

2020 Preliminary Results

25 February 2021

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BAE SYSTEMS

Agenda

- Introduction and Company Purpose
- 2020 Performance and sustainability
- 2020 Financials and 2021 Guidance
- Business Evolution and Equity Case
- Q&A

Sir Roger Carr – Chairman

Charles Woodburn – CEO

Brad Greve – CFO

Charles Woodburn and Brad Greve

Sir Roger Carr

Chairman



Chairman's introduction and Company purpose

At BAE Systems we serve, supply and protect those who serve and protect us, in a corporate culture that is performance driven and values led.

We have an important role in society because we:

- help our customers to provide security & contribute to economic prosperity
- support high value jobs
- value our people and their diversity
- identify opportunities for individuals from disadvantaged backgrounds
- support employees' rights
- inspire in the work we do
- develop cutting-edge technologies
- provide best-in-class products and services
- support local communities
- will reduce the environmental impact of our activities

Through careful long-term sustainable management and governance of our business we will continue to create value for our stakeholders.

Charles
Woodburn
Chief Executive



2020 – Our year in review

Focus has been on safety and programme delivery

Agile response to COVID-19

US acquisitions and UK pension action completed

Strong and resilient business performance

Positioned for sustained growth

Orders
£20.9bn
(2019: £18.4bn)

Sales
£20.9bn
(2019: £20.1bn)

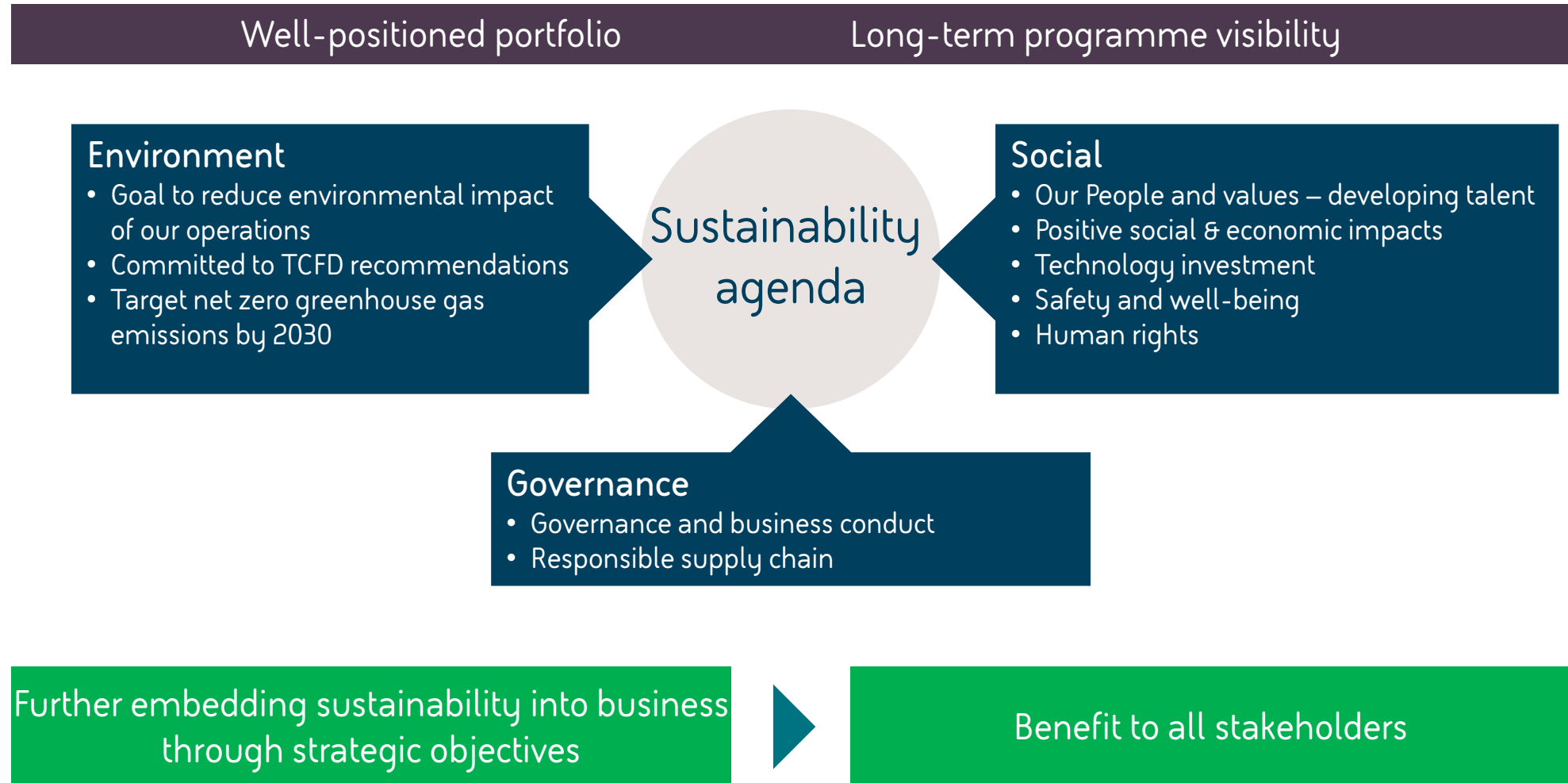
Underlying EBITA
£2,132m
(2019: £2,117m)

Free cash flow*
£1,367m
(2019: £850m)

Foundations Strong – Business Evolving Positively

* 2020 Free cash flow excluding the £1bn one-off UK pension contribution

Evolving a sustainable business

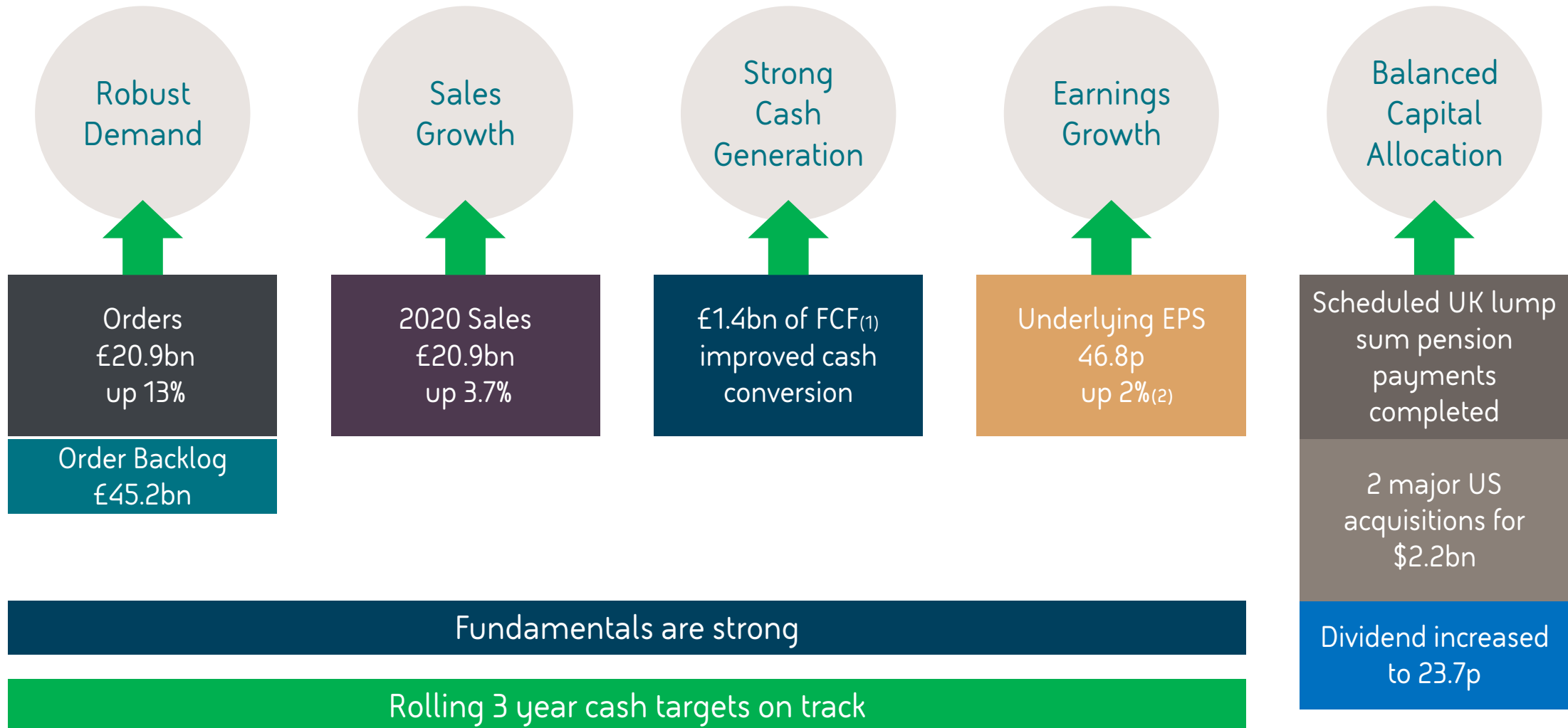


Brad Greve

CFO



2020 Financial highlights



(1) Free cash flow excluding the £1bn one off UK pension contribution

(2) Excluding the 2019 one-off tax benefit of 5p

2020 Summary financials

Average \$ rate: 2020 \$1.28, 2019 \$1.28

Financial summary

	2020	2019	% change
Sales	£20,862m	£20,109m	+3.7%
Underlying EBITA ⁽¹⁾	£2,132m	£2,117m	+0.7%
Underlying Earnings per Share ^(1,2,3)	46.8p	45.8p	+2.2%
Operating Business Cash Flow ⁽⁴⁾	£1,826m	£1,307m	+39.7%
Free Cash Flow ⁽⁴⁾	£1,367m	£850m	+60.8%
Net Debt	£(2,718)m	£(743)m	N/A
Order Intake	£20,915m	£18,447m	+13.4%
Order Backlog	£45.2bn	£45.4bn	(0.4)%
IAS 19 Pension Deficit	£(4.5)bn	£(4.5)bn	-
Dividend per Share	23.7p	23.2p	+2.2%
Tax Rate	17%	19%	N/A

