

Trading Statement

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BAE SYSTEMS PLC
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BAE Systems - Trading update

Trading update

The Group's outlook for 2018 remains unchanged. Overall, we expect the Group's underlying earnings per share for 2018 to be in line with the full-year underlying earnings per share for 2017, with some small additional benefit from exchange translation.*

** Compared with the Group's actual performance for 2017 as re-presented to reflect the impact of the adoption of IFRS 15 from 43.5p to 42.1p and assuming a US\$1.35 to sterling exchange rate*

UK Market

In the UK, the recently announced budget re-emphasised the UK's commitment to strong defence and security and the company focus remains on execution of our long term contracted positions in Air and Maritime. The production ramp up of the F-35 programme is progressing well. On the Offshore Patrol Vessels programme work continues to rectify the quality issues on the first ship, with lessons learned being applied to the other ships in build. The second ship is due to commence sea trials in November. The Type 26 programme is on track for the first of class contractual date in the mid 2020s and the strengthened management team in Barrow is delivering improved performance on both the Astute and Dreadnought submarine programmes. Flight trials are on-going on HMS Queen Elizabeth off the coast of the US and are progressing to plan.

The UK-managed Applied Intelligence business remains on track to achieve a breakeven position by year end.

The final agreement of the terms of the UK's exit from the EU after March 2019 will be important to enable companies to prepare for potential changes in the regulatory environment. There is relatively limited UK-EU trading and movement of EU nationals into and out of BAE Systems' UK businesses and the resulting Brexit near term impacts across the business are likely to be limited. BAE Systems will support the UK government in achieving its aim of ensuring that the UK maintains its key role in European security and defence post-Brexit, and to strengthen bilateral relationships with key partners in Europe.

US Market

On 28 September, the fiscal year 2019 Defense Appropriations bill was enacted providing near-term clarity and support for the industry.

The enacted bill maintains support for our medium-term planning assumptions and positive momentum for military readiness and modernisation programmes. This includes many key BAE Systems programmes such as combat vehicles, F-35, electronic warfare programmes, and current and future precision-weapons systems. As the US-based business executes on its strong order backlog the Group remains focused on meeting the challenges of rapid growth. Within US Platforms and Services we have further strengthened management in the combat vehicles business where necessary process and automation improvements are in preparation to meet the significant production ramp and to overcome initial issues of acceleration.

US Ship repair utilisation levels remain high across our facilities with the backlog further strengthened with the \$146.3m contract award in August to modernise the USS Gettysburg.

International Markets

The c£5bn Qatar Typhoon and Hawk programme, effective in September and in the order backlog, stabilises Typhoon

production into the next decade and also extends Hawk production. Whilst a degree of geopolitical turbulence exists, the potential pipeline for Typhoon remains positive with opportunities both with partner nations and through exports.

In Australia, work continues on negotiating the design and development scope for the Hunter Class frigate programme, with signature of the contract expected in the coming months.

In October, the Canadian Government announced that it had selected Lockheed Martin Canada, using BAE's Type 26 design, as its preferred bidder for the Canadian Surface Combatant programme. The bid is now in the negotiation stage.

Interim Dividend

The Interim dividend of 9.0 pence per share will be paid on 30 November 2018.

Full year results

BAE Systems will announce its financial results for the year ending 31 December 2018 on 21 February 2019.

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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