

2018 Interim Results

1 August 2018



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Charles Woodburn

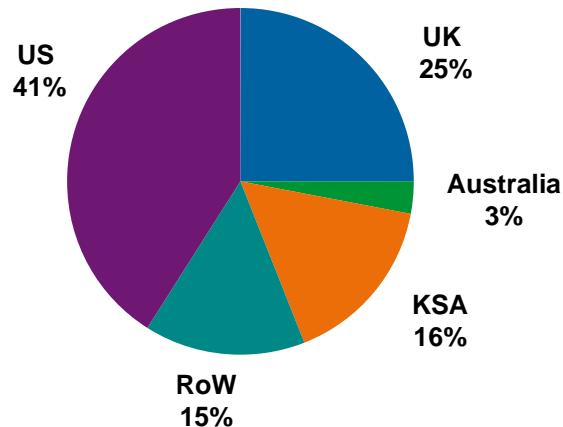
Chief Executive

2018 – Half Year Overview

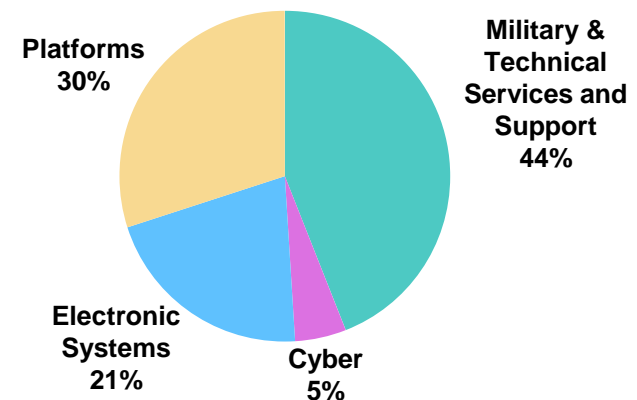
- Significant business wins
 - SEA 5000 Australian Frigates
 - Amphibious Combat Vehicle
- Major programme positions strengthened
- Strategic priorities being driven hard
 - Focus on operational performance

	2018 Half Year	2017 Half Year
Sales	£8,818m	£9,467m
Underlying EBITA	£874m	£967m
Underlying EPS	19.8p	20.2p
Dividend per share	9.0p	8.8p
Order backlog	£39.7bn	£38.7bn*

**2018 Half Year
Sales by Destination**



**2018 Half Year
Sales by Activity**



2018 Group guidance maintained

* as at 31 December 2017

Market Outlook

- UK
 - Combat Air Strategy
 - Modernising Defence Programme
 - Defence and Security remains high priority
 - Long-term contract positions
- US
 - Budget outlook positive
 - Portfolio well aligned to customer priorities
- International Markets
 - Good prospects in many of our markets



Strategic Priorities – Update

- Operational Excellence
 - Maritime management strengthened
 - Ramp to rate actions in the US
 - AI performance improvement
- Competitiveness
 - New organisation structure embedded
 - Procurement category managers
- Technological Innovation
 - Collaboration increased
 - Technology plans in place
 - Pipeline of investment opportunities
 - Increased self funded R&D overtime



Key franchises and programmes - US

Sales
outlook

- Electronic Systems
 - ↑
 - Broad portfolio – well placed
 - F-35 and F-15 upgrades ramp up
 - Classified work increasing
 - APKWS – high demand

- US Platforms and Services
 - US Combat Vehicles
 - ↑
 - Production set to double in plan
 - M109, AMPV, Bradley vehicles
 - ACV contract won
 - Domestic and Export land opportunities

 - US Ship Repair
 - ↑
 - Good order intake
 - Support by Naval budget outlook
 - Increased capacity fully utilised

 - US Weapons Systems
 - ↑
 - Leader in Naval guns – Naval budget outlook
 - M777 India ramp up
 - Robust US army demand

Key franchises and programmes - Air

	Sales outlook	
• Typhoon Production	➔	<ul style="list-style-type: none"> • Qatar stabilises outlook post 2018 • Further orders secured would drive growth • UK Combat Air Strategy
• Typhoon Support	↑	<ul style="list-style-type: none"> • Global fleet still increasing, ongoing upgrades • Qatar support package, Oman in place
• F-35 Production & Support	↑	<ul style="list-style-type: none"> • Production ramping up till 2020 • Support - initial packages won; global fleet growing
• Hawk Support & Production	↓	<ul style="list-style-type: none"> • Long-term support, KSA production through 2019 • Qatar contract amended to include 9 hawks
• Tornado Support	↓	<ul style="list-style-type: none"> • UK out of service 2019
• MBDA	↑	<ul style="list-style-type: none"> • Good growth from existing order backlog
• Australia	↑	<ul style="list-style-type: none"> • SEA 5000 programme won

