BAE SYSTEMS

2018 Preliminary Results

21 February 2019

Sir Roger Carr

Chairman

BAE SYSTEMS

Charles Woodburn

Chief Executive

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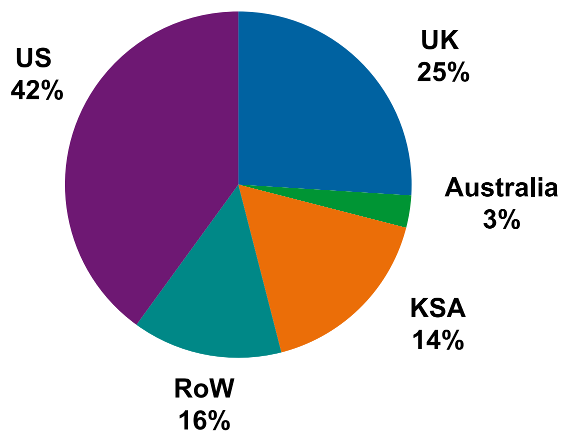
2018 – Full Year Overview

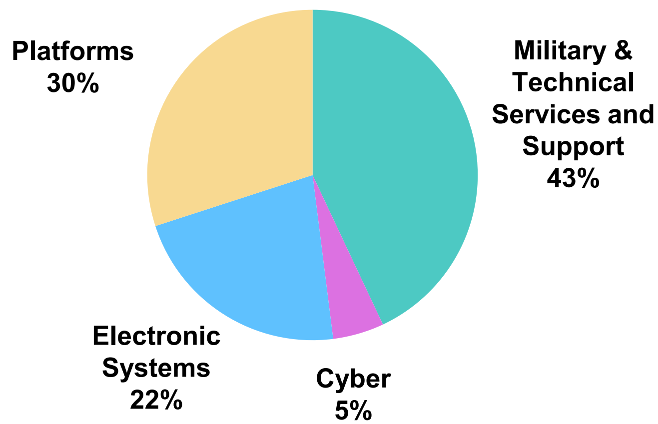
- Earnings and cash in line with guidance
- Record defence order backlog
- Performance issues being addressed
- Strategy delivering

	2018 Full Year	2017 Full Year
Sales	**£18,407m**	£18,487m
Underlying EBITA	**£1,928m**	£1,974m
Underlying EPS	**42.9p**	42.1p
Dividend per share	**22.2p**	21.8p
Order backlog	**£48.4bn**	£38.7bn
Net Debt	**£(904)m**	£(752)m

2018 Full Year
Sales by Destination



2018 Full Year
Sales by Activity



Record Defence Order Backlog and Strong Balance Sheet

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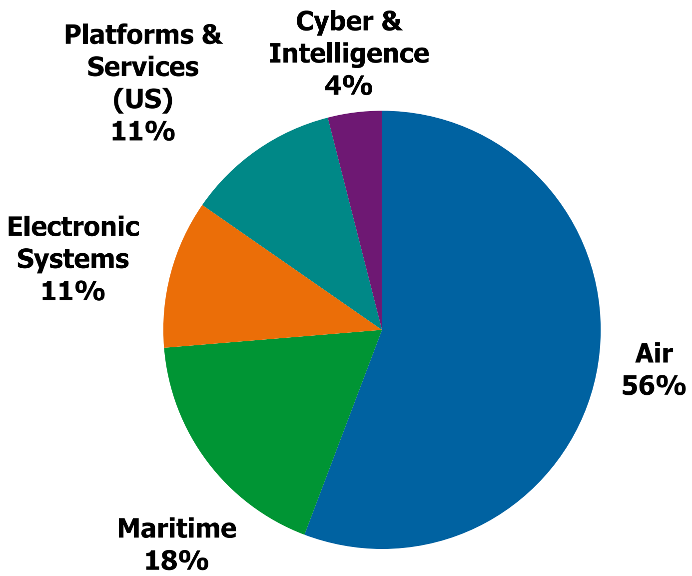
Order Backlog

- Growth of 25% in 2018 to £48.4bn
- Key wins secured globally
- Provides visibility of sales growth

