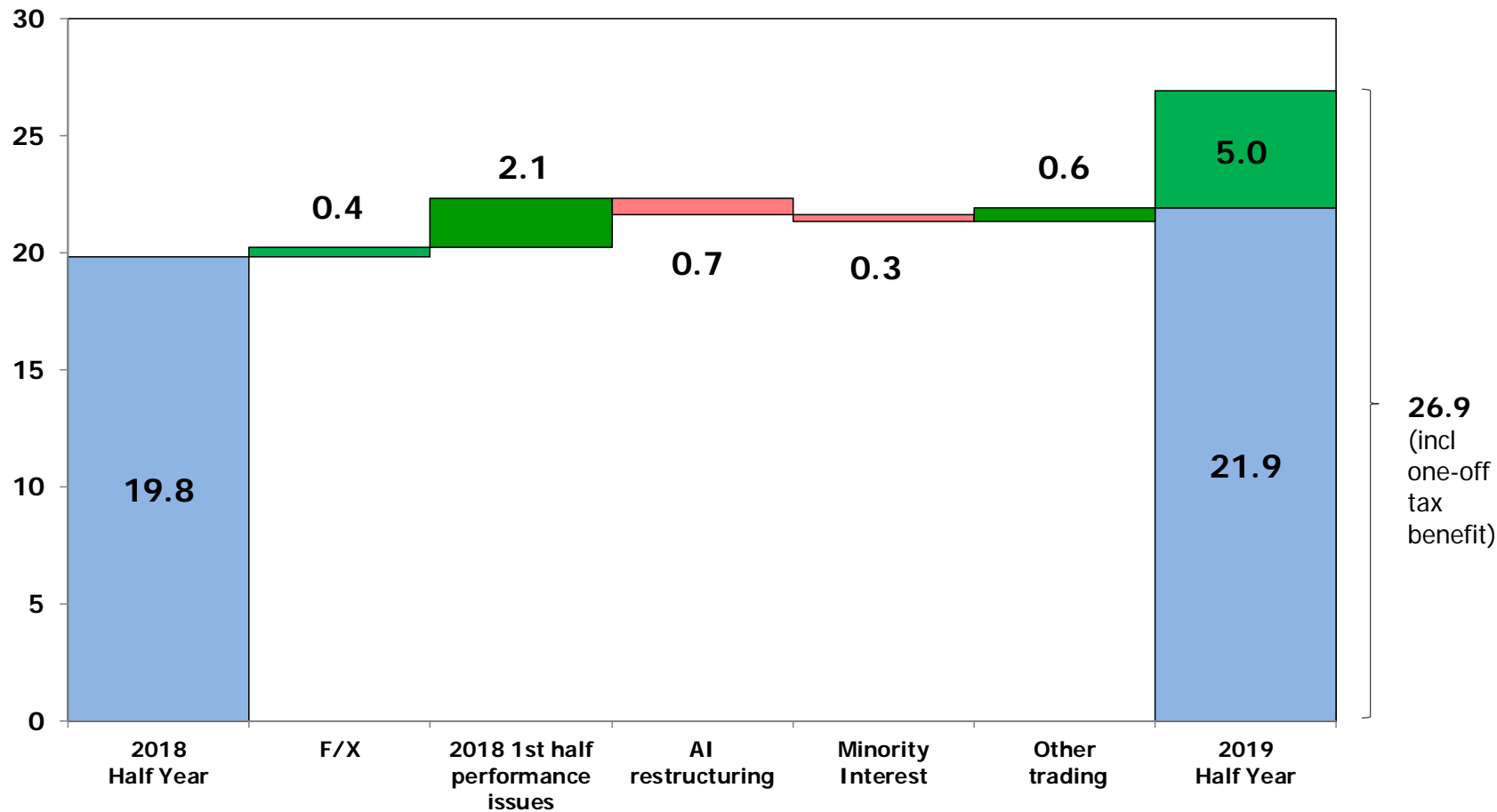
Financial Summary

- Half Year Net Debt better than expectation - Qatar
- Full Year Net Debt guidance slightly improved
 - Qatar & Paladin – timing mix
 - Excludes potential disposals
- 3 year Free Cash Flow target reconfirmed
- 2019 Earnings guidance reconfirmed
- Interim Dividend up 4.4% on performance to date & business outlook