Key franchises and programmes – Maritime and Cyber

Sales
outlook

- Maritime
 - ➔
 - Long-term contracted programmes
 - Astute and Dreadnought production
 - Type 26
 - Support services and combat systems
 - Canada opportunity

- Cyber & Intelligence
 - US Intelligence & Security
 - ➔
 - High tempo of bid activity
 - Margins and cash performance good
 - Competitive market environment

 - Applied Intelligence
 - ↑
 - Actions taken to address commercial
 - Government services performing well
 - Improved returns targeted

Overview

- Significant business wins
- Major programmes outlook strengthened
- Transition earnings year
- Strategic priorities being driven hard
- Strategy and capital allocation – clear, consistent and disciplined

Firm basis for growth and sustainable cashflow



Peter Lynas

Group Finance Director

2018 Half Year Financial Summary

	2018 Half Year	2017 Half Year
Sales ⁽¹⁾	£8,818m	£9,467m
Underlying EBITA ^(1,2)	£874m	£967m
Underlying Finance Costs ⁽³⁾	£(101)m	£(129)m
Underlying Earnings per Share ^(1,4)	19.8p	20.2p
Operating Business Cash Flow	£(436)m	£277m
Net Debt ⁽⁵⁾	£(1,921)m	£(752)m
Order Backlog ^(1,5)	£39.7bn	£38.7bn
Dividend per Share	9.0p	8.8p

(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) Comparative as at 31 December 2017

(6) Average £/\$ rate at 2018 Half Year \$1.38 & 2017 Half Year \$1.26

Balance Sheet

(£m)	30 June 2018	31 Dec 2017 ⁽¹⁾	Drivers
Intangible fixed assets	10,523	10,378	FX
Tangible fixed assets ⁽²⁾	1,918	1,977	Williamstown & Mobile shipyards
Investments	388	330	profits and share of lower pension deficit
Working capital	(2,442)	(3,595)	reversal of '17 benefits, activity ramp-up
Pension deficit	(2,964)	(3,920)	lower real discount rate & UK mortality assumptions
Tax assets & liabilities	301	395	deferred tax on lower pension deficit
Financial assets & liabilities	16	18	
Net debt	(1,921)	(752)	
Assets held for sale	51	10	Williamstown & Mobile shipyards
Net Assets	5,870	4,841	

(1) Restated for the adoption of IFRS 15

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

Net Cash / (Debt)

(£m)	2018 Half Year
Opening Net Debt	(752)
Operating business cash flow	(436)
Interest & Tax	(227)
Equity dividends paid	(415)
Other, incl foreign exchange	(91)
Closing Net Debt	(1,921)



Electronic Systems	117
Cyber & Intelligence	63
Platforms & Services (US)	(46)
Air	(167)
Maritime	(196)
HQ	(207)
Operating business cash flow	(436)

Gross Debt	Gross Cash
£(4.0)bn	£2.1bn

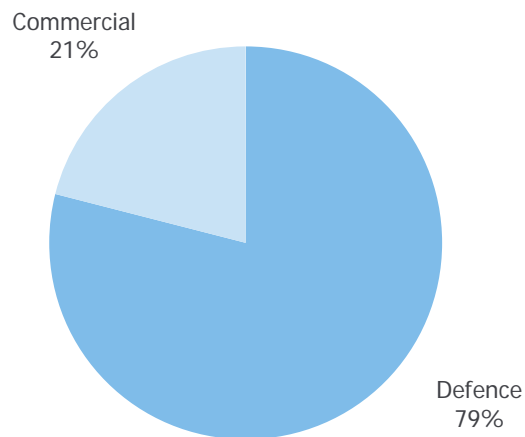
\$1bn 6.375% bond maturing in 2019

Electronic Systems

Half Year:	2018	2017 ⁽¹⁾
Sales	\$2,503m	\$2,291m
Underlying EBITA	\$358m	\$342m
Margin	14.3%	14.9%
Cash flow	\$161m	\$149m
Order backlog	\$7.1bn	\$6.4bn ⁽²⁾