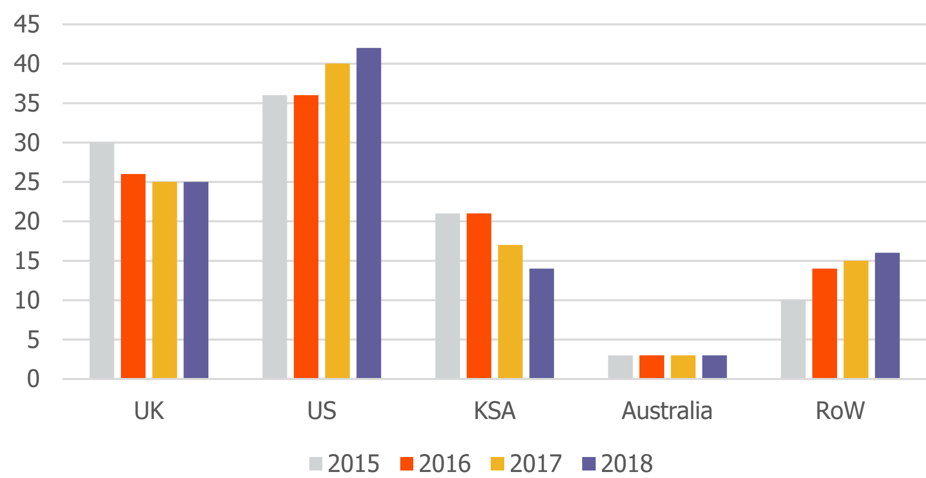
US sectors all had a book to bill >1

Electronic Systems	1.17x
Cyber & Intelligence	1.07x
P&S (US)	1.23x

Order Backlog by Sector - £48.4bn



Geographic Mix



Backlog a balanced mix between long term support and platforms

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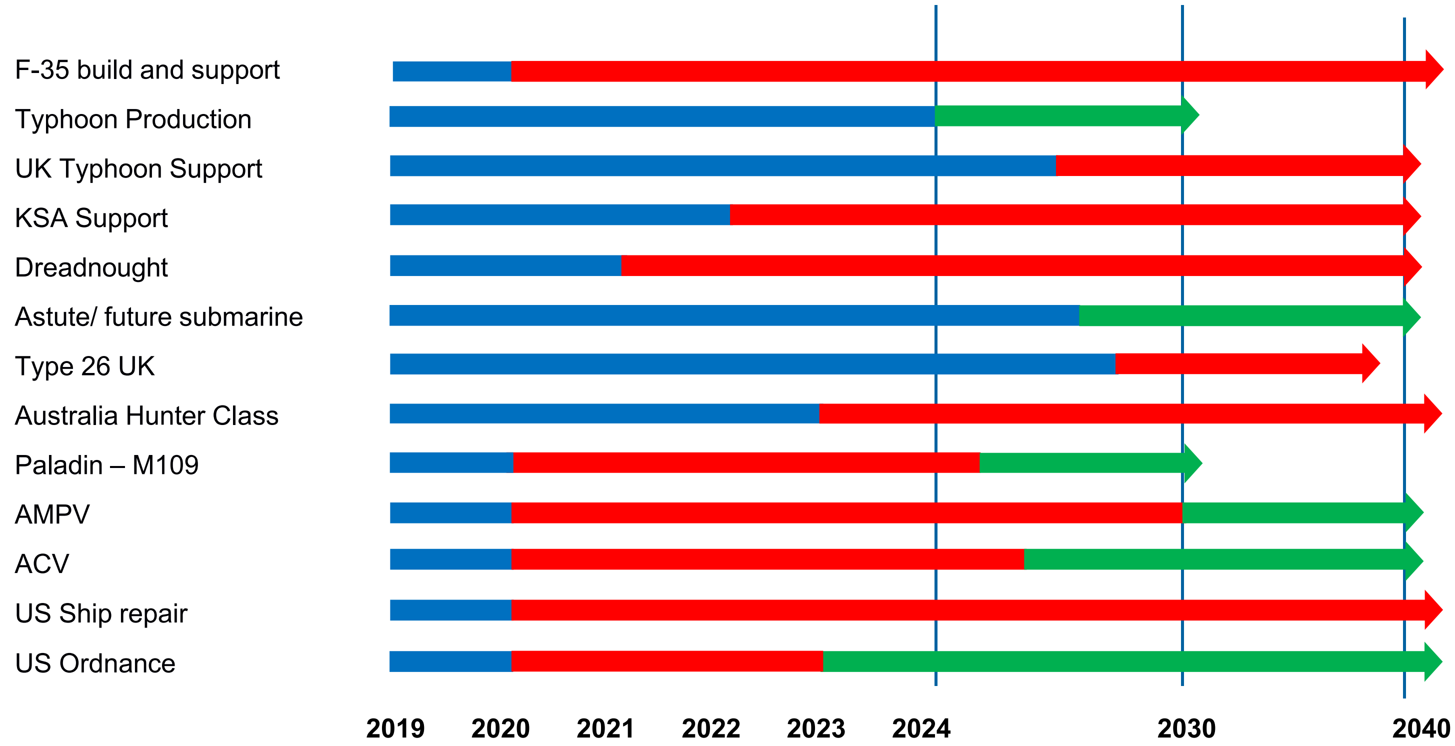
Key Franchises and Programmes – Illustrative timeline

- £48.4bn 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

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Peter Lynas

Group Finance Director

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Key Points

2018

- Underlying EPS in line with guidance
- £2bn Free Cash Flow across 2017 & 2018
- Record high defence order backlog
- Dividend growth for 15th consecutive year
- Pension valuation assumptions being met

2019

- Targeting mid-single digit underlying EPS growth
- Free Cash Flow generation targeted >£3bn 2019 - 2021

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2018 Financial Summary

	2018	2017
Sales [1]	£18,407m	£18,487m
Underlying EBITA [1,2]	£1,928m	£1,974m
Underlying Finance Costs [3]	£(215)m	£(245)m
Underlying Earnings per Share [1,4]	42.9p	42.1p
Operating Business Cash Flow	£993m	£1,752m
Net Debt	£(904)m	£(752)m
Order Backlog [1]	£48.4bn	£38.7bn
Dividend per Share	22.2p	21.8p

(1) Comparative information restated for the adoption of IFRS 15
(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) Average £/$ rate at 2018 $1.33 & 2017 $1.29

