

# 2016 Preliminary Results

23 February 2017



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# Sir Roger Carr

Chairman



# Ian King

## Chief Executive

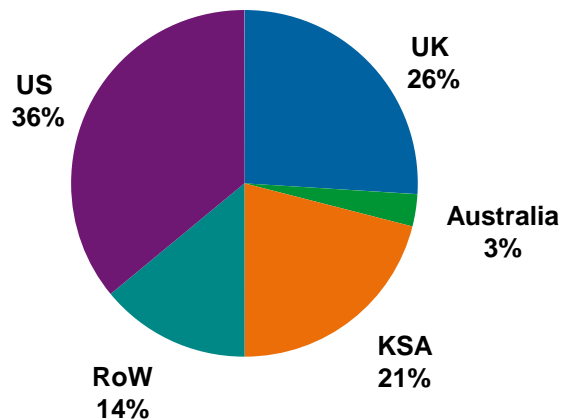
# 2016 - Overview

Good performance in 2016:

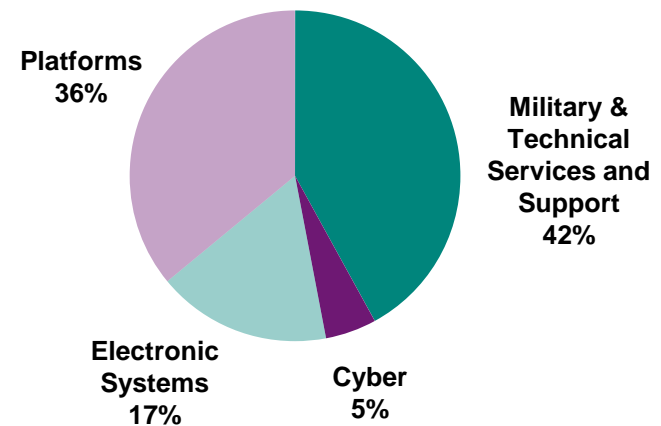
- Sales and order backlog growth
- Core franchises strengthened
- Strong programme execution
- Investment in technology and talent
- Broad geographic and mix of business

	2016	2015
<b>Sales</b>	<b>£19,020m</b>	£17,904m
<b>Underlying EBITA</b>	<b>£1,905m</b>	£1,683m
<b>Underlying EPS</b>	<b>40.3p</b>	40.2p
<b>Dividend per share</b>	<b>21.3p</b>	20.9p
<b>Order backlog</b>	<b>£42.0bn</b>	£36.8bn