- Sales growth at 9%
 - F-35 & APKWS production volumes
 - Classified activity
- Margin performance in line with guidance
- Cash conversion to improve second half
- Order backlog record high
 - APKWS awards
 - F-35 (LRIP 13)

2018 Sales



(1) Restated for the adoption of IFRS 15

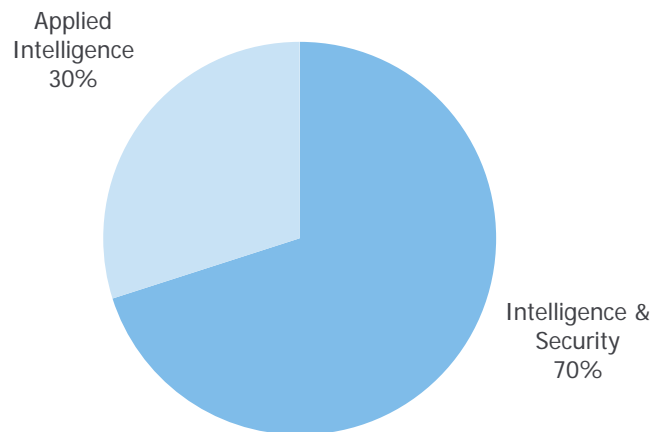
(2) As at 31 December 2017

Cyber & Intelligence

Half Year:	2018	2017 ⁽¹⁾
Sales	\$1,122m	\$1,156m
Underlying EBITA	\$66m	\$47m
Margin	5.9%	4.1%
Cash flow	\$87m	\$58m
Order backlog	\$2.6bn	\$2.9bn ⁽²⁾

- Sales down 6% on a constant currency basis
 - Intelligence & Security down on desktop IT services contract
 - Applied Intelligence down 10%; business re-focussed
- Margin performance improved
 - Intelligence & Security at 9%
 - Applied Intelligence loss reduced to £4m
- Cash conversion strong
- Order backlog reduced on closed out desktop IT services contract

2018 Sales



(1) Restated for the adoption of IFRS 15

(2) As at 31 December 2017

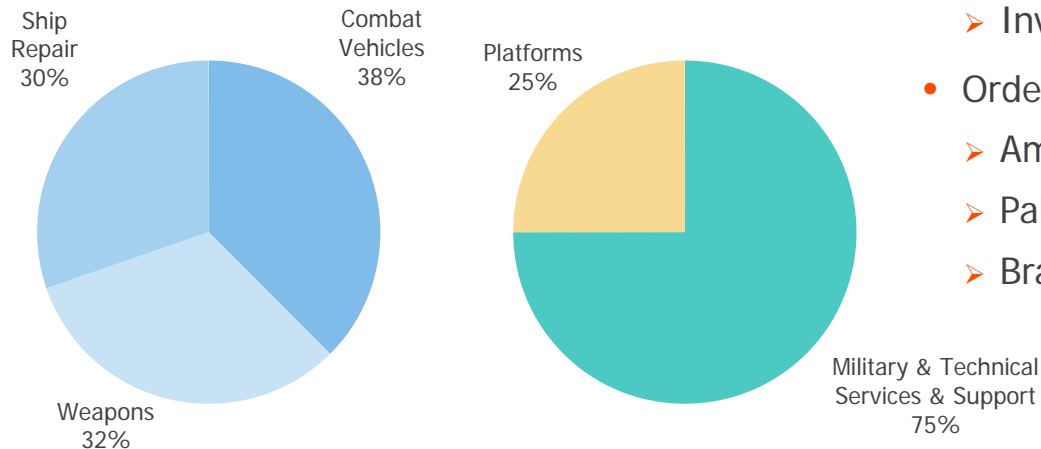
(3) Applied Intelligence based on £ figures

Platforms & Services (US)

Half Year:	2018	2017 ⁽¹⁾
Sales	\$1,902m	\$1,895m
Underlying EBITA	\$77m	\$144m
Margin	4.1%	7.6%
Cash flow	\$(64)m	\$48m
Order backlog	\$6.0bn	\$5.7bn ⁽²⁾

- Sales broadly unchanged; 2nd half bias
 - Combat vehicles ramp up
 - M777 India
- Margin performance impacted by charges on
 - Radford facilities
 - Final commercial ship
- Cash flow reflects
 - Provision utilisation
 - Inventory build
- Order backlog increased
 - Amphibious Combat Vehicles
 - Paladin FRP
 - Bradley