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Balance Sheet

(£m)	31 Dec 2018	31 Dec 2017 [1]	Drivers
Intangible fixed assets	10,658	10,378	FX
Tangible fixed assets [2]	2,017	1,977	Capex in Electronic Systems
Investments	442	328	Share of EAI profits less dividends received
Working capital	(3,288)	(3,595)	2017 timing benefit reversal, Platforms & Services (US) and Qatar advances
Pension deficit	(3,932)	(4,022)	Improved discount rates
Tax assets & liabilities	449	413	
Financial assets & liabilities	70	18	
Net debt	(904)	(752)	
Assets held for sale	106	10	AACC and UK Vehicles JV
Net Assets	**5,618**	**4,755**	

(1) Restated for the adoption of IFRS 15; prior year pension deficit restated for valuation of longevity swap

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

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Pensions

(£bn)	31 Dec 2018	31 Dec 2017
Assets	25.7	26.8
Liabilities	(29.9)	(31.2)
Pension deficit	**(4.2)**	**(4.4)**
Group share of deficit	**(3.9)**	**(4.0)**
UK - Bond yields	**2.9%**	**2.6%**
Inflation rate	**3.1%**	**3.1%**
US - Bond yields	**4.2%**	**3.7%**

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

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Net Cash / (Debt)

(£m)	**2018**
Opening Net Debt	**(752)**
Operating business cash flow	993
Interest & Tax	(378)
Dividends paid, incl. minorities	(731)
Foreign exchange	(86)
Other	50
Closing Net Debt	**(904)**

Electronic Systems	431
Cyber & Intelligence	85
Platforms & Services (US)	(30)
Air	666
Maritime	67
HQ	(226)
Operating business cash flow	**993**

Gross Debt	Gross Cash
£(4.1)bn	**£3.2bn**

$1bn bond maturing in June 2019

£2bn Free Cash Flow[(1)] delivered in aggregate for 2017 & 2018

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

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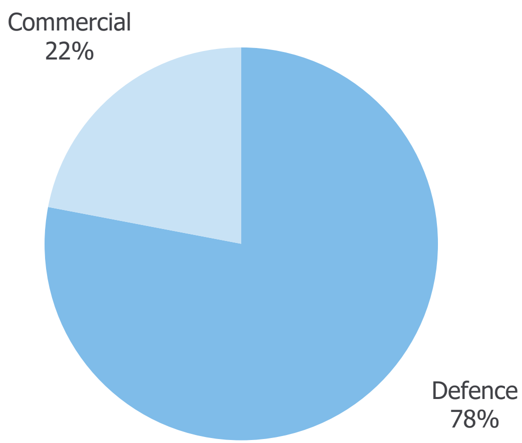
Electronic Systems

	2018	2017 (1)
Sales	$5,293m	$4,637m
Underlying EBITA	$809m	$698m
Margin	15.3%	15.1%
Cash flow	$575m	$580m
Order backlog	$6.9bn	$6.4bn

2018 Sales



- Sales growth at 14%
  - F-35
  - Classified activity
  - APKWS doubled
  - Commercial business
- Margin performance per guidance
- Cash conversion at 81%, pre-pension funding
  - Capital expenditure at c.$200m
- Order backlog record high
  - F-35
  - Classified EW activity
  - APKWS

(1) Restated for the adoption of IFRS 15

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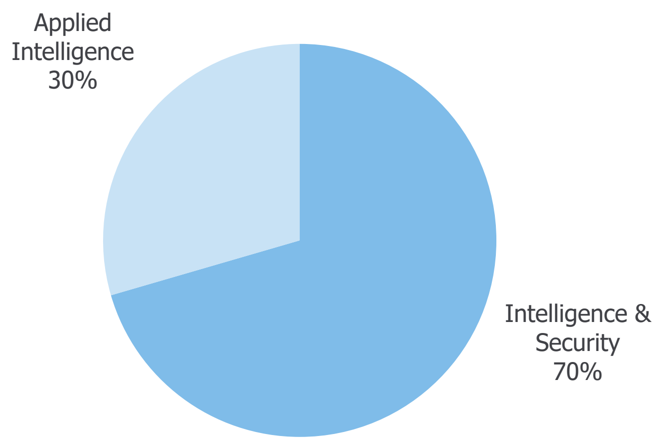
Cyber & Intelligence

	2018	2017 (1)
Sales	$2,240m	$2,343m
Underlying EBITA	$148m	$74m
Margin	6.6%	3.2%
Cash flow	$113m	$149m
Order backlog	$2.4bn	$2.9bn

2018 Sales



- Sales down 5% on a constant currency basis
  - Intelligence & Security down 4%; IT services contract
  - Applied Intelligence down 9%; business re-focused
- Margin performance
  - Intelligence & Security at 9%
  - Applied Intelligence returned to break-even
- Cash conversion at 95%, pre-pension funding
- Order backlog reduced on closed out US services contract

(1) Restated for the adoption of IFRS 15
(2) Applied Intelligence based on £ figures