**2016**  
Sales by Destination

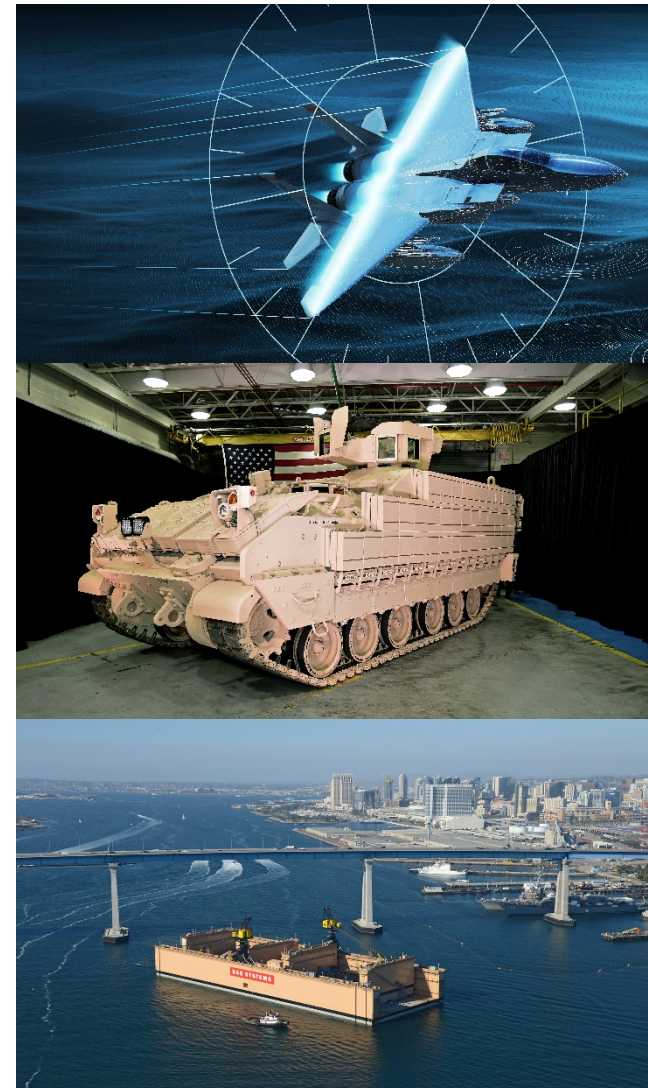


**2016**  
Sales by Activity



## Key Markets - US

- Return to growth in defence budgets
- Portfolio well positioned
- Electronic Systems - performing well
- Land business - positioned for return to growth
- Ship repair - performing well
- Commercial Ships – final 2 deliveries in 2017



# Key Markets - UK

## Military Air

- Typhoon
  - Kuwait - £1bn order intake
  - Typhoon capability development and support
- F-35
  - Production rate increasing
  - MROU hubs awarded
- Hawk
  - KSA deliveries commenced
  - Renewed UK support contracts

## Maritime

- Astute and Dreadnought class in production
- QEC Carriers - first of class sea trials in 2017
- Type 26 - cut steel summer 2017



## Key Markets - International

### KSA

- 5-year services contract renewal
- Typhoon and Hawk delivered into service

### Australia

- Business stable after 2015 actions
- Long-term support and upgrade business base

### MBDA

- Strong order backlog underpins good future growth

### India

- M777 secured
- Hawk batch 3 – negotiations underway

### Turkey

- TF-X – design & development
- FNSS performing well



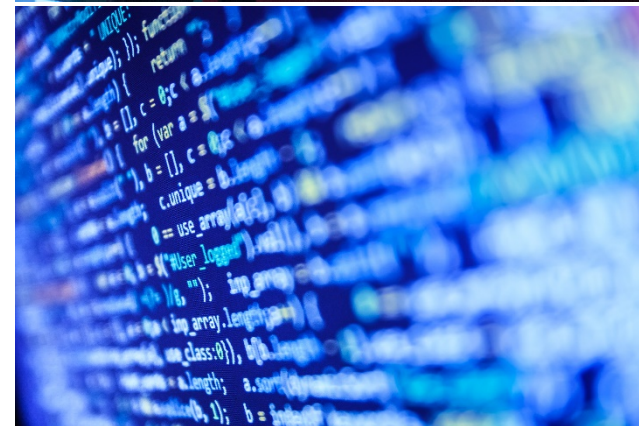
# Cyber

## Intelligence and Security

- Solid performance in a competitive market
- New multi-year service contracts secured

## Applied Intelligence

- Order Intake and Sales growth
- Investment in product development and marketing
- Commercial demand increasing





# Peter Lynas

## Group Finance Director

## 2016 Financial Summary

	2016	2015
Sales	£19,020m	£17,904m
Underlying EBITA <sup>(1)</sup>	£1,905m	£1,683m
Underlying Finance Costs <sup>(2)</sup>	£(257)m	£(194)m
Underlying Earnings per share <sup>(3)</sup>	40.3p	40.2p
Operating Business Cash Flow	£1,004m	£681m
Net Debt	£(1,542)m	£(1,422)m
Order backlog	£42.0bn	£36.8bn
Dividend per share	21.3p	20.9p

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

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

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

(4) Average £/\$ rate at 2016 \$1.35 & 2015 \$1.53

## Balance Sheet

(£m)	31 Dec 2016	31 Dec 2015	Drivers
Intangible fixed assets	11,264	10,117	exchange translation
Tangible fixed assets <sup>(1)</sup>	1,999	1,772	exchange translation
Investments	305	256	exchange translation
Working capital	(3,564)	(3,850)	advance & provision utilisation
Pension deficit	(6,054)	(4,501)	lower discount rates
Tax assets & liabilities	935	661	deferred tax on pension deficit
Financial assets & liabilities	121	(43)	exchange translation
Net debt	(1,542)	(1,422)	
Assets held for sale	-	12	
<b>Net Assets</b>	<b>3,464</b>	<b>3,002</b>	

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

## Pension Deficit (IAS 19)

(£bn)	31 Dec 2016	30 Jun 2016	31 Dec 2015 <sup>(1)</sup>
Assets	25.9	23.8	22.0
Liabilities	(32.5)	(30.4)	(26.9)
<b>Pension deficit</b>	<b>(6.6)</b>	<b>(6.6)</b>	<b>(4.9)</b>
<b>Group share of deficit</b>	<b>(6.1)</b>	<b>(6.1)</b>	<b>(4.5)</b>
UK - Bond yields	2.7%	3.1%	3.9%
Inflation rate	3.2%	2.9%	3.2%
US - Bond yields	4.2%	3.7%	4.5%

(1) During 2016 the BAE Systems Pension Scheme (Main Scheme) was sectionalised into a BAE Systems section and an Airbus section. The 31 December 2015 figures above show the impact of sectionalisation as if it had occurred on 31 December 2015. The assets & liabilities at 30 June 2016 & 31 December 2016 are stated post-sectionalisation.