2018 Sales



(1) Restated for the adoption of IFRS 15

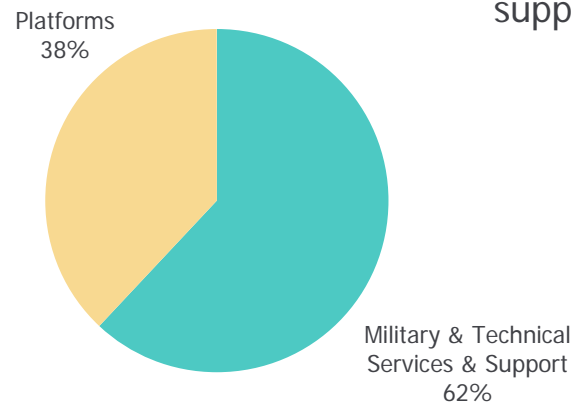
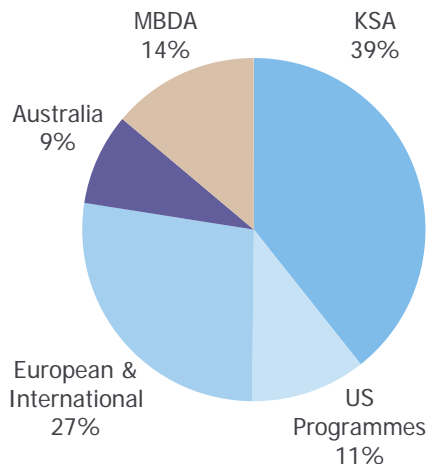
(2) As at 31 December 2017

Air

Half Year:	2018	2017 ⁽¹⁾
Sales	£3,305m	£3,720m
Underlying EBITA	£459m	£478m
Margin	13.9%	12.8%
Cash flow	£(167)m	£4m
Order backlog	£18.9bn	£19.5bn ⁽²⁾

- Sales down 11%
 - Typhoon production completed on European, KSA and Oman
- Margin performance impacted by IFRS 15; sustainable margin remains as per guidance
- Cash flow
 - Consumption of 2017 KSA receipts
 - Typhoon advances
- Order backlog lower on trading of long-term support contracts

2018 Sales



(1) Restated for the adoption of IFRS 15

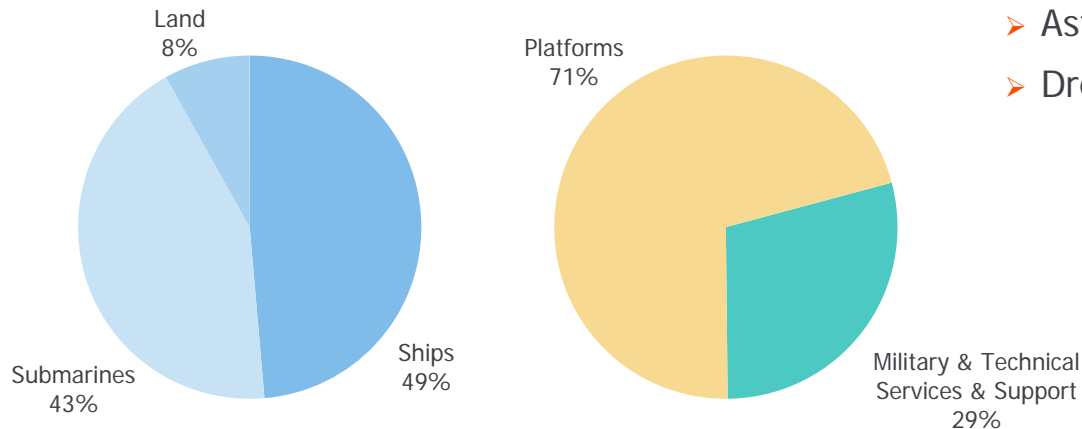
(2) As at 31 December 2017

Maritime

Half Year:	2018	2017 ⁽¹⁾
Sales	£1,447m	£1,488m
Underlying EBITA	£93m	£110m
Margin	6.4%	7.4%
Cash flow	£(196)m	£255m
Order backlog	£9.5bn	£8.5bn ⁽²⁾