Supplementary Information

EPS Bridge (pence)



2019 Half Year Financial Performance

<i>(£m / £bn backlog)</i>	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	2,142	316	14.8%	137	6.0
Cyber & Intelligence	853	25	2.9%	23	1.9
Platforms & Services (US)	1,522	135	8.9%	5	5.6
Air	3,366	438	13.0%	(163)	25.9
Maritime	1,525	133	8.7%	(92)	8.7
HQ	163	(48)		(219)	0.1
Eliminations	(155)				(0.8)
	9,416	999	10.6%	(309)	47.4

Underlying Earnings per Share:

- excluding one-off tax benefit

21.9p

- including one-off tax benefit

26.9p

Like-for-Like Sales & Underlying EBITA

<i>Half Year:</i>	Sales			Underlying EBITA		
	2019	2018	<i>Yr-on-Yr</i>	2019	2018	<i>Yr-on-Yr</i>
As Reported	9,416	8,818	<i>+7%</i>	999	874	<i>+14%</i>
IFRS 16 (estimated)				(25)		
Foreign exchange:						
USD		229			22	
EUR		(4)			-	
Other		(13)			(1)	
Adjusted for IFRS 16 & f/x	9,416	9,030	<i>+4%</i>	974	895	<i>+9%</i>

Reconciliation of Half Year 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	999	999	874	999	874
Non-recurring items				(28)	(33)
EBITA				971	841
Amortisation				(49)	(33)
Underlying Finance Costs	(130)	(130)	(101)	(130)	(101)
Pensions & Fair Value mvmts				-	(126)
Finance Costs				(130)	(227)
Underlying Tax	(151)	(151)	(128)	(151)	(128)
Other Tax ⁽¹⁾				15	32
One-off Tax Benefit		161		161	-
Tax				25	(96)
Non-controlling interest	(22)	(22)	(14)	(22)	(14)
Earnings	696	857	631	795	471
Earnings per Share	21.9p	26.9p	19.8p	25.0p	14.8p

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

Pensions

(£bn)	30 June 2019	31 Dec 2018
Assets	27.6	25.7
Liabilities	(32.2)	(29.9)
Pension deficit	(4.6)	(4.2)
Group share of deficit	(4.3)	(3.9)
UK - Bond yields	2.4%	3.0%
Inflation rate	3.1%	3.1%
US - Bond yields	3.5%	4.2%

Investment returns to date, funding the deficit recovery plans, on track

Working Capital Movements - reconciliation to Cash Flow

(£m)

	30 Jun 2019	31 Dec 2018	Mvmt	Movement analysed between:				Cash Flow
				F/X	IFRS 16	M&A	Other	
Inventories	847	774	(73)	-	-	-	(3)	(70)
Receivables - non-current	352	352						
Receivables - current	6,061	5,177						
Total Receivables ⁽¹⁾	6,413	5,529	(884)	(3)	26	-	(22)	(885)
Payables - non-current	(1,186)	(1,104)						
Payables - current	(7,551)	(7,726)						
Total Payables ⁽²⁾	(8,737)	(8,830)	(93)	(10)	(28)	19	33	(107)
Liability Provisions - non-current	(372)	(427)						
Liability Provisions - current	(324)	(334)						
Total Liability Provisions	(696)	(761)	(65)	(5)	(31)	-	9	(38)
Working Capital	(2,173)	(3,288)						