## Net Cash / (Debt)

(£m)	2016
<b>Opening Net Debt</b>	<b>(1,422)</b>
Operating business cash flow	1,004
Interest & Tax	(387)
Equity dividends paid	(670)
Other, incl foreign exchange	(67)
<b>Closing Net Debt</b>	<b>(1,542)</b>



Electronic Systems	469
Cyber & Intelligence	83
Platforms & Services (US)	58
Platforms & Services (UK)	199
Platforms & Services (Int'l)	435
HQ	(240)
<b>Operating business cash flow</b>	<b>1,004</b>

Gross Debt	Gross Cash
<b>£(4.3)bn</b>	<b>£2.8bn</b>

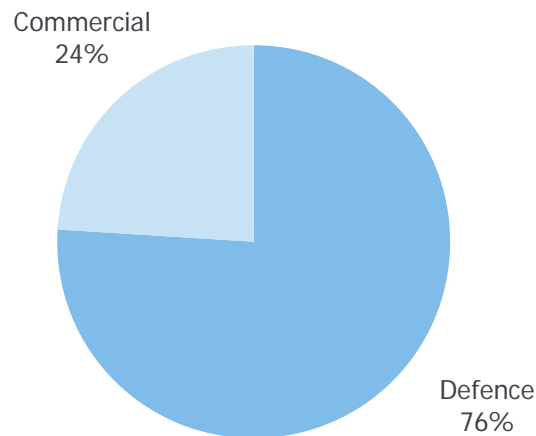
No material debt maturities before 2019

# Electronic Systems

	2016	2015 <sup>(1)</sup>
Sales	\$4,445m	\$4,464m
Underlying EBITA	\$670m	\$668m
Margin	15.1%	15.0%
Cash flow	\$635m	\$566m
Order backlog	\$6.5bn	\$6.5bn

- Sales stable
  - Commercial up 11% on HybriDrive volumes
  - Defence down 4% for timing of EW production
- Margin performance on strong programme execution
- Cash conversion at 97% ex-pension
- Order backlog sustained
  - F-35
  - EPAWSS
  - APKWS

## 2016 Sales



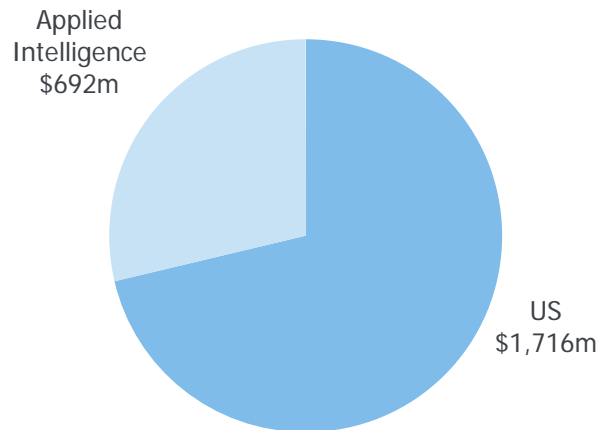
(1) 2015 restated to reflect the transfer of the GEOINT-ISR business from Cyber & Intelligence to Electronic Systems

# Cyber & Intelligence

	2016	2015 <sup>(1)</sup>
Sales	\$2,408m	\$2,390m
Underlying EBITA	\$121m	\$158m
Margin	5.1%	6.6%
Cash flow	\$112m	\$70m
Order backlog	\$3.0bn	\$3.2bn

- Sales up 4%, like-for-like
  - US business up 2%
  - Applied Intelligence up 11% <sup>(2)</sup>
- Margin performance
  - US business at 8.6%
  - Applied Intelligence loss \$25m
- Cash conversion > 100% ex-pension
- Order backlog
  - US down 5% on trading out of certain longer term contracts
  - Applied Intelligence up 9% <sup>(2)</sup>

## 2016 Sales



(1) 2015 restated to reflect the transfer of the GEOINT-ISR business from Cyber & Intelligence to Electronic Systems