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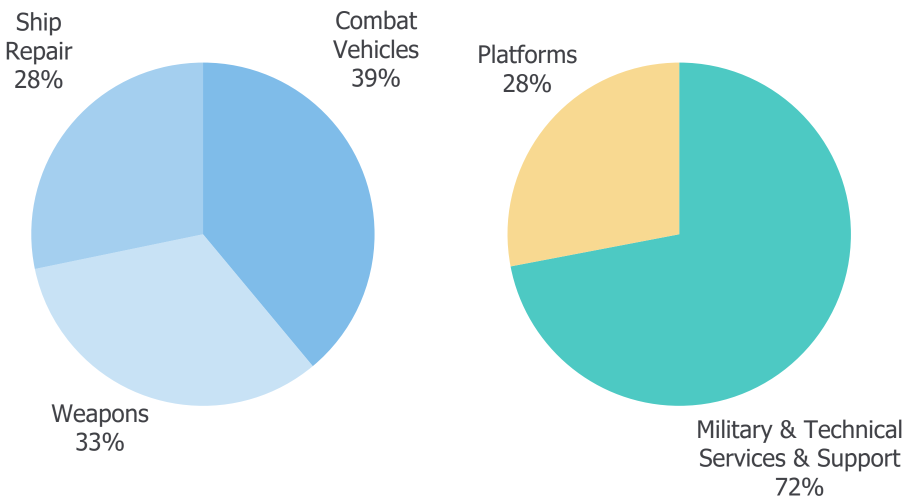
Platforms & Services (US)

	2018	2017 (1)
Sales	$4,011m	$3,804m
Underlying EBITA	$281m	$305m
Margin	7.0%	8.0%
Cash flow	$(40)m	$286m
Order backlog	$6.8bn	$5.7bn

2018 Sales



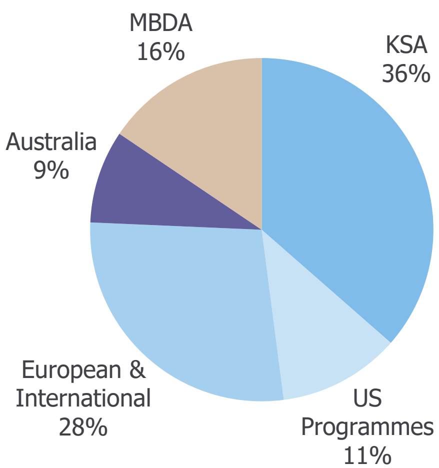
(1) Restated for the adoption of IFRS 15

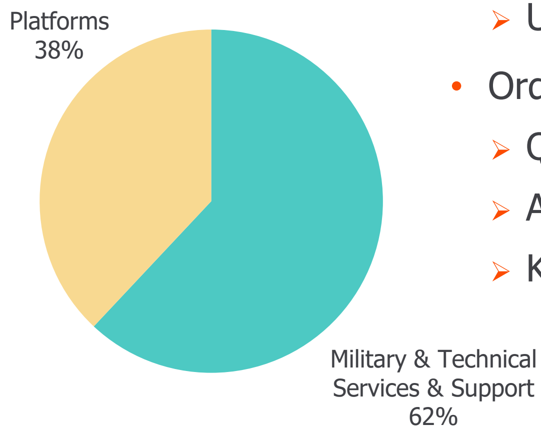
- Sales up 5%, growth lower than guidance
  - Later order awards on Paladin
  - Ship Repair utilisation
- Margin performance impacted by 1st half charges
  - Commercial shipbuilding
  - Radford facilities construction
- Cash flow reflects
  - Advance payment utilisation
  - Delivery delays & new business ramp up
- Order backlog increased
  - ACV, AMPV, Paladin low rate
  - Mobile Protected Firepower EMD
  - Ship Repair book-to-bill at 1.1

Air

	2018	2017 (1)
Sales	£6,712m	£7,210m
Underlying EBITA	£859m	£967m
Margin	12.8%	13.4%
Cash flow	£666m	£832m
Order backlog	£27.4bn	£19.5bn

2018 Sales





(1) Restated for the adoption of IFRS 15

- Sales down 7%
  - Typhoon production for Europe, KSA, Oman largely complete
  - F-35 ramping to plan
  - Middle East support volumes
- Margin performance includes 70bps benefit on Typhoon Oman completion
- Cash flow
  - Consumption of KSA receipts from 2017
  - Utilisation of advances / new Qatar advance
- Order backlog on awards for
  - Qatar Typhoon & Hawk
  - Australian Hunter Class
  - KSA Typhoon support continuation

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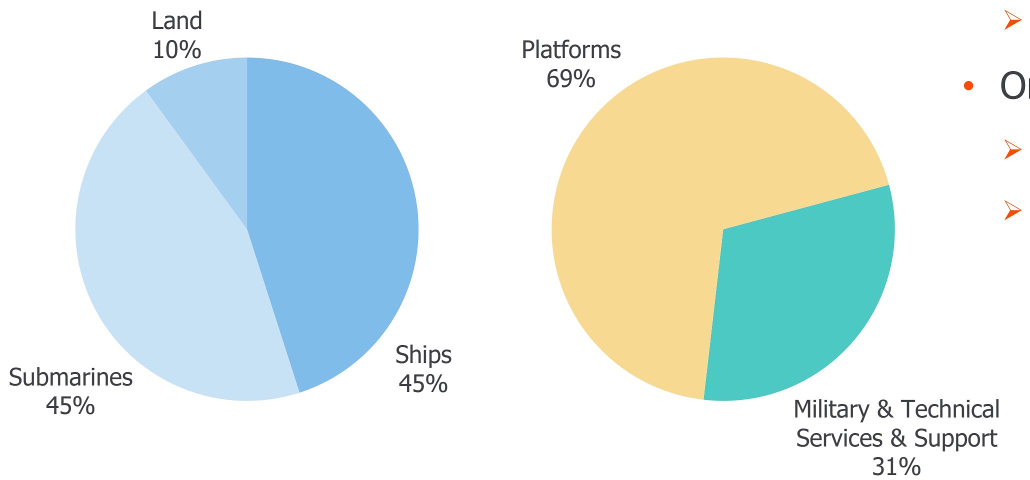
Maritime