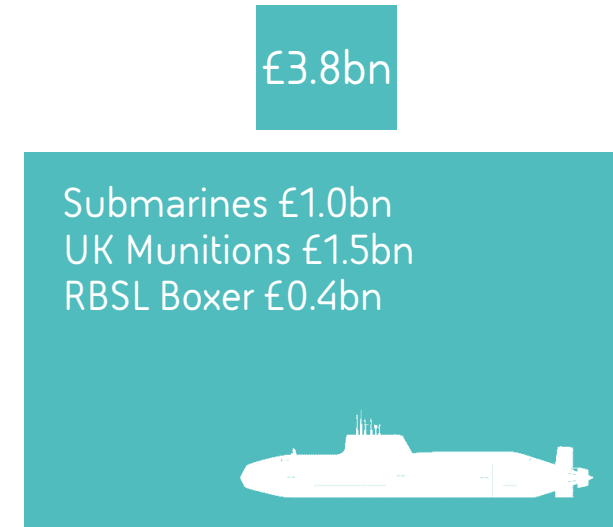
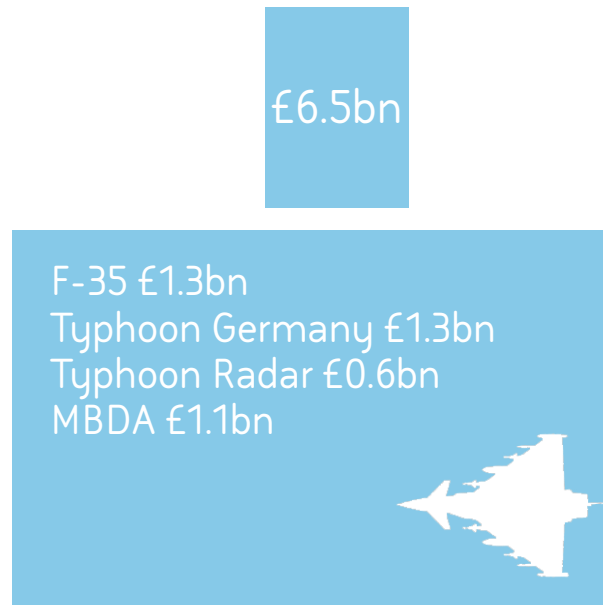
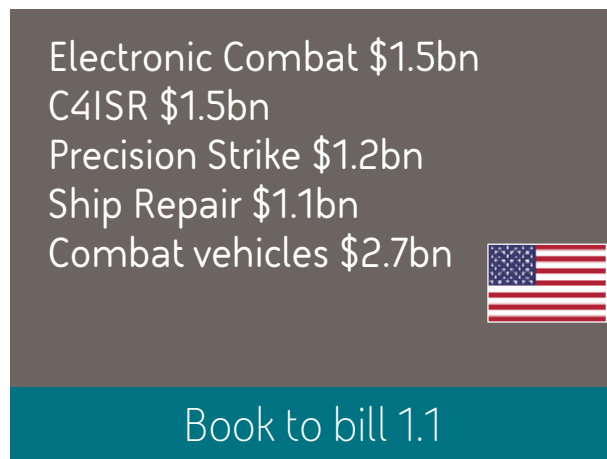
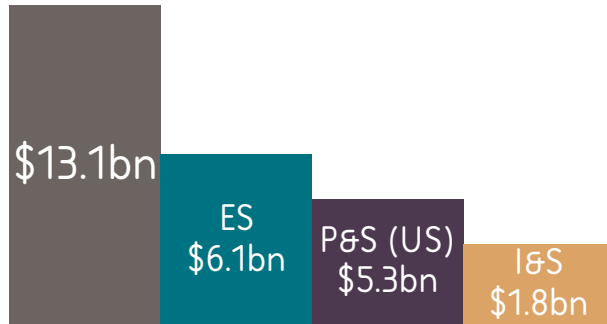
1 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items

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

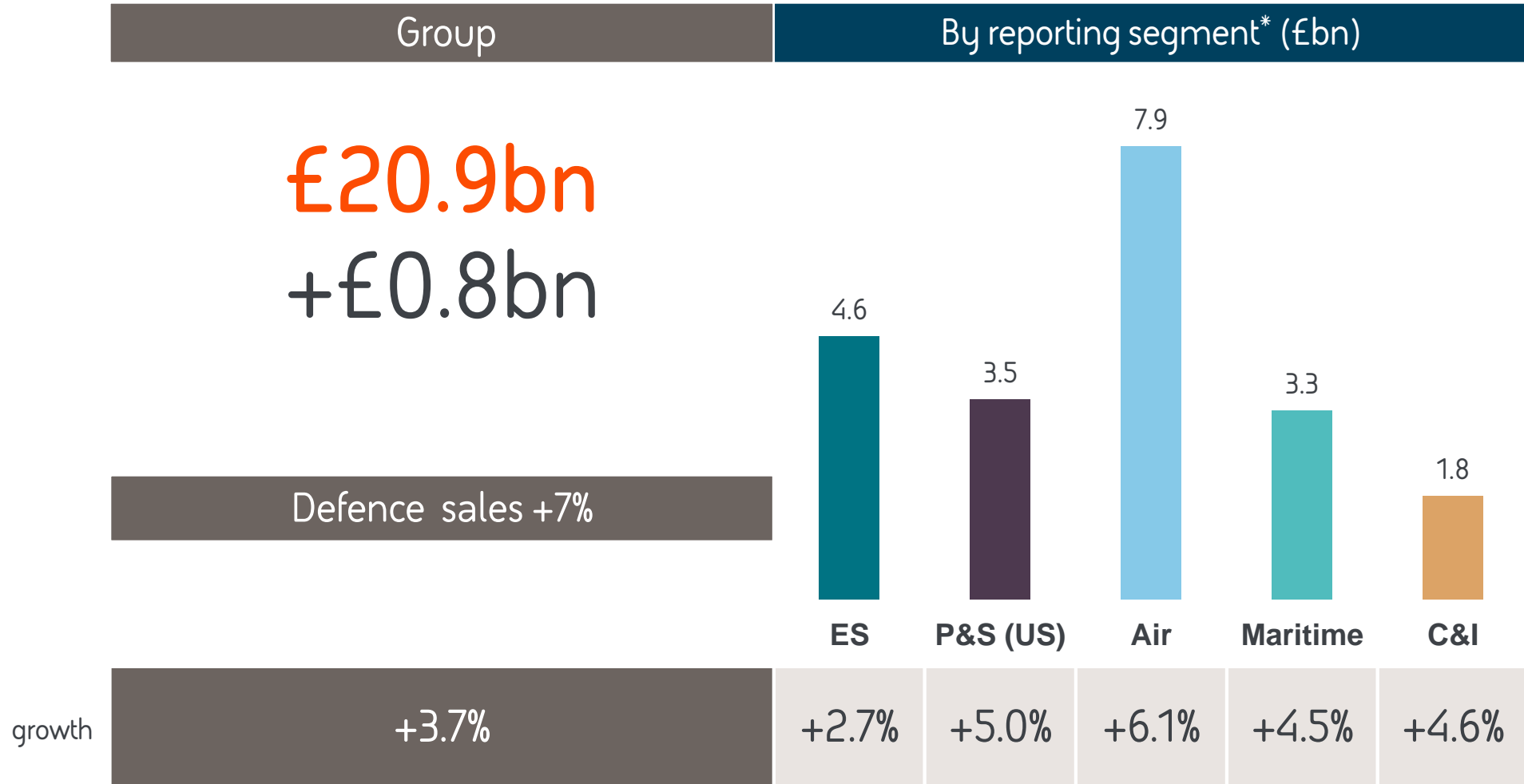
3 2019 excludes one-off tax benefit of £161m following agreements reached in respect of overseas tax matters, net of a provision for estimated exposure arising from the EU's decision regarding the UK's CFC regime

4 Free Cash Flow defined as Operating Business Cash Flow less interest paid (net) and taxation. 2020 Operating Cash Flow and Free Cash Flow exclude the £1bn one-off UK pension contribution