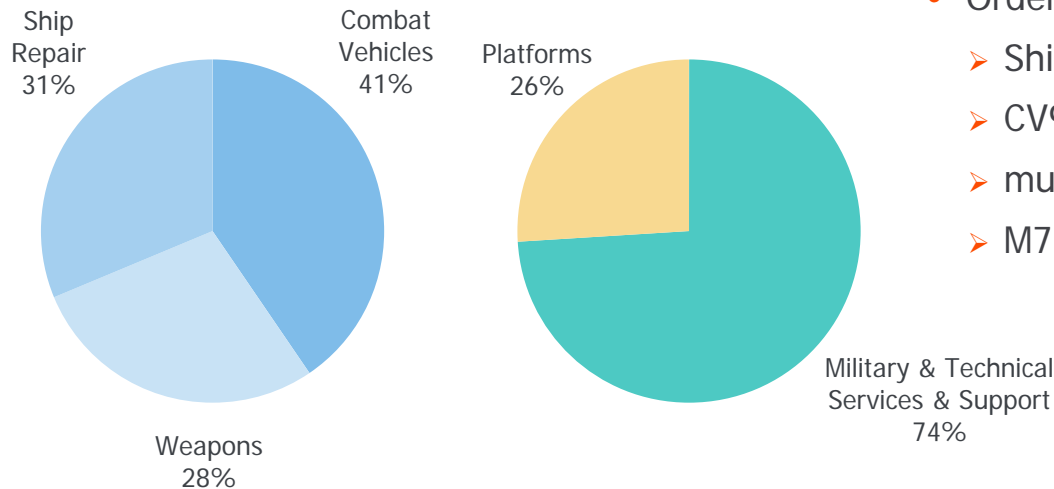
(2) Applied Intelligence growth based on £ figures

## Platforms & Services (US)

	2016	2015
Sales	\$3,893m	\$4,246m
Underlying EBITA	\$286m	\$271m
Margin	7.3%	6.4%
Cash flow	\$79m	\$152m
Order backlog	\$5.7bn	\$5.8bn

- Sales down 8%, marginally better than guidance
  - US ship repair activity
- Commercial Shipbuild charges, net of provision releases, impact margin by 130bps
- Cash performance reflects
  - utilisation of Commercial Shipbuild provisions
  - utilisation of advances on CV90 Norway
  - investment in San Diego dry dock
- Order backlog marginally lower
  - Ship Repair MSMOs trading out
  - CV90 Norway nearing completion
  - multiple domestic & international awards
  - M777 India contracted in January

### 2016 Sales

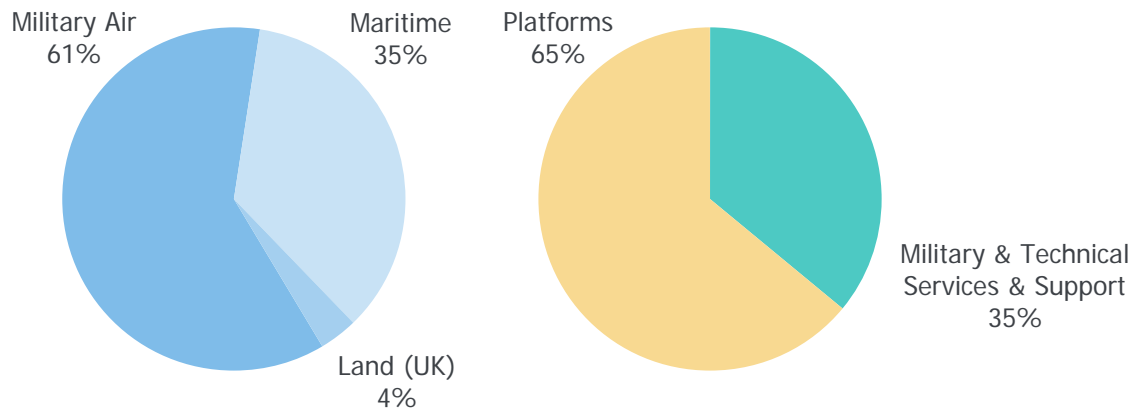


## Platforms & Services (UK)

	2016	2015
Sales	£7,806m	£7,405m
Underlying EBITA	£810m	£721m
Margin	10.4%	9.7%
Cash flow	£199m	£220m
Order backlog	£17.8bn	£17.8bn