(1) Excluding Finance Lease receivable

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

Impact of adoption of IFRS 16 Leases

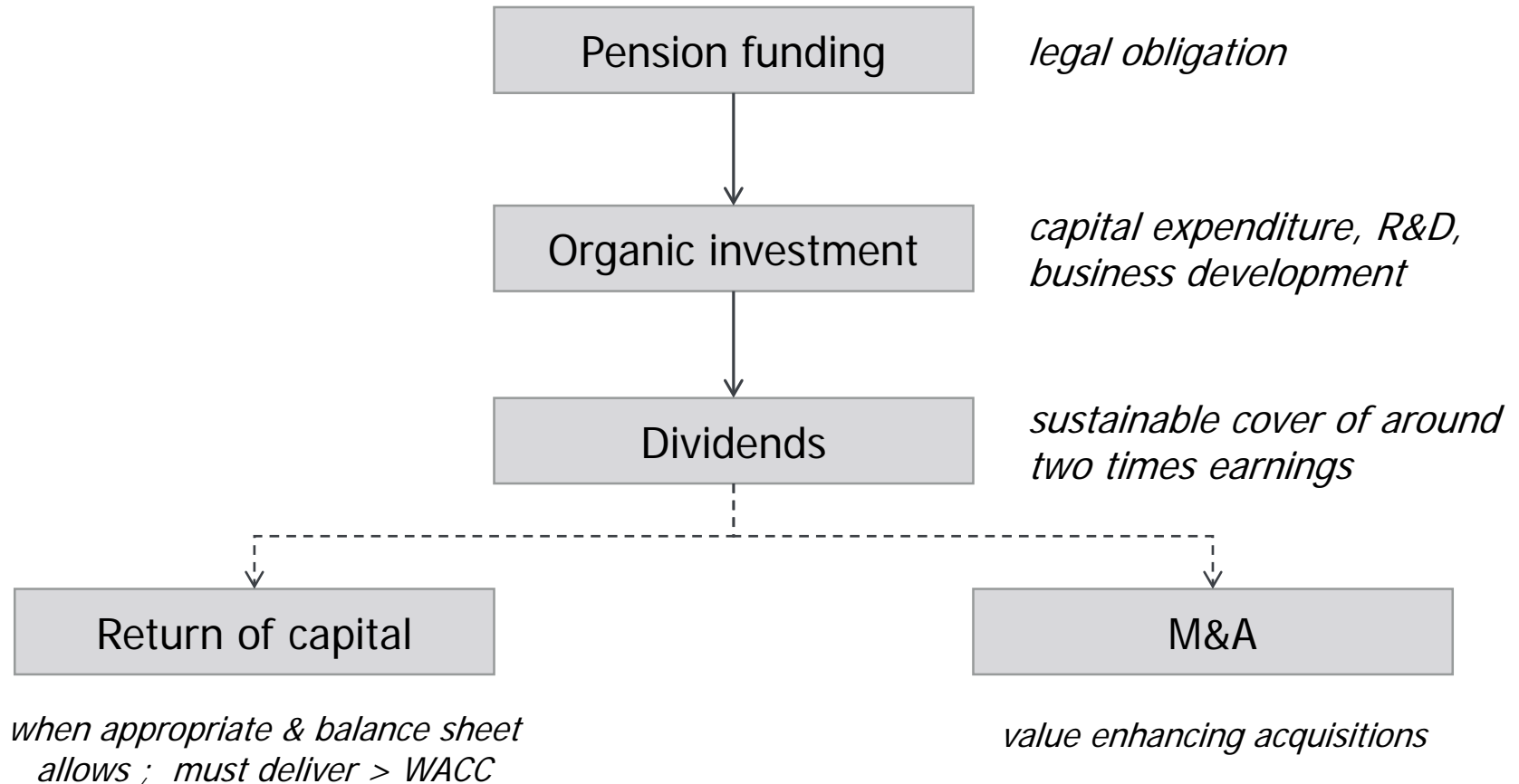
(£m)	31 Dec 2018	IFRS 16	1 Jan 2019
Intangible fixed assets	10,658		10,658
Tangible fixed assets	2,017	1,298	3,315
Investments	442	(11)	431
Working capital	(3,288)	33	(3,255)
Pension deficit	(3,932)		(3,932)
Lease liabilities ⁽¹⁾		(1,414)	(1,414)
Tax assets & liabilities	449	2	451
Financial assets & liabilities	70		70
Net debt	(904)		(904)
Assets held for sale	106		106
Net Assets	5,618	(92)	5,526