2020 Order intake

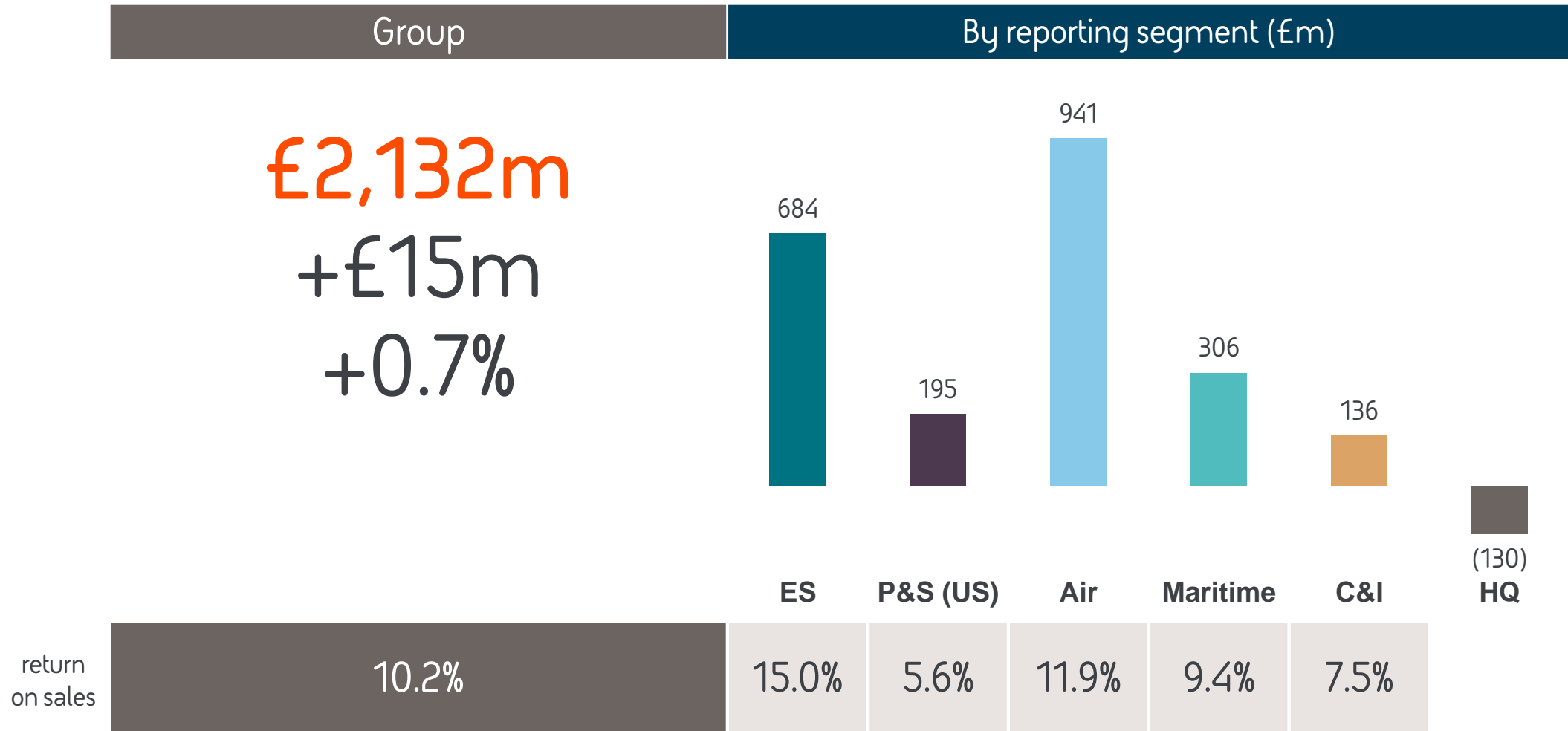


2020 Sales

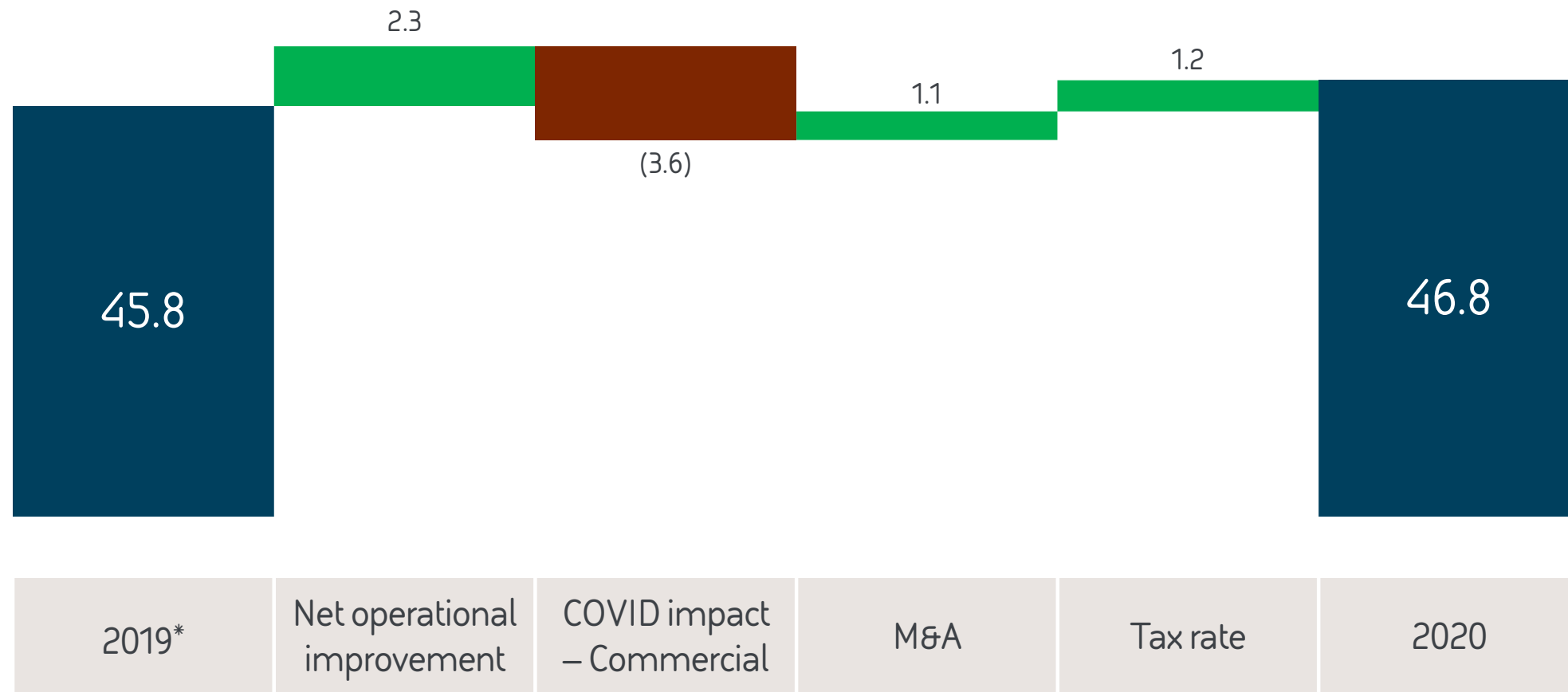


* Excludes HQ (£0.2bn) and eliminations (£(0.4)bn)

2020 Underlying EBITA

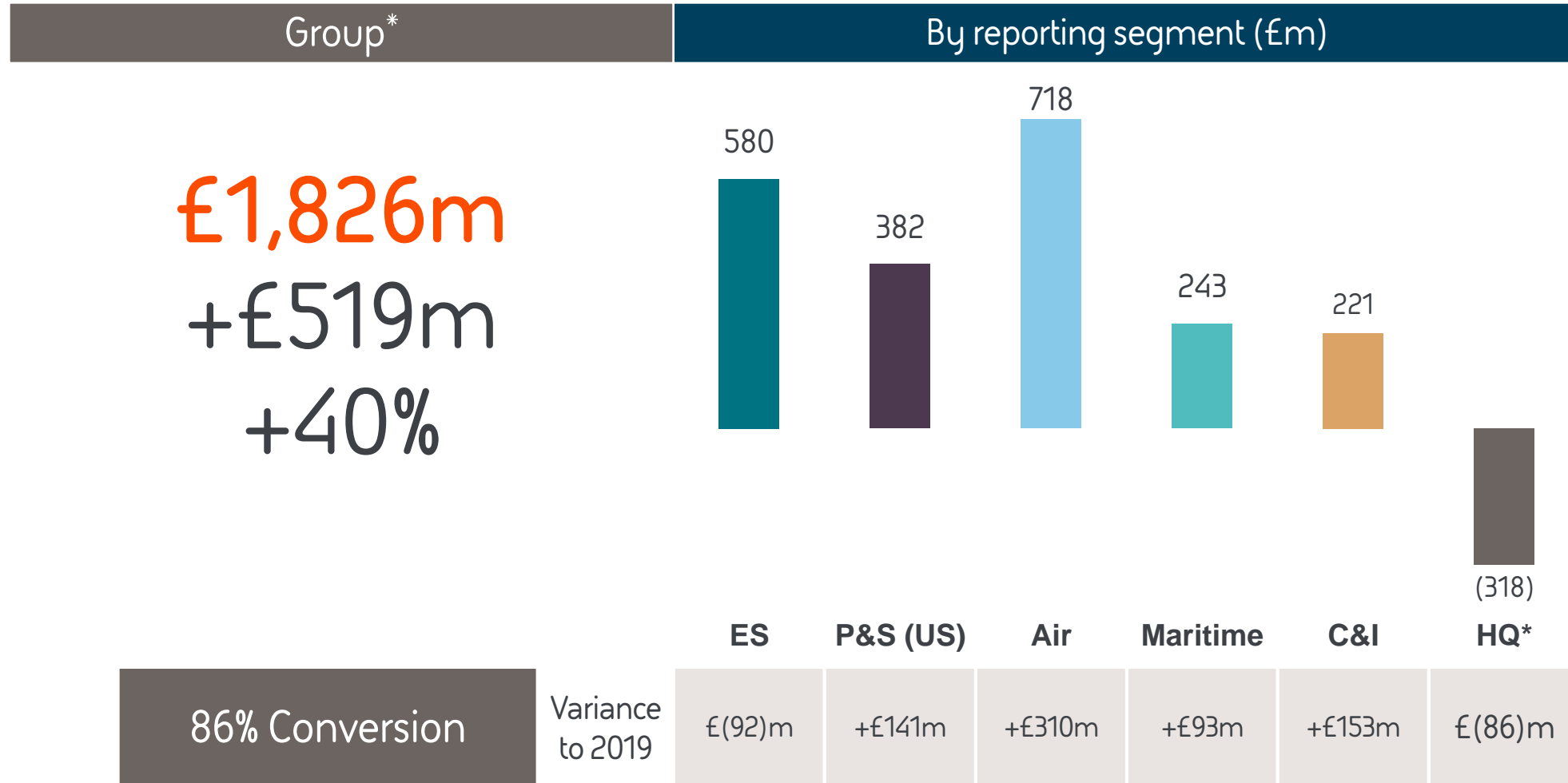


2020 Underlying EPS bridge (pence)



* Excluding one-off tax benefit of 5.0p (£161m)