- Sales up 5% and ahead of guidance
  - F-35 & Hawk deliveries
  - Submarine programmes ahead of plan
  - inter-Co activity higher; eliminated at Group
- Margin in line with guidance
- Cash performance better than expected
- Order backlog stable
  - trading of Typhoon & Carrier
  - UK Typhoon support & Kuwait Typhoon awards

### 2016 Sales

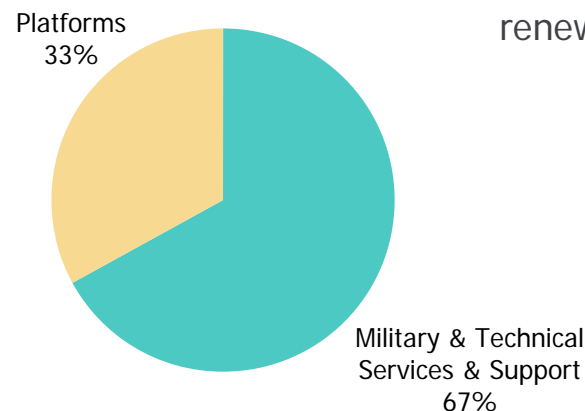
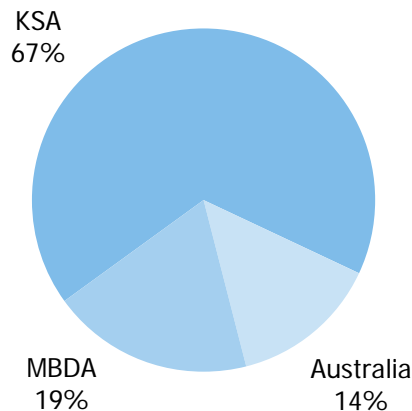


## Platforms & Services (International)

	2016	2015
Sales	£3,943m	£3,742m
Underlying EBITA	£400m	£335m
Margin	10.1%	9.0%
Cash flow	£435m	£164m
Order backlog	£13.1bn	£10.2bn

- Sales per guidance, up 5%
  - increased support in Saudi Arabia
  - weapons volumes at MBDA
- Margin back to 10%
  - 2015 included Australian charges
- Operating cash flow strong; accelerated receipts on
  - Saudi support
  - MBDA Qatar
- Order backlog increased on Saudi support contract renewal

### 2016 Sales



## 2017 Guidance - Trading

	2016 Actual		2017 Guidance <sup>(1)</sup>	
	Sales (£m)	Margin (%)	Sales	Margin
Electronic Systems	3,282	15.1	c.5%	13% - 15%
Cyber & Intelligence	1,778	5.1	low single digit	6% - 8%
Platforms & Services (US)	2,874	7.3	stable	8% - 9%
Platforms & Services (UK)	7,806	10.4	c.(5)%	10% - 12%
Platforms & Services (Int'l)	3,943	10.1	c.5%	10% - 12%
HQ (EBITA)	(100)		similar to 2016	
Underlying Finance Costs	(257)		slightly lower	
Tax rate	21%		c.22%	

In aggregate, underlying EPS to be **some 5% - 10% higher** than 2016

(1) Guidance for US Sectors in US dollars; £/\$ planning rate = \$1.25 ; EPS sensitivity 10 cents = c.1p

# Cash Guidance

(£bn)

	2016	2017 Guidance
<b>Operating items:</b>		
Net capital expenditure, disposals & depreciation	(0.2)	(0.2)
<b>Working capital</b>		
- provision utilisation	(0.1)	(0.1)
- advances movement (net)	(0.4)	nil - (0.3)
- other working capital movements	0.3	(0.1)
Pension deficit funding	(0.3)	(0.2)
<b>Non-operating items:</b>		
Interest & tax	(0.4)	(0.4)
Dividends	(0.7)	(0.7)
Disposals	-	0.1