Estimated P&L impact in 2019

	£m
Electronic Systems	4
Cyber & Intelligence	3
Platforms & Services (US)	3
Air	19
Maritime	2
HQ	19
Underlying EBITA	50
Underlying Finance Costs	(50)

(1) Net of Finance Lease receivable £72m

Capital Allocation

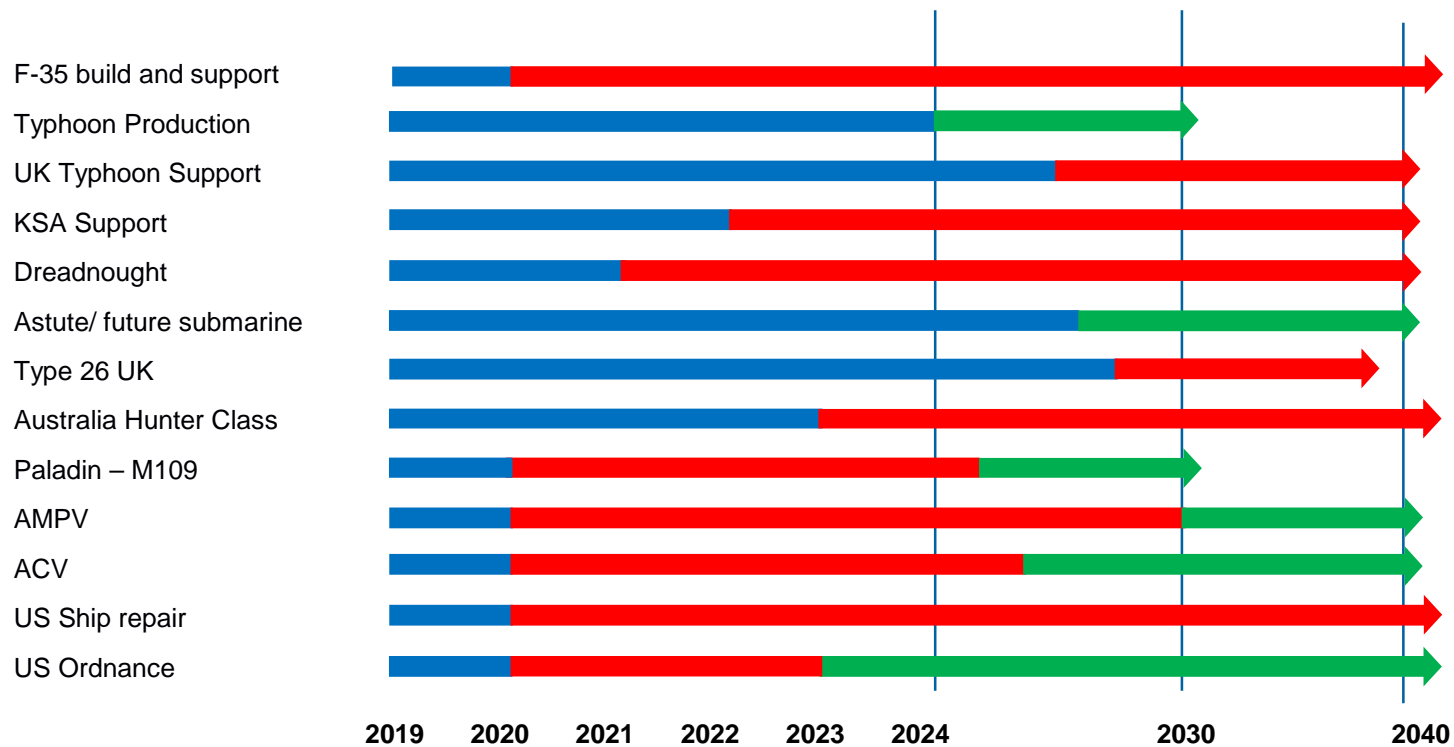


Balance sheet management to maintain **investment grade** rating and ensure **operating flexibility**

Key Franchises and Programmes – Illustrative timeline

- £47.4bn Order Backlog; incumbent positions on key long term programmes; opportunities predominately on aircraft sales and support and land vehicles

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



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

Focus on execution of orders and further strengthening backlog