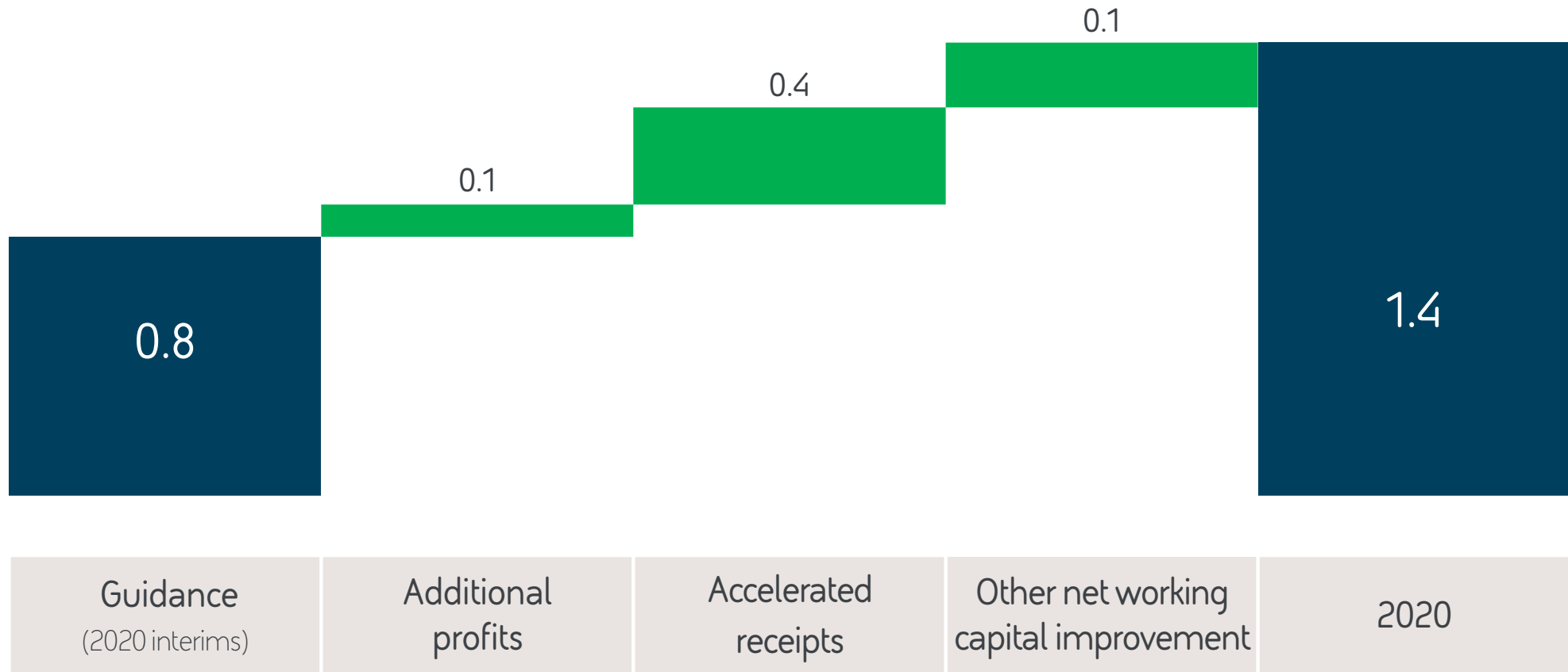
2020 Operating business cash flow



* Excluding the £1bn one-off UK pension contribution

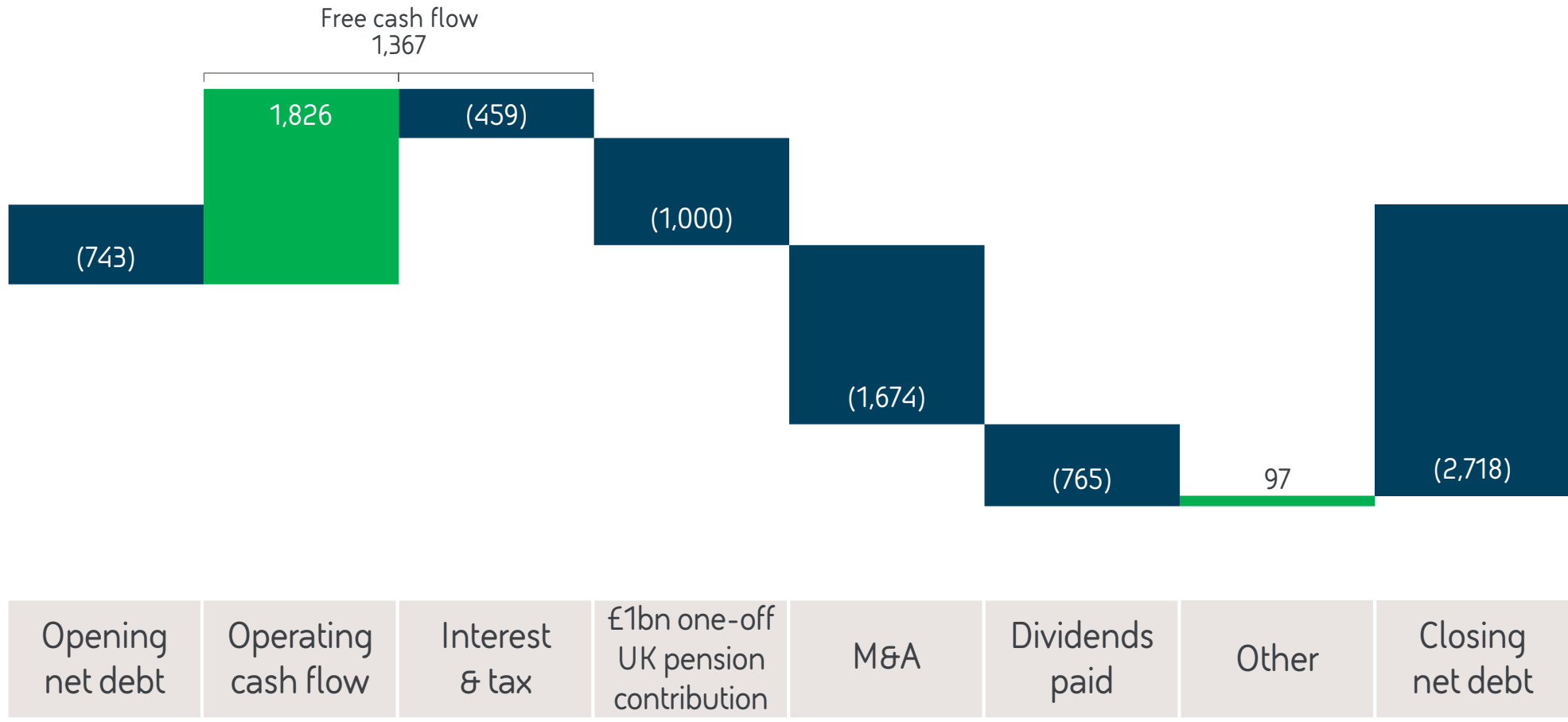
2020 Free cash flow* (£bn)

Bridge to July guidance



* Excluding the £1bn one-off UK pension contribution

2020 Net debt (£m)



2021 Group guidance ⁽¹⁾

Guidance is provided based on a \$1.35:£1

Sales

+3% to +5%

(2020 £20,862m)

2021 Free cash flow (FCF)

>£1bn

(2020 £1,367m*)

Underlying EBITA

+6% to +8%

(2020 £2,132m)

3 year FCF (2021 – 2023)

>£4bn

Underlying EPS

+3% to +5%

(2020 46.8p)

Other

Sensitivity to 10c
movement is c.2p

Underlying
Finance Costs
c.£270m

Tax Rate
c.18%

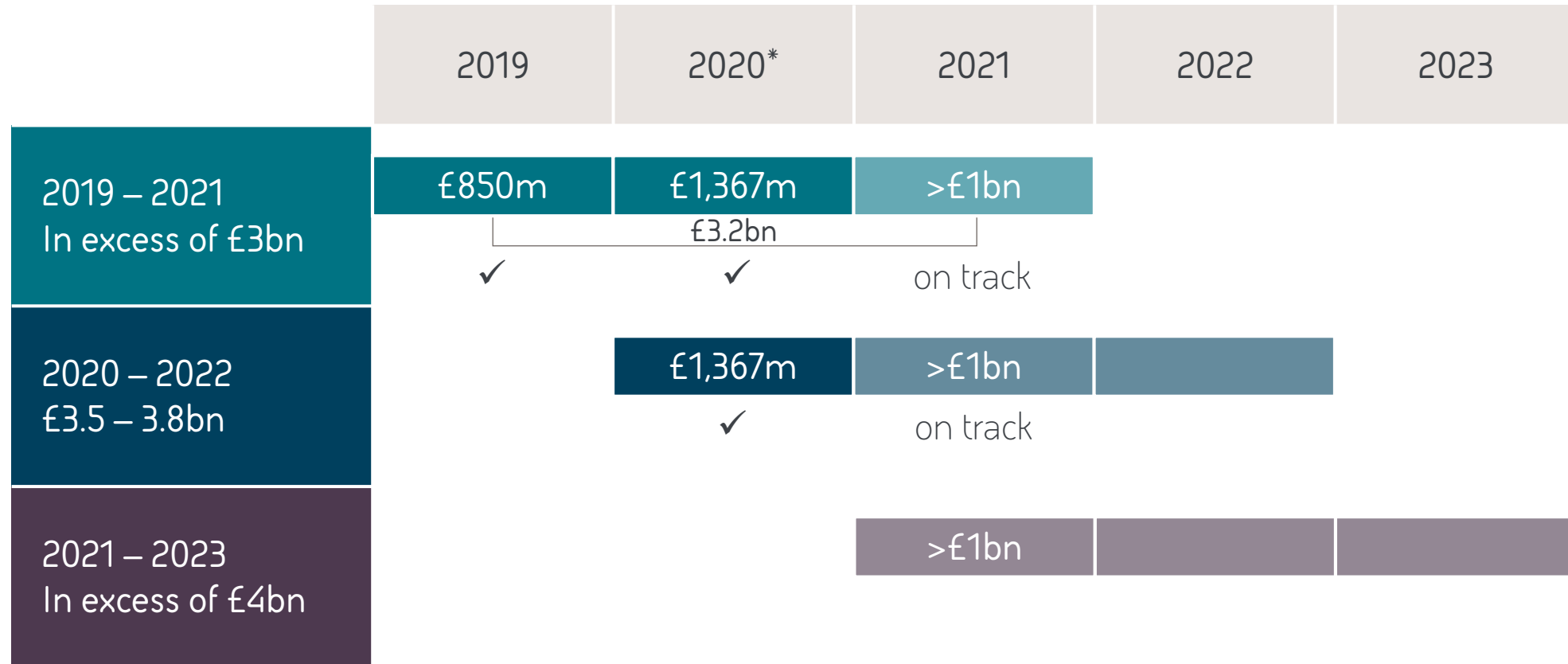
Minority Interest
c.£85m

Targeting good top and bottom line growth and 3 year cash expansion

1) Whilst the Group is subject to geopolitical and other uncertainties, the guidance is provided on current expected operational performance