2017 expected to see a **small reduction** in Net Debt



# Ian King

## Chief Executive

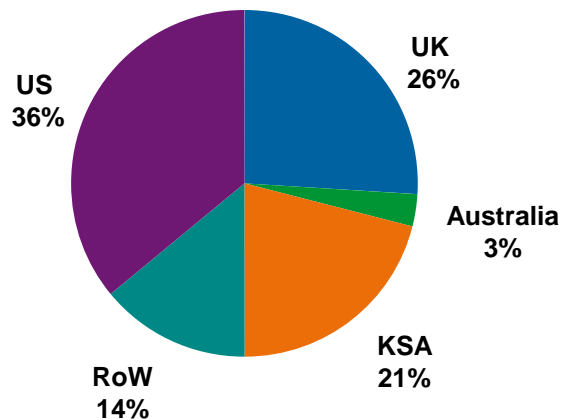
# 2016 - Summary

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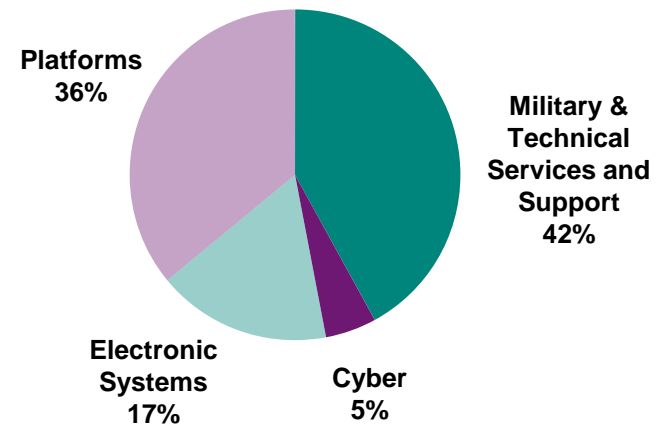
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**2016**  
Sales by Destination