	2018	2017 (1)
Sales	£2,975m	£2,877m
Underlying EBITA	£209m	£251m
Margin	7.0%	8.7%
Cash flow	£67m	£278m
Order backlog	£9.0bn	£8.5bn

2018 Sales



(1) Restated for the adoption of IFRS 15

- Sales up 3%
  - Dreadnought & Type 26 ramping up
  - Carrier activity reducing
- EBITA impacted by
  - £47m charge on OPV contract
  - Carrier traded more conservatively
  - Good performance at Submarines
- Cash flow
  - Reversal of 2017 £106m VAT timing benefit
- Order backlog increased for
  - Astute Boat 7
  - Dreadnought funding

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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		

	2018 Actual	2019 Guidance
HQ (EBITA)	(67)	slightly higher
Underlying Finance Costs	(215)	slightly lower
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

(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) Guidance excludes the impact of the adoption of IFRS 16. As shown in the Appendix, this is expected to increase EBITA & Finance costs by c.£50m in 2019

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2019 – 2021 Targeted Free Cash Flow

	£bn (1,2)	Comments
EBITA	5.7 – 6.0	- excludes EAIs
Capex over depreciation	(0.3)	- supports US growth; spend peaks in 2019
Working capital growth	(0.2)	- non-linear; Qatar outflows in 2019
	5.2 – 5.5	
Pension deficit funding	(0.8)	- per current funding valuations
Interest & tax	(1.4)	- straightline
FREE CASH FLOW (3)	**3.0 – 3.3**	

Targeting >£3bn of Free Cash Flow 2019 - 2021

Net Debt in 2019 to increase slightly

(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) Guidance excludes the impact of the adoption of IFRS 16.

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

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Charles Woodburn

Chief Executive

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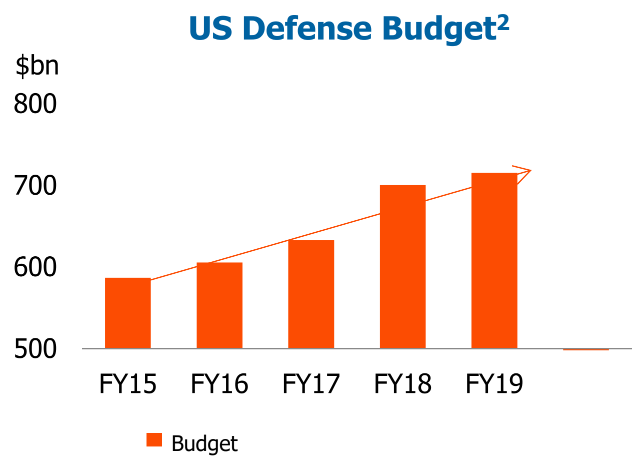
Market Environment - US

- US – 42%[1]
  - Recent budgets drive growth
  - Positive momentum in support of military readiness and modernisation
  - Classified sales increasing
  - Portfolio well positioned to meet customer priorities



(1) Group Sales by Destination
(2) US Department of Defense

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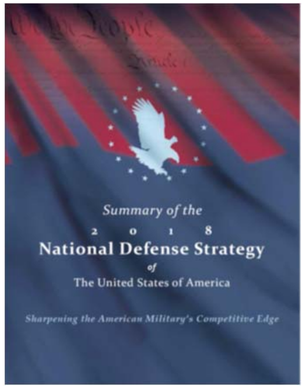
Alignment with DoD growth areas



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

P&S

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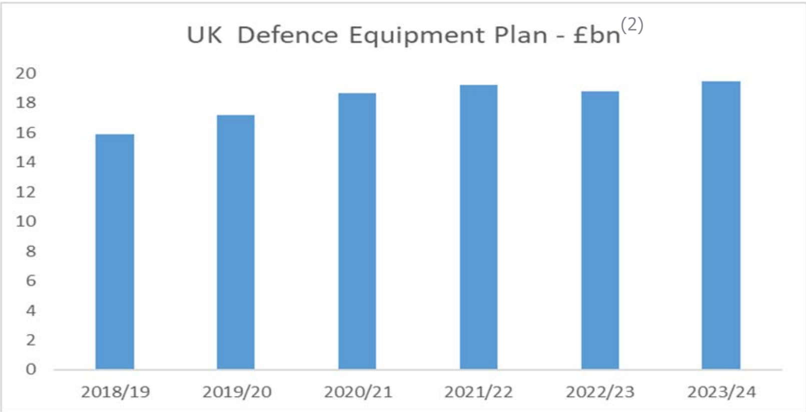
I&S

Well positioned against the stated priorities of military services

Market Environment - UK

- UK – 25%[(1)]
  - Modernising Defence Programme
  - Defence and security remains high priority
  - Combat Air Strategy launched
  - Long-term contract positions
  - Stable outlook



(1) Group Sales by Destination
(2) Source: UK MoD Defence Equipment Plan 2018

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Market Environment – International