- Sales little changed from '17
- EBITA impacted by
 - OPV charge £15m
 - Conservative trading on Carrier
- Cash flow
 - c.£100m VAT timing reversal
 - Munitions funding
- Order backlog increased
 - Astute Boat 7
 - Dreadnought funding

2018 Sales



(1) Restated for the adoption of IFRS 15

(2) as at 31 December 2017

2018 Guidance - Trading

	2017 Actual ⁽¹⁾		2018 Guidance ^(2,3)	
	Sales (£m)	Margin (%)	Sales	Margin
Electronic Systems	3,598	15.0	high single digit	14% - 16%
Cyber & Intelligence	1,818	3.2	marginally higher	c.5%
Platforms & Services (US)	2,951	8.0	10% - 15%	9% - 10%
Air	7,210	13.4	c.(5)%	11% - 13%
Maritime	2,877	8.7	stable	8% - 9%
Group	18,487	10.7%		
HQ (EBITA)	(80)		similar	
Underlying Finance Costs	(245)		c.15% lower	
Tax rate	21%		c.18%	
Earnings per Share (restated IFRS 15)	42.1p			

In aggregate, 2018 underlying EPS to be **in line with** 2017

(1) Re-presented in the new sector structure and restated for adoption of IFRS15

(2) EPS sensitivity 10 cents = c.1.5p.

(3) 2018 Guidance as presented in February 2018. **Half Year 2018 Update** – we expect Group-level EPS for 2018 to be in line with 2017, with a small incremental benefit from exchange translation, as our planning rate has been amended to \$1.35 (previously \$1.40). We expect to see the execution issues encountered in the first half year covered primarily by higher earnings in the Electronics Systems business and the Cyber & Intelligence sector.

Cash Guidance

(£bn)

	2018 Half Year	2018 Guidance
Operating items:		
Net capital expenditure, disposals & depreciation	-	(0.2)
Working capital		
- provision utilisation	(0.1)	(0.1)
- advances movement (net)	(0.5)	nil – (0.3)
- other working capital movements	(0.4)	(0.1)
Pension deficit funding	(0.2)	(0.4)
Non-operating items:		
Interest & Tax	(0.2)	(0.4)
Dividends	(0.4)	(0.7)

2018 expected to see Net Debt **little changed** from 2017

c.£2bn of Free Cash Flow in 2017 & 2018 ; c.£1.4bn expected dividends to shareholders



Charles Woodburn

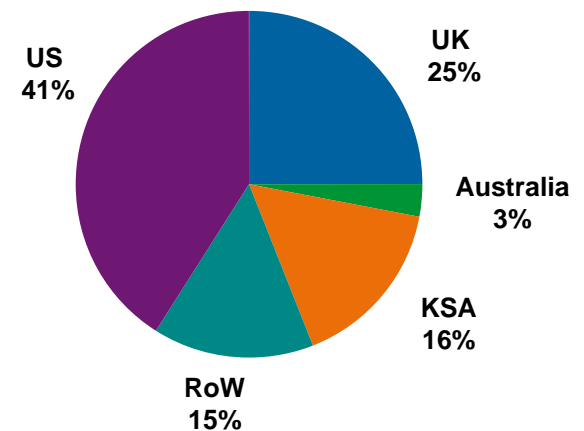
Chief Executive

2018 – Half Year Summary

- Group guidance maintained
- Issues being addressed on certain long-standing programmes
- Business wins strengthen the outlook
- Opportunity pipeline
- Diverse, resilient and well placed portfolio
- Strong balance sheet
- Strategy clear with right focus areas

	2018 Half Year	2017 Half Year
Sales	£8,818m	£9,467m
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Underlying EPS	19.8p	20.2p
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Order backlog	£39.7bn	£38.7bn*

2018 Half Year
Sales by Destination



Firm basis for growth and sustainable cashflow



Supplementary Information

EPS Bridge (pence)



Pension Deficit (IAS 19)

(£bn)	30 Jun 2018	31 Dec 2017
Assets	26.6	27.0
Liabilities	(29.8)	(31.2)
Pension deficit	(3.2)	(4.2)
Group share of deficit	(3.0)	(3.9)
UK - Bond yields	2.8%	2.6%
Inflation rate	3.0%	3.1%
Mortality tables	CMI 2017	CMI 2016
US - Bond yields	4.2%	3.7%

Major movements to 30 June 2018	
- Asset returns	(0.1)
- Discount unwind	(0.4)
- Discount rates	1.1
- Mortality	0.2
- all other	0.1