* Excluding the £1bn one-off UK pension contribution

3 year Free cash flow guidance ⁽¹⁾



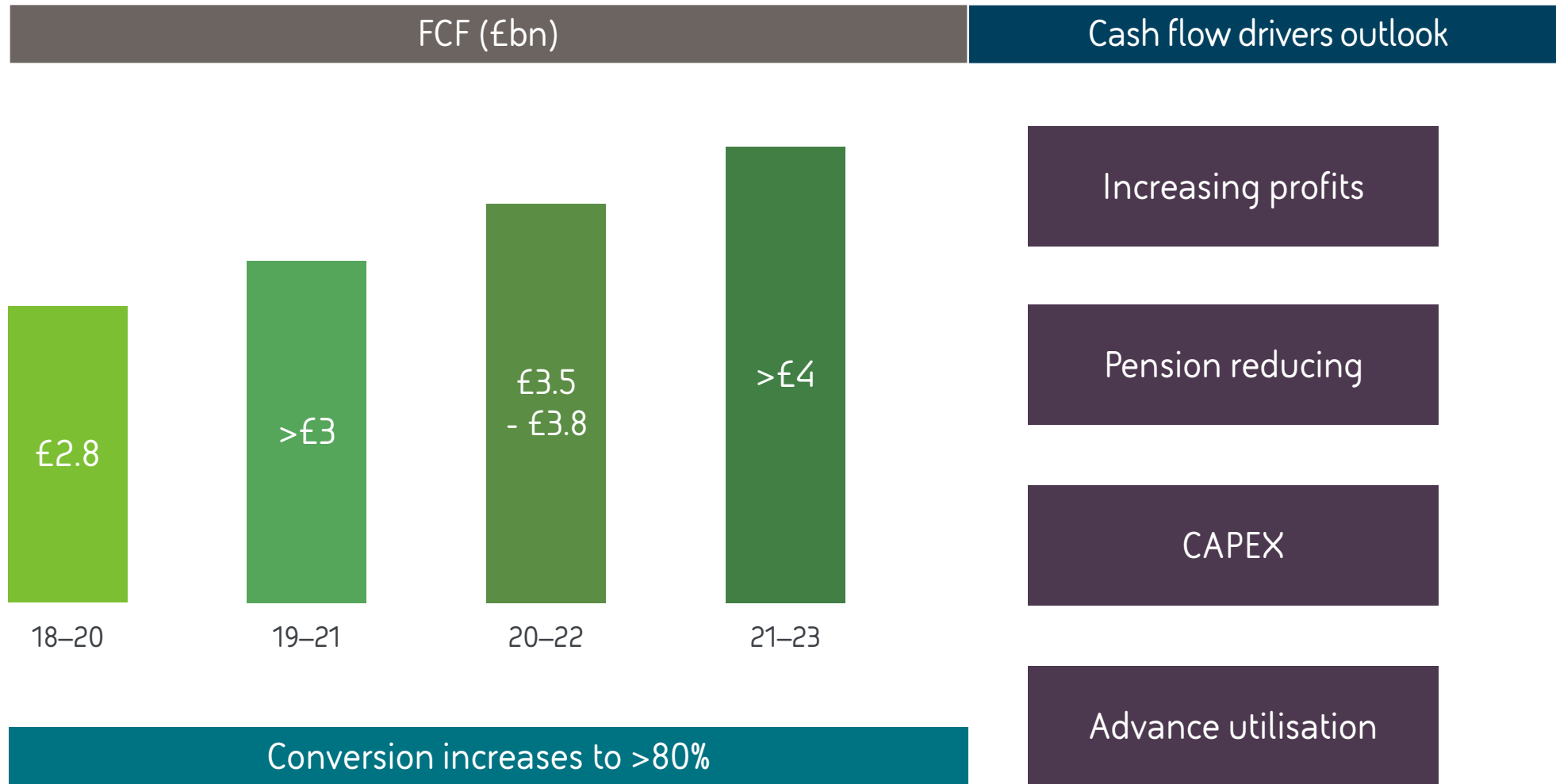
On track to meet rolling 3 year targets

2021 >£1bn 2021-23 >£4bn


1) Whilst the Group is subject to geopolitical and other uncertainties, the guidance is provided on current expected operational performance

* Excluding the £1bn one-off UK pension contribution

3 year Free cash flow*



* Excluding the £1bn one-off UK pension contribution



Positioning for the Future

Charles Woodburn,
Chief Executive

Positioning for the future

Evolution in last 3 years

- What we have achieved

Business Fundamentals today

- Structure
- Competitive advantage

Planned Evolution in coming years

- Strategic priorities
- Portfolio shaping for value creation
- Sustainability agenda accelerated
- Cash and margin expansion targeted
- Capital Allocation

Evolution 2018–20

What we have achieved in the last 3 years

Programme Execution Improvement

- Legacy contracts completed
- Lessons learnt – investment in people, processes, training and facilities, equipment
- High-performing sectors of business continued to perform

Significant programme wins

- US Business a 1.14 book to bill
- Electronic Systems c.50% of US portfolio
- Australia and Canada Global Combat Ship awards
- Qatar Typhoon and Hawk
- Combat Vehicle awards in US and Europe
- No single programme over 10% of group



Broadened and de-risked defence portfolio

Portfolio Progression

- Over \$2.2bn of high technology acquisitions
- Sell down of Saudi Portfolio Company holdings for value
- Sale of loss-making commercial cyber activities
- Land JV with Rheinmetall
- Increased focus on R&D investment

UK Pension Deficit funding

- Decisive action taken to accelerate funding
- Scheduled UK lump sum deficit funding payments completed

Refreshed Management and Working Practices

- Internal promotions and external hires
- Strategic workforce planning
- Record apprentice hires

Sales CAGR **4.1%**

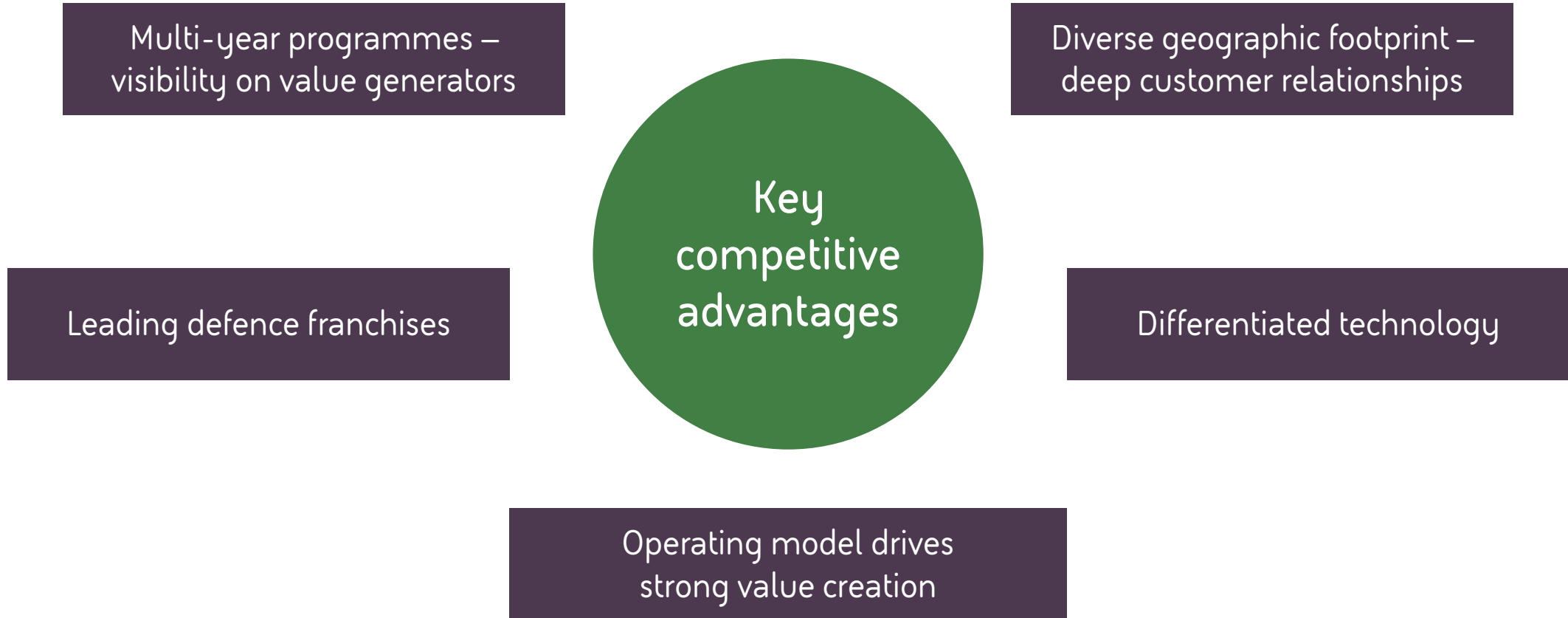
Margin **10.4%**

EPS CAGR **3.6%**

Cash Conversion **67%**

Dividend Growth **2.8%**

The Group today and competitive advantage










Multi year programme visibility

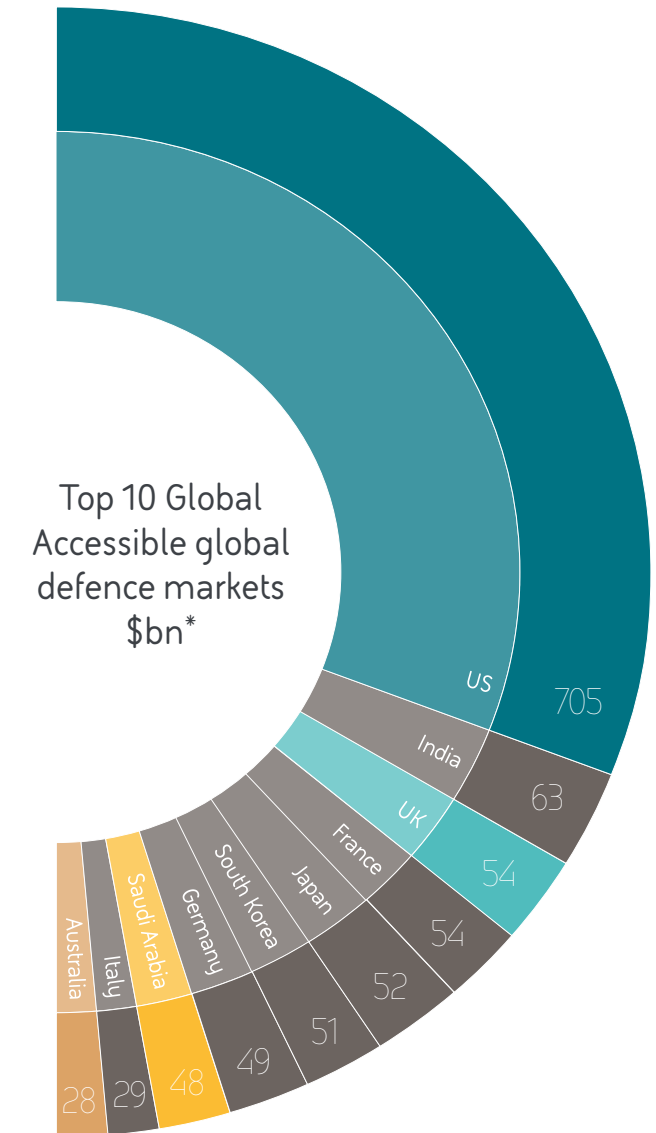
£45.2bn Order backlog; incumbent positions on key long term programmes; opportunities predominantly on aircraft sales and support, electronic systems and land vehicles:

	Major Programme/Franchise	2020 Sales	Sales outlook	Comment
ES	Electronic Combat Solutions	\$1.4bn	↑	Strong demand for electronic warfare systems to defeat threats
	ES Defence other	\$3.6bn	↑	Diverse portfolio, acquisitions positioned to deliver strong growth
P&S US	Combat Mission Systems	\$2.2bn	↑	c.1,200 vehicles in backlog
	US Ship Repair	\$1.0bn	↑	Robust US Navy demand for ship repair and modernisation services
Air	F-35 (AIR)	£0.9bn	↑	Ramping to full rate - sustainment growth
	Typhoon Support	£1.7bn	↑	Upgrade programmes and increasing jets in service
	Typhoon Production	£0.9bn	↔	Qatar, Kuwait and Germany in backlog
	KSA Support	£1.5bn	↔	Government-to-Government long term support
	MBDA	£1.2bn	↑	c.£17bn backlog (100%), domestic and international outlook strong
Maritime	Submarine Build	£1.4bn	↔	Astute and Dreadnought
	Global Combat Ship	£0.7bn	↑	Type 26 (UK), Hunter Class (Aus) CSC (Canada)
C&I	Cyber and Intel	£1.8bn	↑	Growing government budgets and focus

No major franchises sunsetting, either growing or stable

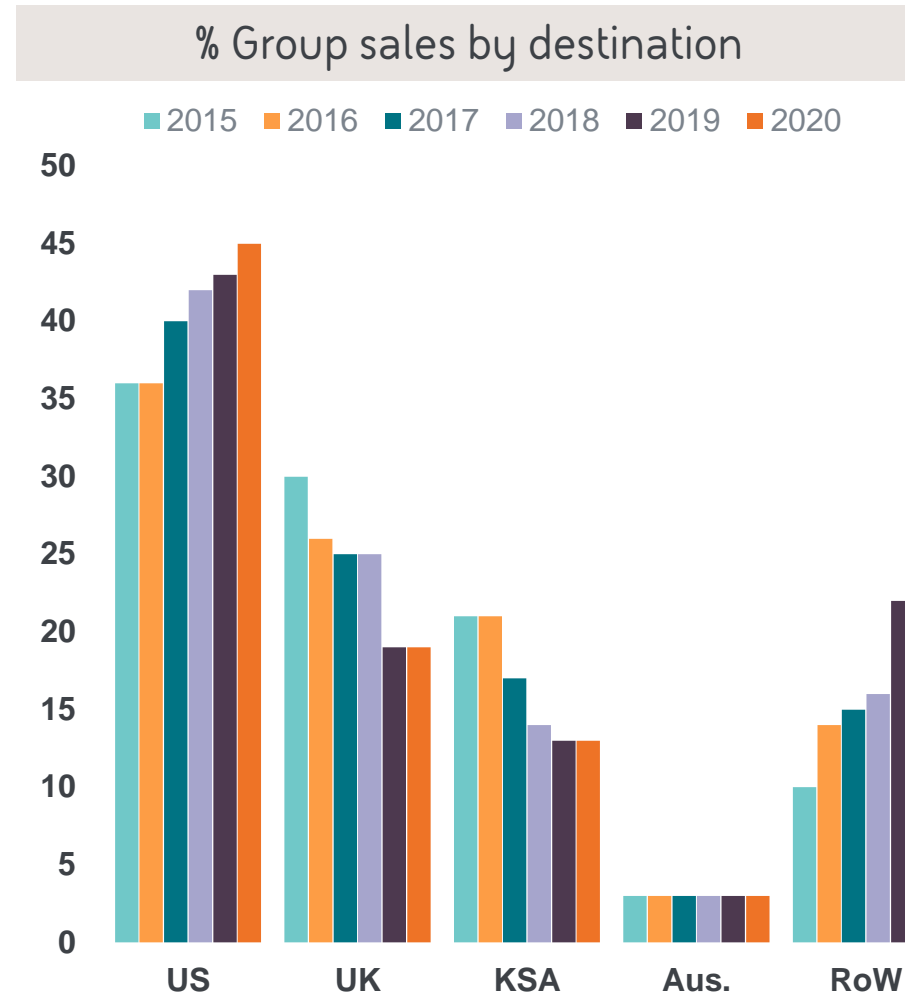
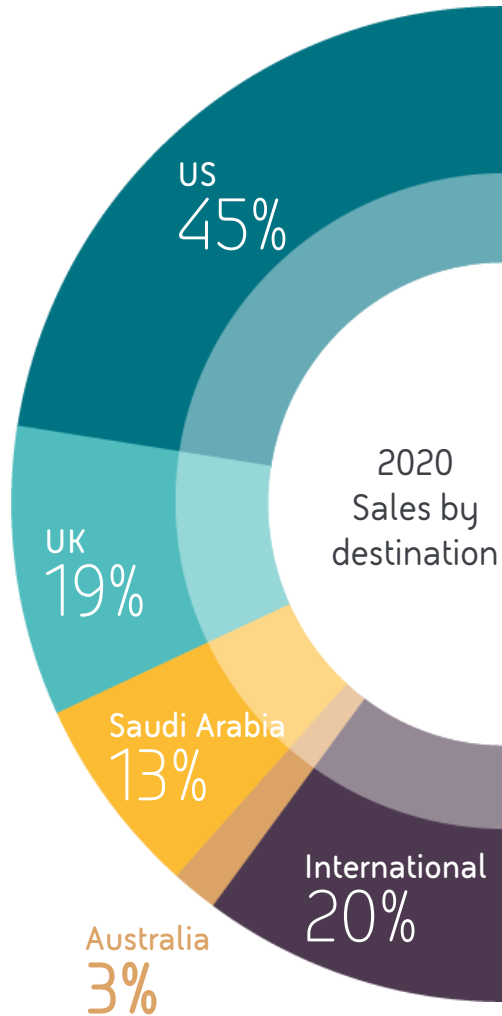
Market outlook

- US Business growth in coming years from recent high Book to Bill
 - Stable defence budget outlook
 - Opportunity to outperform from NDS portfolio alignment
 - Expected spend focus on high-end technology to benefit ES

- 4 year spending increases announced
 - Long-term contracts on key sovereign capabilities
 - Opportunity to support UKG in exports and new technologies

- Stable outlook – will continue to prioritise defence and security

- Hunter Class Frigate programme drives growth in coming years
 - 40% increase in 10 year defence capability spend creates opportunity

- Qatar contracts – further opportunities

- Defence spending increases flowing to orders
 - Typhoon, MBDA, Hägglunds well placed to secure further opportunities

- Opportunities to expand existing and access new markets




* Source: 2019 US budget as shown in the Department of Defense Fiscal Year 2021 Budget Request and, outside the US, Jane's Defence budgets (based on 2019 total defence budgets and constant 2020 US dollars).

Diverse geographic footprint



Leading defence franchises

Multi-Domain Capabilities

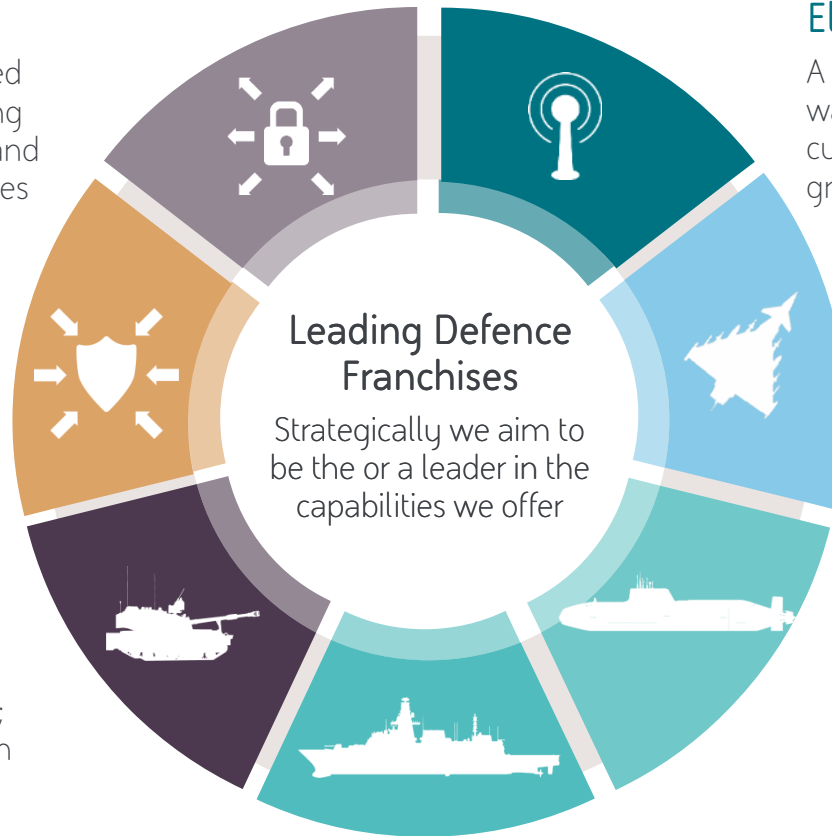
Well positioned to offer differentiated solutions in autonomous, networking and data exploitation – augments and differentiates our platform businesses

Cyber

Trusted partner for allied nations in this growing and fast moving threat environment