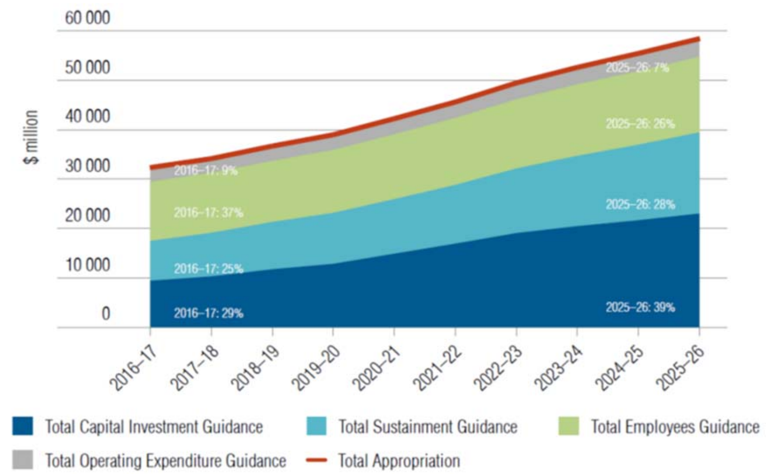
- Saudi Arabia - 14%(3)
  - Long standing support contracts
  - Licences
  - Continue to support 2030 vision
  - KPCs sales and minority interest up

- Australia - 3%(3)
  - Hunter Class frigate programme
  - Business expected to double in 5 years

- Qatar - major defence spending underway
  - Typhoon & Hawk

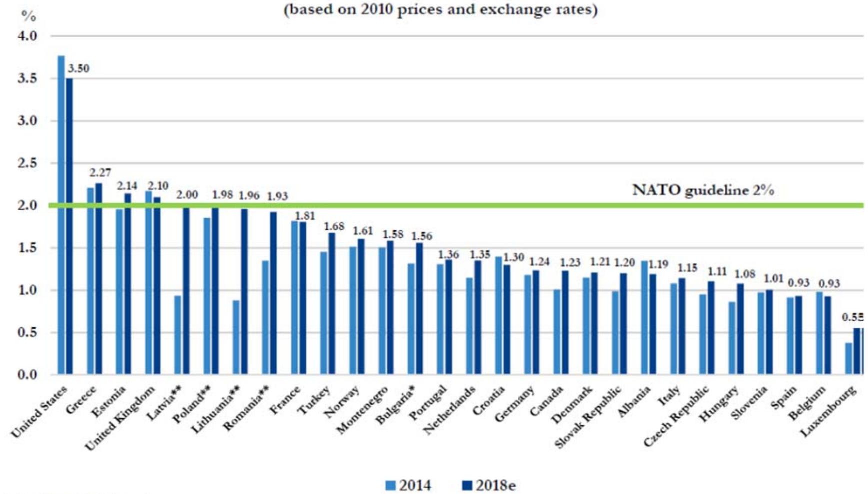
- Europe - defence spending to increase
  - Typhoon opportunities
  - MBDA
  - Land vehicles

Australia Defence Budget(1)



NATO Defence Spend(2)

(based on 2010 prices and exchange rates)



Notes: Figures for 2018 are estimates.

* Defence expenditure does not include pensions.

** With regard to 2018, these countries have either national laws or political agreements which call for at least 2% of GDP to be spent on defence annually, consequently these estimates are expected to change accordingly.

(1) Australian Department of Defence White Paper 2016
(2) NATO defence spending – NATO publication 10th July 2018
(3) Group Sales by Destination

Strategic priorities delivery – 2018

Driving Operational Excellence ✓	Improving Competitiveness	Advancing Technological Innovation

Driving Operational Excellence

- APKWS and Electronic Warfare ramp up
- UK Air programmes – strong performance
- Submarine performance improvement
- UK Naval Ships management strengthened
  - Focus on execution, OPVs, Carrier, Type 26
- Ramp to rate actions in the US
- AI performance improvement

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Strategic priorities delivery – 2018

Driving Operational Excellence ✓ | Improving Competitiveness ✓ | Advancing Technological Innovation

Improving Competitiveness

- New organisation structure embedded
- Procurement improvements
- Competitive programme wins
    - US Amphibious Combat Vehicle
    - Australian Hunter Class
    - Canadian Surface Combatant design
    - Mobile Protected Firepower development phase
- Proposed Land JV with Rheinmetall
- AACC stake sold

Strategic priorities delivery – 2018

Driving Operational Excellence ✓ | **Improving Competitiveness** ✓ | **Advancing Technological Innovation** ✓

Advancing Technological Innovation

- Collaboration increasing
- Technology plans in place
- Investment in 2018
  - Prismatic UAV capability
  - Reaction Engines
  - Continued work with DARPA
- Pipeline of funding opportunities
- Increasing R&D over time in ES and Air
  - Precision weaponry
  - Autonomy
  - Advanced electronics
  - Space resiliency
  - Tempest programme

Summary

- Strategy clear and consistent
- Multi year growth visibility underpinned by order backlog
- Clear focus on operational excellence and driving efficiency
- Diverse portfolio - long term programme positions
- Strong customer relationships; in country partnerships and collaboration
- Investment in technology to position for long term
- Balance sheet strong and pension position stable

Free cash flow generation supports shareholder rewards and sustainable value creation