**2016**  
Sales by Activity





# Supplementary Information

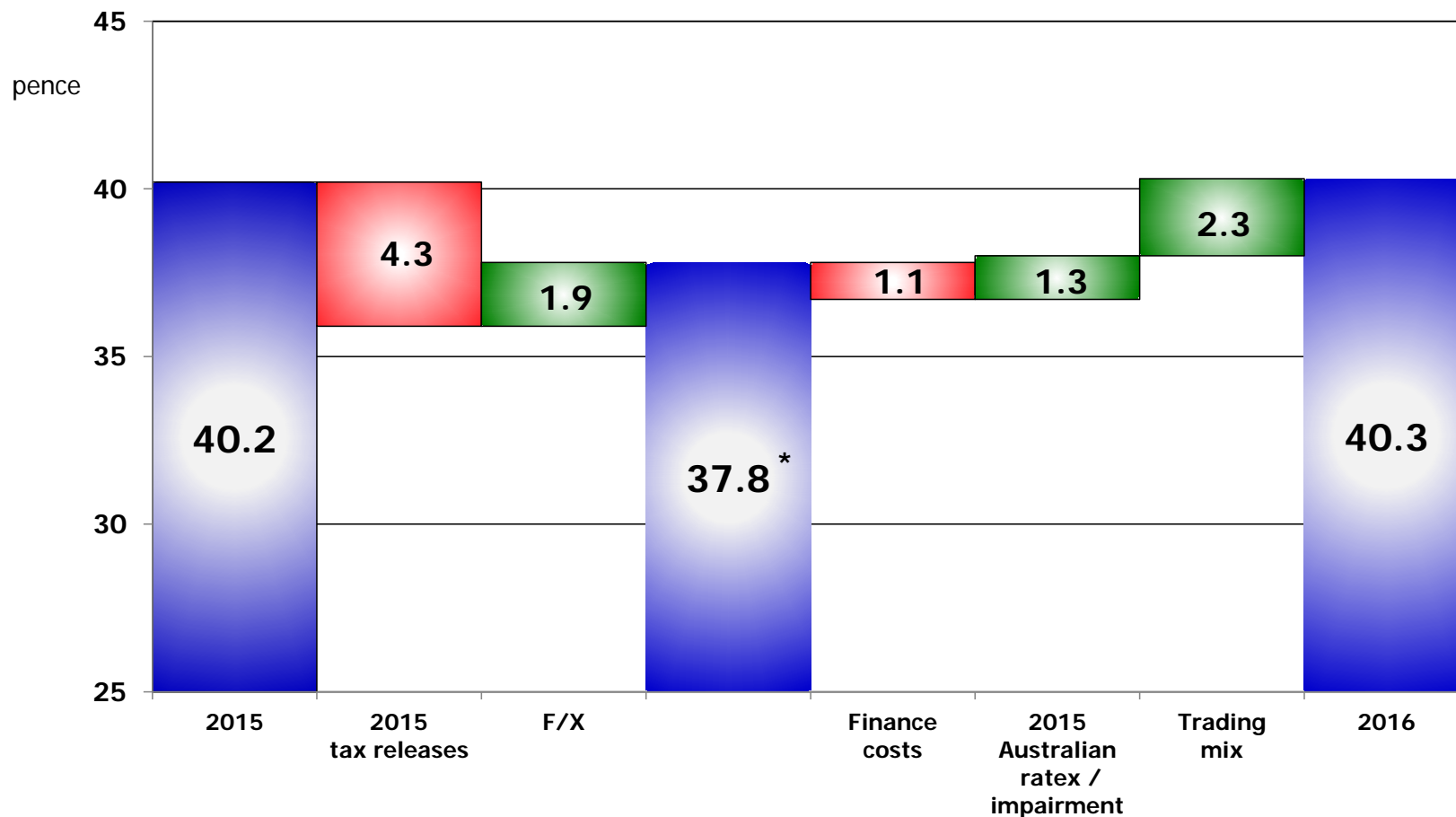
# 2016 Financial Performance

<i>(£m / £bn backlog)</i>	<b>Sales</b>	<b>Underlying EBITA</b>	<b>Margin</b>	<b>Cash Flow</b>	<b>Order Backlog</b>
Electronic Systems	3,282	494	15.1%	469	5.2
Cyber & Intelligence	1,778	90	5.1%	83	2.4
Platforms & Services (US)	2,874	211	7.3%	58	4.6
Platforms & Services (UK)	7,806	810	10.4%	199	17.8
Platforms & Services (Int'l)	3,943	400	10.1%	435	13.1
HQ	233	(100)		(240)	-
Eliminations	(896)				(1.1)
	<b>19,020</b>	<b>1,905</b>	<b>10.0%</b>	<b>1,004</b>	<b>42.0</b>