Combat Vehicles

Build 4 of 5 vehicles in US
Heavy Brigade Combat Team;
CV90 / BvS10 manufactured in Sweden



Electronic Warfare

A leader in full-spectrum electronic warfare technology and solutions – customers increasing focus and growth expectation

Combat Air

Consortium positions on F-35 and Typhoon – Leading availability model for combat aircrafts support – Leading development of next generation combat air systems and technologies

Undersea Warfare

Design, build, combat management systems, weapons and autonomous systems capabilities

Combat Ships

Design, build, support and integrate complex combat ships – capabilities in some or all of these areas currently being carried out in UK, US, Australia and Canada

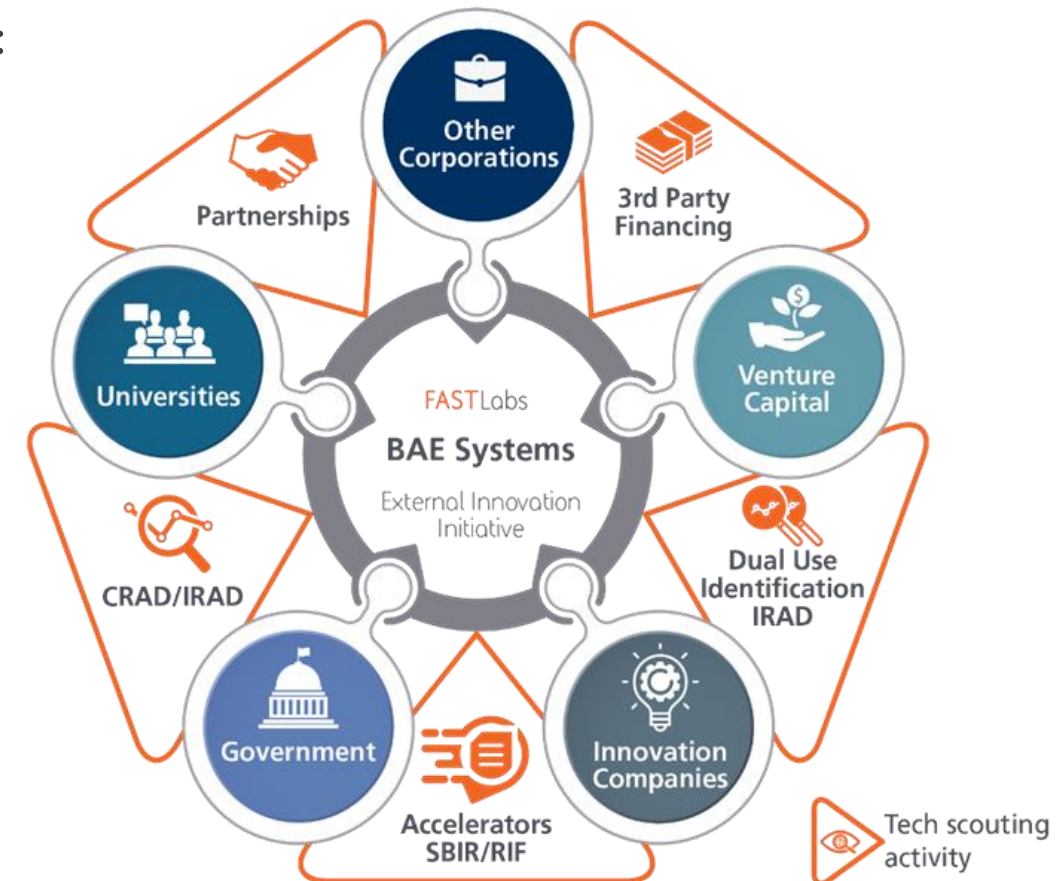
Differentiated technology

Focus areas:

- Advanced electronics
- Electronic warfare
- Space and hypersonics
- Autonomy
- Cyber
- Sensors and processing
- Augmented human performance
- Artificial intelligence

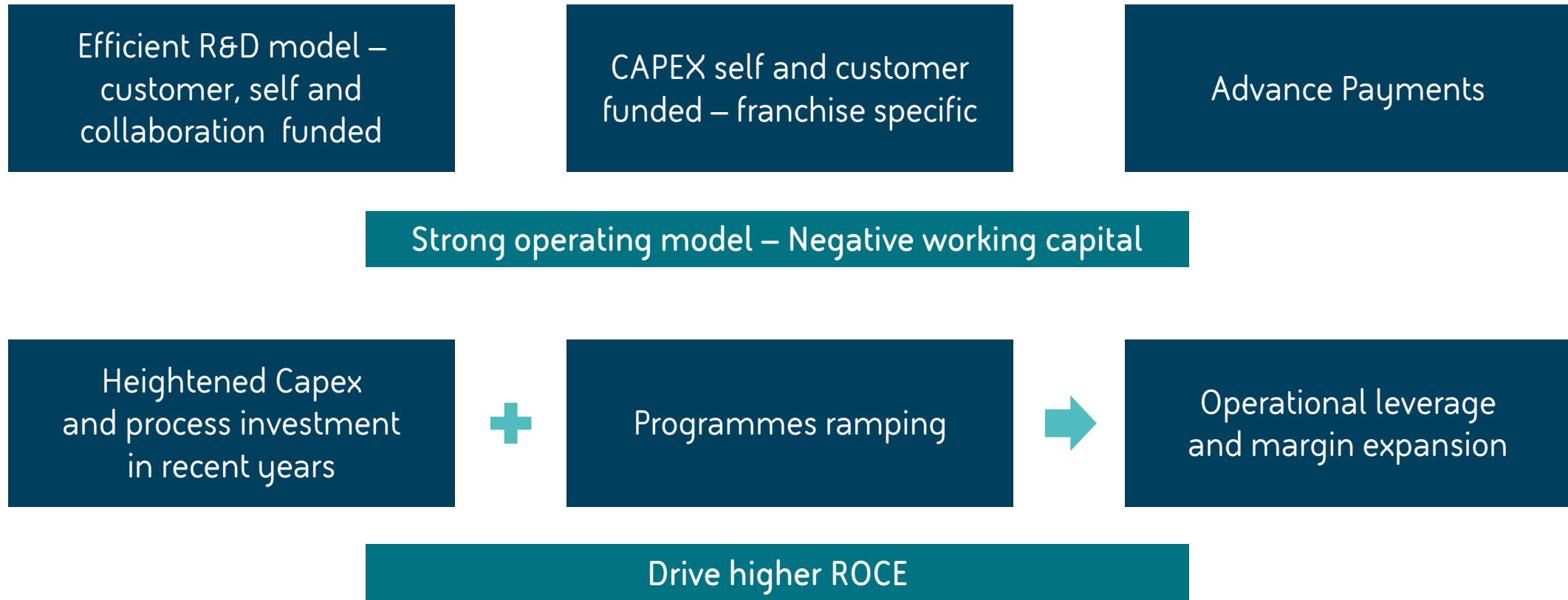
Development of technologies:

- Underpins strategy
- Drives product and service development
- Gives our customers the advantage they seek
- Integral to sustainability agenda
- Supports efficiency and productivity drive



Value creating operating model

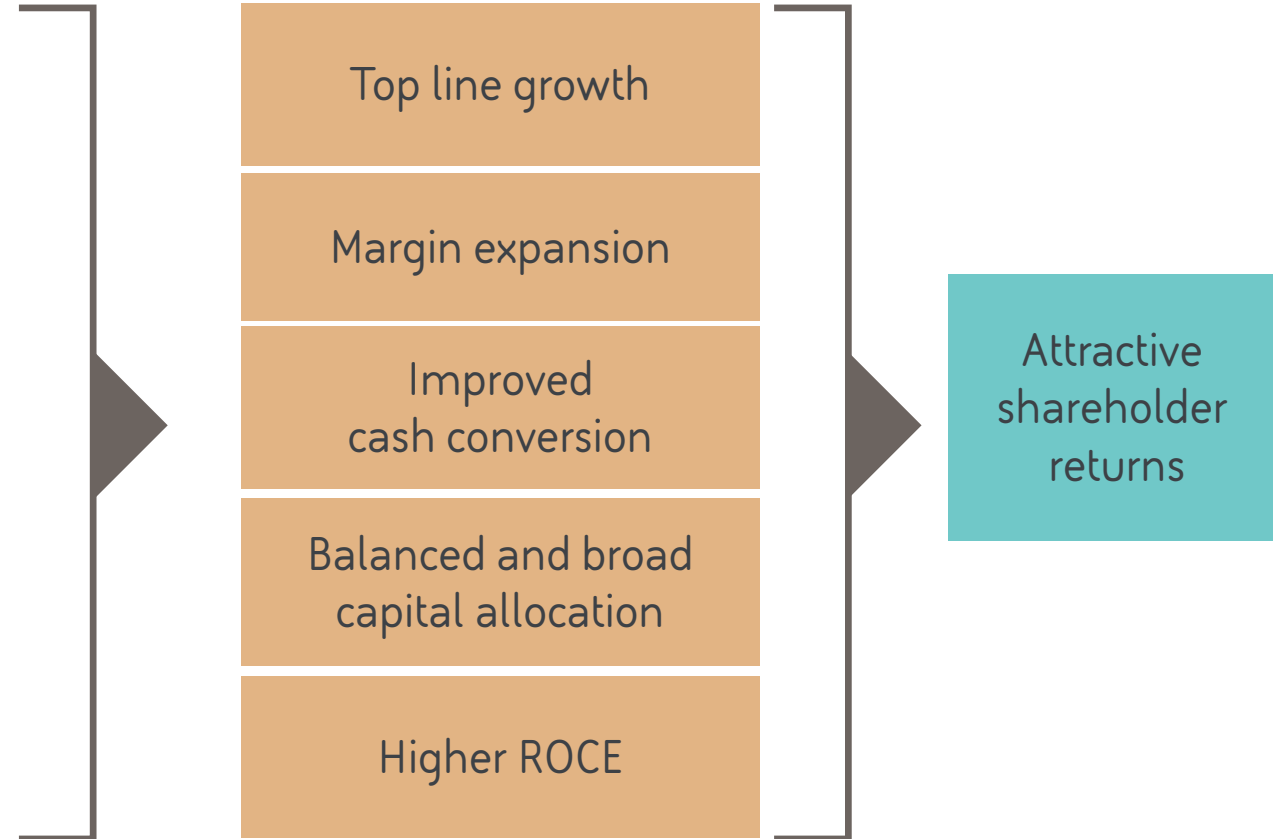
Our operating model and domain incumbency is a strength and creates barriers to entry