Supplementary Information

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Key franchises and programmes - US

	5 Year Sales outlook	
• Electronic Systems - $5.3bn - 2018	⬆	• Broad portfolio – well placed • F-35 and F-15 upgrades ramp up • Classified work increasing • APKWS – high demand • Commercial franchises on Engine and Flight controls
• US Platforms and Services - $4.0bn - 2018		
➢ Combat Vehicles (39%)	⬆	• Production set to double over 5 years • M109, AMPV, Bradley vehicles • ACV secured in 2018 • Mobile Protected Firepower development award • Domestic and Export land opportunities
➢ US Ship Repair (28%)	⬆	• Good 2018 order intake • Supported by Naval budget outlook • Utilisation levels high

➢ US Weapons Systems (33%)	⬆	• Leader in Naval guns – Naval budget outlook positive
		  • US Naval budget outlook positive
		  • Exports – Hunter Class and Canadian Frigates
		• M777 India ramp up
		• Robust US army demand

Note: numbers in brackets represent percentage of 2018 sales for sector

Key franchises and programmes Air - £6.7bn - 2018

	5 year Sales outlook	
• Typhoon Production (9%)	→	• Qatar stabilises outlook post 2018 to early 2020s • Further orders secured would either extend or enhance profile
• Typhoon Support (23%)	↑	• Global fleet still increasing, ongoing upgrades • Oman in place, Qatar support and training package • KSA order backlog extended; export licences
• F-35 Production & Support (11%)	↑	• Production ramp to 2020 full rate of c.150 pa • Support - initial packages won; global fleet growing
• Hawk Support & Production (7%)	↓	• Long-term support contracts stable • KSA and Qatar production to early 2020s
• Tornado Support (18%)	↓	• UK out of service 2019 – c.£0.1bn impact
• MBDA (16%)	↑	• Good growth from existing order backlog which increased further in 2018 to c.€17bn
• Australia (9%)	↑	• Long term upgrade and support business stable • Overall business expected to double in 5 years due to Hunter Class Frigate programme ramp up

Note: numbers in brackets represent percentage of 2018 sales for sector – other air programmes of 7% make the balance

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Key franchises and programmes – Maritime and Cyber

5 year Sales outlook

- Maritime (& UK Land) £3.0bn - 2018 ➡
  - Long-term contracted programmes
  - Astute and Dreadnought production
  - Type 26 activity to increase
  - QEC build programme moving towards completion
  - Support services and combat systems
  - Design contract for Canadian Surface Combatant contract awarded in February 2019
  - Type 31 opportunity
  - Proposed Land JV with Rheinmetall

- Cyber & Intelligence - $2.2bn - 2018
  - ➢ US Intelligence & Security (70%) ➡
    - High tempo of bid activity
    - Margins and cash performance good
    - Competitive market
  - ➢ Applied Intelligence (30%) ⬆
    - Government services performing well
    - Actions taken to address commercial
    - Breakeven in 2018 - Improved returns targeted

Note: numbers in brackets represent percentage of 2018 sales for sector

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Capital Allocation

Pension funding — *legal obligation*

Organic investment — *capital expenditure, R&D, business development*

Dividends — *sustainable cover of around two times earnings*

Return of capital — *when appropriate & balance sheet allows ; must deliver > WACC*

M&A — *value enhancing acquisitions*

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

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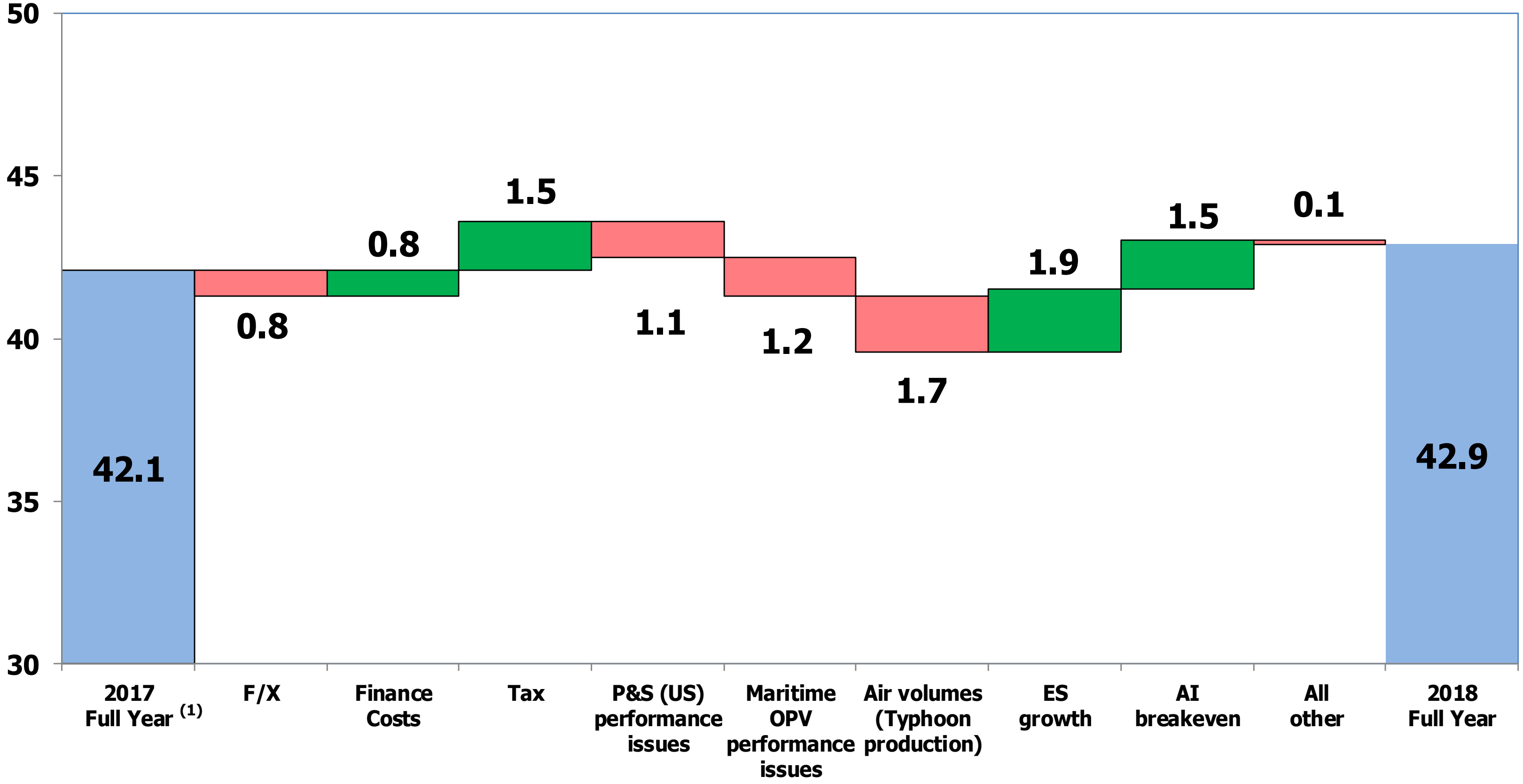
EPS Bridge (pence)