2018 Half Year Financial Performance

<i>(£m / £bn backlog)</i>	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	1,819	260	14.3%	117	5.3
Cyber & Intelligence	815	48	5.9%	63	2.0
Platforms & Services (US)	1,382	56	4.1%	(46)	4.6
Air	3,305	459	13.9%	(167)	18.9
Maritime	1,447	93	6.4%	(196)	9.5
HQ	163	(42)		(207)	0.1
Eliminations	(113)				(0.7)
	8,818	874	9.9%	(436)	39.7

Underlying Earnings per Share

19.8p

Like-for-Like Sales & Underlying EBITA

<i>Half Year:</i>	Sales			Underlying EBITA		
	2018	2017	<i>Yr-on-Yr</i>	2018	2017	<i>Yr-on-Yr</i>
As Reported	8,818	9,467	<i>(7)%</i>	874	967	<i>(10)%</i>
Foreign exchange:						
USD		(320)			(34)	
EUR		9			1	
Other		(24)			(4)	
Adjusted for foreign exchange	8,818	9,132	<i>(3)%</i>	874	930	<i>(6)%</i>

Reconciliation of Half Year Earnings

(£m / pence EPS)

	2018 Underlying	2017 Underlying⁽¹⁾	2018 Reported	2017 Reported⁽¹⁾
Underlying EBITA	874	967	874	967
Non-recurring items			(33)	(4)
EBITA			841	963
Amortisation/Impairment			(33)	(41)
Underlying Finance Costs	(101)	(129)	(101)	(129)
Pensions/Fair Value/FX movements			(126)	(48)
Finance Costs			(227)	(177)
Underlying Tax	(128)	(192)	(128)	(192)
Tax - other (amort'n/impair't etc)			32	20
Tax			(96)	(172)
Non-controlling interest	(14)	(4)	(14)	(4)
Earnings	631	642	471	569
Earnings per Share	19.8p	20.2p	14.8p	17.9p

(1) Restated for the adoption of IFRS 15

Working Capital Movements - reconciliation to Cash Flow

(£m)

Movement analysed between:

	30 Jun 2018	31 Dec 2017	Mvmt	F/X	M&A	Other	Cash Flow
Inventories	799	733	(66)	(7)	-	(3)	(56)
Receivables – current	4,726	4,244					
Receivables – non-current	434	387					
Total Receivables	5,160	4,631	(529)	(43)	(20)	(4)	(462)
Payables – current	(6,764)	(6,745)					
Payables – non-current	(858)	(1,379)					
Total Payables ⁽¹⁾	(7,622)	(8,124)	(502)	8	15	(5)	(520)
Liability Provisions – current	(317)	(400)					
Liability Provisions – non-current	(462)	(435)					
Total Liability Provisions	(779)	(835)	(56)	4	2	7	(69)
Working Capital	(2,442)	(3,595)					

(1) excludes funding received for tangible fixed assets related to the Dreadnought submarine programme

Segment Changes – Sales – 2017 Half Year

<i>(£m)</i>	Old Structure	Reorg. ⁽¹⁾	IFRS 15	New Structure	
Electronic Systems	1,726	-	94	1,820	Electronic Systems
Cyber & Intelligence	923	-	(6)	917	Cyber & Intelligence
Platforms & Services (US)	1,433	-	72	1,505	Platforms & Services (US)
Platforms & Services (UK)	3,913	(3,913)			
Platforms & Services (Int'l)	1,771	1,996	(47)	3,720	Air
		1,699	(211)	1,488	Maritime
HQ	128	24	-	152	HQ
Eliminations	(329)	194	-	(135)	Eliminations
	9,565	-	(98)	9,467	

(1) As presented in 30 November 2017 announcement

Segment Changes – Underlying EBITA – 2017 Half Year

<i>(£m)</i>	Old Structure	Reorg. ⁽¹⁾	IFRS 15	New Structure	
Electronic Systems	257	-	15	272	Electronic Systems
Cyber & Intelligence	35	-	3	38	Cyber & Intelligence
Platforms & Services (US)	109	-	5	114	Platforms & Services (US)
Platforms & Services (UK)	416	(416)			
Platforms & Services (Int'l)	176	290	12	478	Air
		123	(13)	110	Maritime
HQ	(48)	3	-	(45)	HQ
	945	-	22	967	

(1) As presented in 30 November 2017 announcement