**Underlying earnings per share**

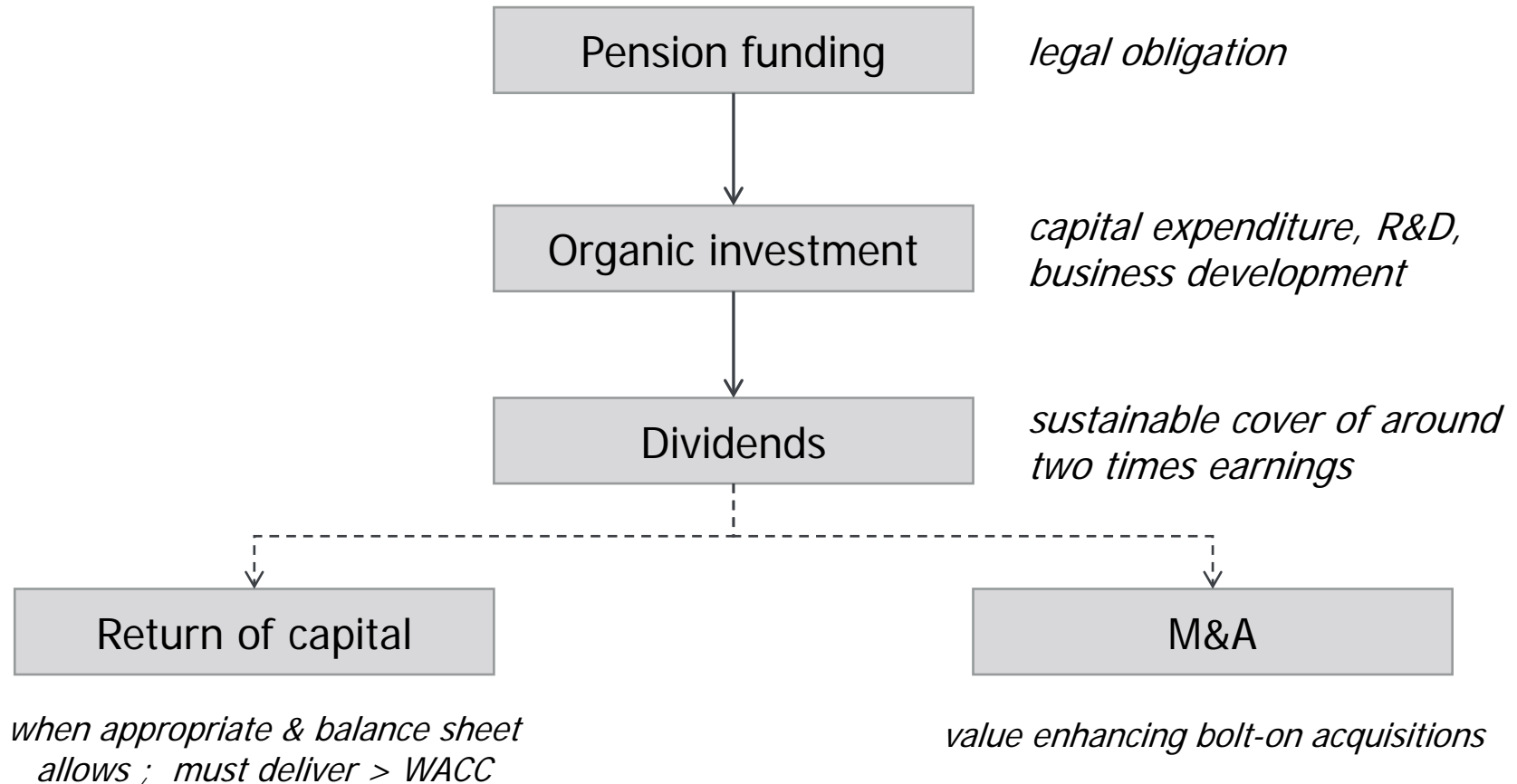
**40.3p**

# EPS Bridge



\* 2015 underlying EPS restated for tax provision releases & FX to \$1.35

# Capital Allocation



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

# Like-for-Like Sales & Underlying EBITA

	Sales			Underlying EBITA		
	2016	2015	<i>Yr-on-Yr</i>	2016	2015	<i>Yr-on-Yr</i>
<b>As Reported</b>	<b>19,020</b>	<b>17,904</b>	<i>6%</i>	<b>1,905</b>	<b>1,683</b>	<i>13%</i>
Foreign exchange:						
USD		784			84	
EUR		99			11	
Other		107			1	
<b>Adjusted for foreign exchange</b>	<b>19,020</b>	<b>18,894</b>	<i>1%</i>	<b>1,905</b>	<b>1,779</b>	<i>7%</i>
Transactions:						
Acquisitions & Disposals	-	(16)		-	2	
<b>Adjusted for f/x and transactions</b>	<b>19,020</b>	<b>18,878</b>	<i>1%</i>	<b>1,905</b>	<b>1,781</b>	<i>7%</i>

# Reconciliation of Earnings

(£m / pence EPS)

	<b>2016 Underlying</b>	<b>2015 Underlying</b>	<b>2016 Reported</b>	<b>2015 Reported</b>
Underlying EBITA	1,905	1,683	1,905	1,683
Non-recurring items			(12)	26
<b>EBITA</b>			<b>1,893</b>	<b>1,709</b>
Amortisation/Impairment			(87)	(186)
Underlying Finance Costs	(257)	(194)	(257)	(194)
Pensions/Fair Value/FX movements			(362)	(215)
<b>Finance Costs</b>			<b>(619)</b>	<b>(409)</b>
Underlying Tax	(346)	(328)	(346)	(328)
Tax - provision releases	-	134	-	134
Tax - other (amort'n/impair't etc)			97	23
<b>Tax</b>			<b>(249)</b>	<b>(171)</b>
Non-controlling interest	(25)	(25)	(25)	(25)
<b>Earnings</b>	<b>1,277</b>	<b>1,270</b>	<b>913</b>	<b>918</b>
<b>Earnings per share</b>	<b>40.3p</b>	<b>40.2p</b>		

# Working Capital Movements - reconciliation to Cash Flow

(£m)

Movement analysed between:

	2016	2015	Mvmt	F/X	M&A	Other	Cash Flow
Inventories	744	726	(18)	(102)	(11)	-	95
Receivables – current	3,305	2,940					
Receivables – non-current	351	275					
<b>Total Receivables</b>	<b>3,656</b>	<b>3,215</b>	<b>(441)</b>	<b>(328)</b>	<b>(9)</b>	<b>(11)</b>	<b>(93)</b>
Payables – current	(6,540)	(6,162)					
Payables – non-current <sup>(1)</sup>	(818)	(974)					
<b>Total Payables <sup>(1)</sup></b>	<b>(7,358)</b>	<b>(7,136)</b>	<b>222</b>	<b>390</b>	<b>8</b>	<b>87</b>	<b>(263)</b>
Liability Provisions – current	(234)	(301)					
Liability Provisions – non-current	(372)	(354)					
<b>Total Liability Provisions</b>	<b>(606)</b>	<b>(655)</b>	<b>(49)</b>	<b>52</b>	<b>-</b>	<b>21</b>	<b>(122)</b>
<b>Working Capital</b>	<b>(3,564)</b>	<b>(3,850)</b>					

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