(1) Restated for the adoption of IFRS 15

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2018 Financial Performance

(£m / £bn backlog)	**Sales**	**Underlying EBITA**	**Margin**	**Cash Flow**	**Order Backlog**
Electronic Systems	3,965	606	15.3%	431	5.4
Cyber & Intelligence	1,678	111	6.6%	85	1.9
Platforms & Services (US)	3,005	210	7.0%	(30)	5.4
Air	6,712	859	12.8%	666	27.4
Maritime	2,975	209	7.0%	67	9.0
HQ	350	(67)		(226)	0.1
Eliminations	(278)				(0.8)
	18,407	**1,928**	**10.5%**	**993**	**48.4**

Underlying Earnings per Share **42.9p**

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Like-for-Like Sales & Underlying EBITA

	Sales			Underlying EBITA		
	2018	**2017**	*Yr-on-Yr*	**2018**	**2017**	*Yr-on-Yr*
As Reported	**18,407**	**18,487**	-	**1,928**	**1,974**	*(2)%*
Foreign exchange:						
USD		(257)			(29)	
EUR		9			1	
Other		(50)			(6)	
Adjusted for foreign exchange	**18,407**	**18,189**	*1%*	**1,928**	**1,940**	*(1)%*

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Reconciliation of Earnings

(£m / pence EPS)	**2018 Underlying**	**2017 Underlying[1]**	**2018 Reported**	**2017 Reported[1]**
Underlying EBITA	1,928	1,974	1,928	1,974
Non-recurring items			(154)	(13)
EBITA			1,774	1,961
Amortisation/Impairment			(118)	(470)
Underlying Finance Costs	(215)	(245)	(215)	(245)
Pensions/Fair Value/FX movements			(179)	(135)
Finance Costs			(394)	(380)
Underlying Tax	(310)	(361)	(310)	(361)
Other Tax [2]			81	107
Tax			(229)	(254)
Non-controlling interest	(33)	(30)	(33)	(30)
Earnings	**1,370**	**1,338**	**1,000**	**827**
Earnings per Share	**42.9p**	**42.1p**	**31.3p**	**26.0p**

(1) Restated for the adoption of IFRS 15
(2) Tax on non-recurring items, amortisation, impairments, pensions, fair value movements

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Working Capital Movements - reconciliation to Cash Flow

(£m)

	31 Dec 2018	31 Dec 2017[2]	Mvmt	F/X	M&A	Other	Cash Flow
			Movement analysed between:				
Inventories	774	733	(41)	(22)	3	(6)	(16)
Receivables - non-current	352	387					
Receivables - current	5,177	4,244					
Total Receivables	5,529	4,631	(898)	(168)	10	17	(757)
Payables - non-current	(1,104)	(1,379)					
Payables - current	(7,726)	(6,745)					
Total Payables [1]	(8,830)	(8,124)	706	155	(2)	23	530
Liability Provisions - non-current	(427)	(435)					
Liability Provisions - current	(334)	(400)					
Total Liability Provisions	(761)	(835)	(74)	15	(7)	19	(101)
Working Capital	**(3,288)**	**(3,595)**					

(1) Excludes funding received for tangible fixed assets related to the Dreadnought submarine programme
(2) Restated for adoption of IFRS 15

BAE SYSTEMS

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	1,300	3,317
Investments	442	(11)	431
Working capital	(3,288)	33	(3,255)
Pension deficit	(3,932)		(3,932)
Lease liabilities [1]		(1,416)	(1,416)
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 £70m