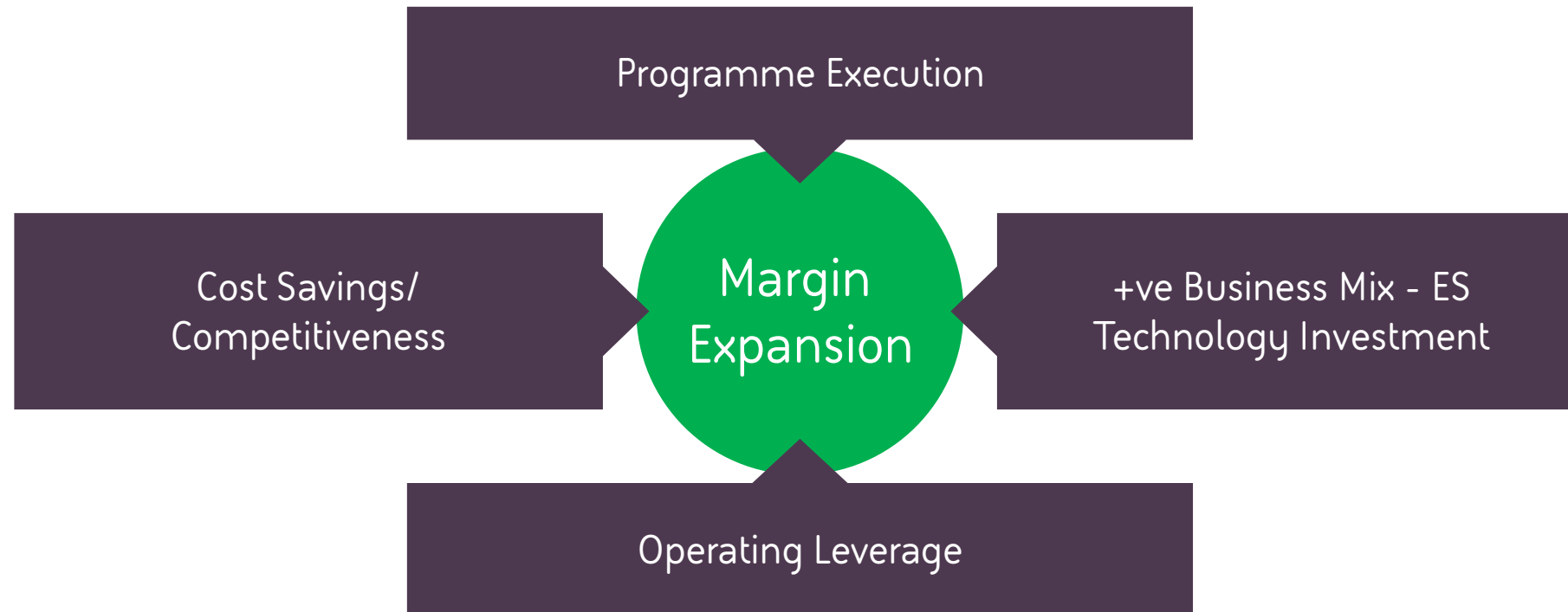
Evolution looking forward

What we look to achieve in the next 3 years

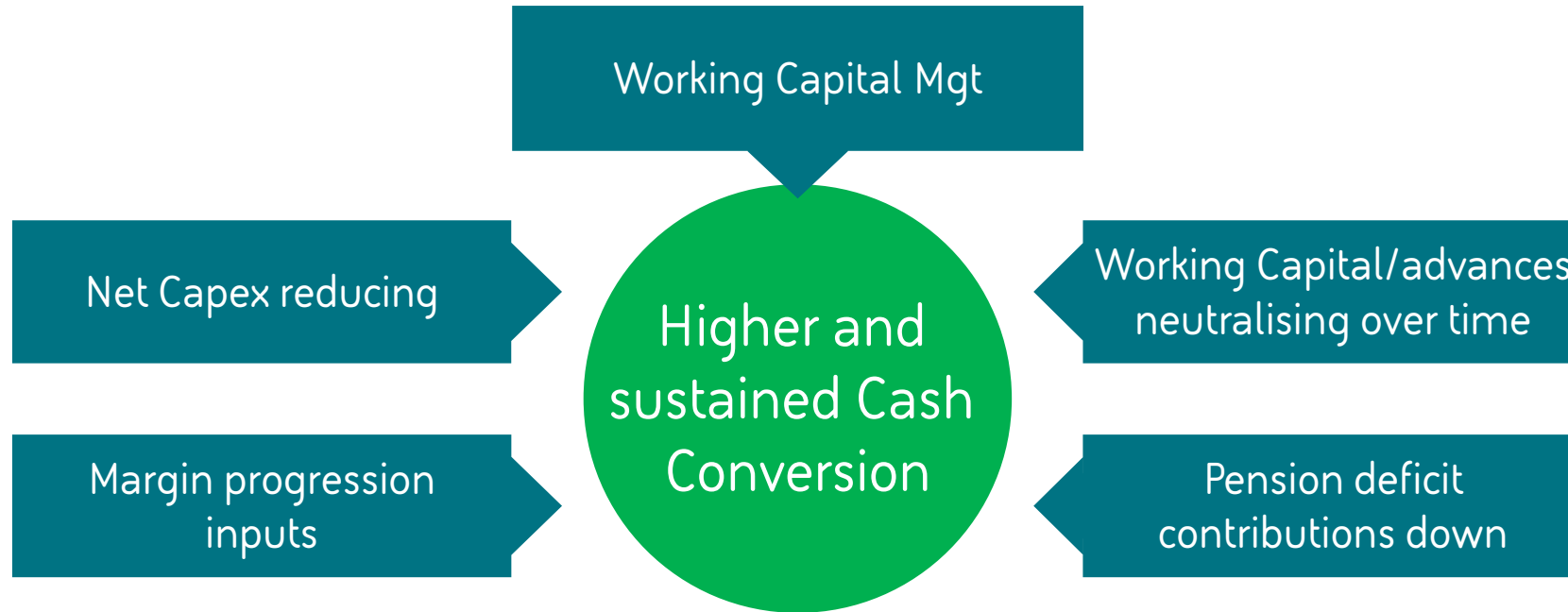
- Strong consistent programme performance
- Technology investment
- Efficiency and simplification in working
- Portfolio shaping for value creation
- Secure further opportunities and widen market base
- Accelerate our sustainability agenda



Margin Expansion

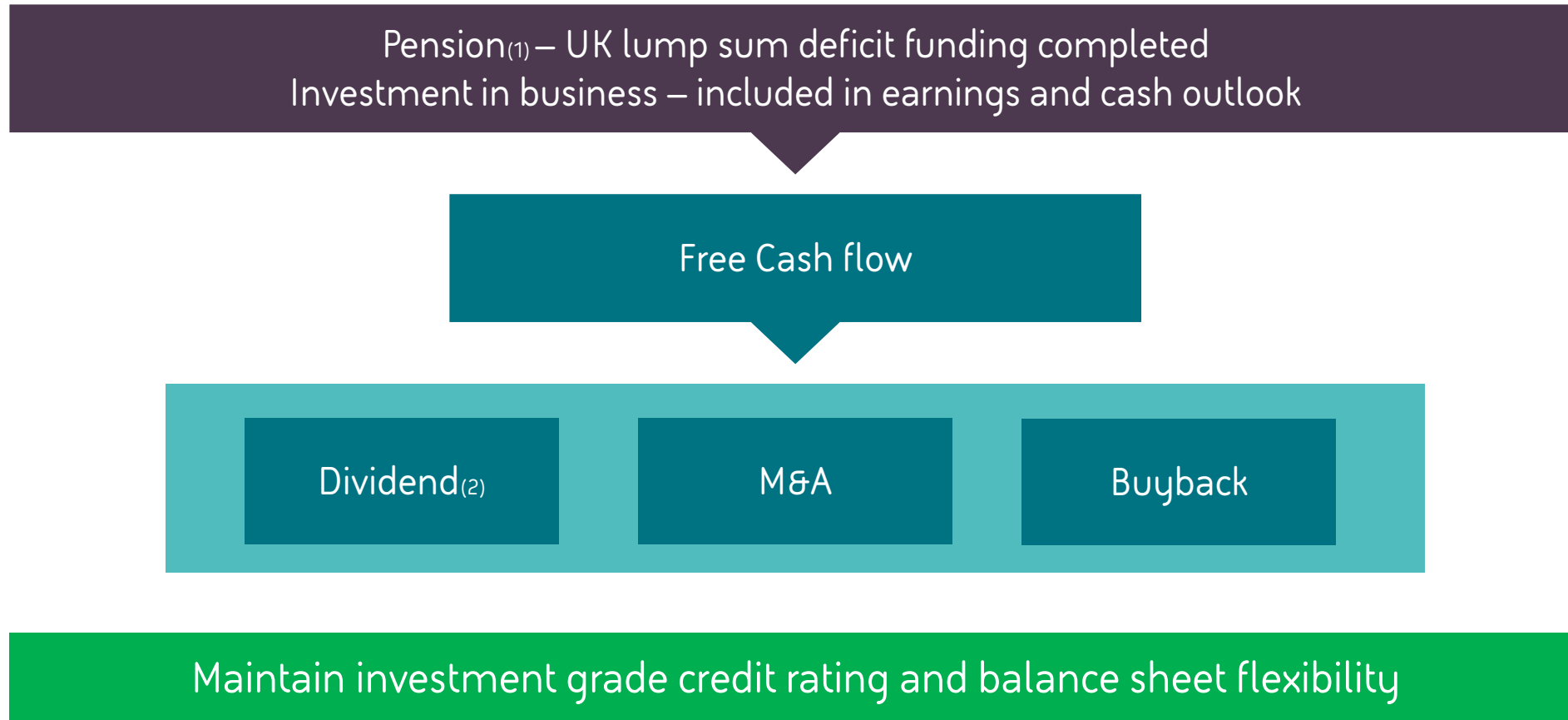


Cash conversion improvement – key drivers



Free cash flow in excess of £4bn 2021-2023 – 80%+ conversion

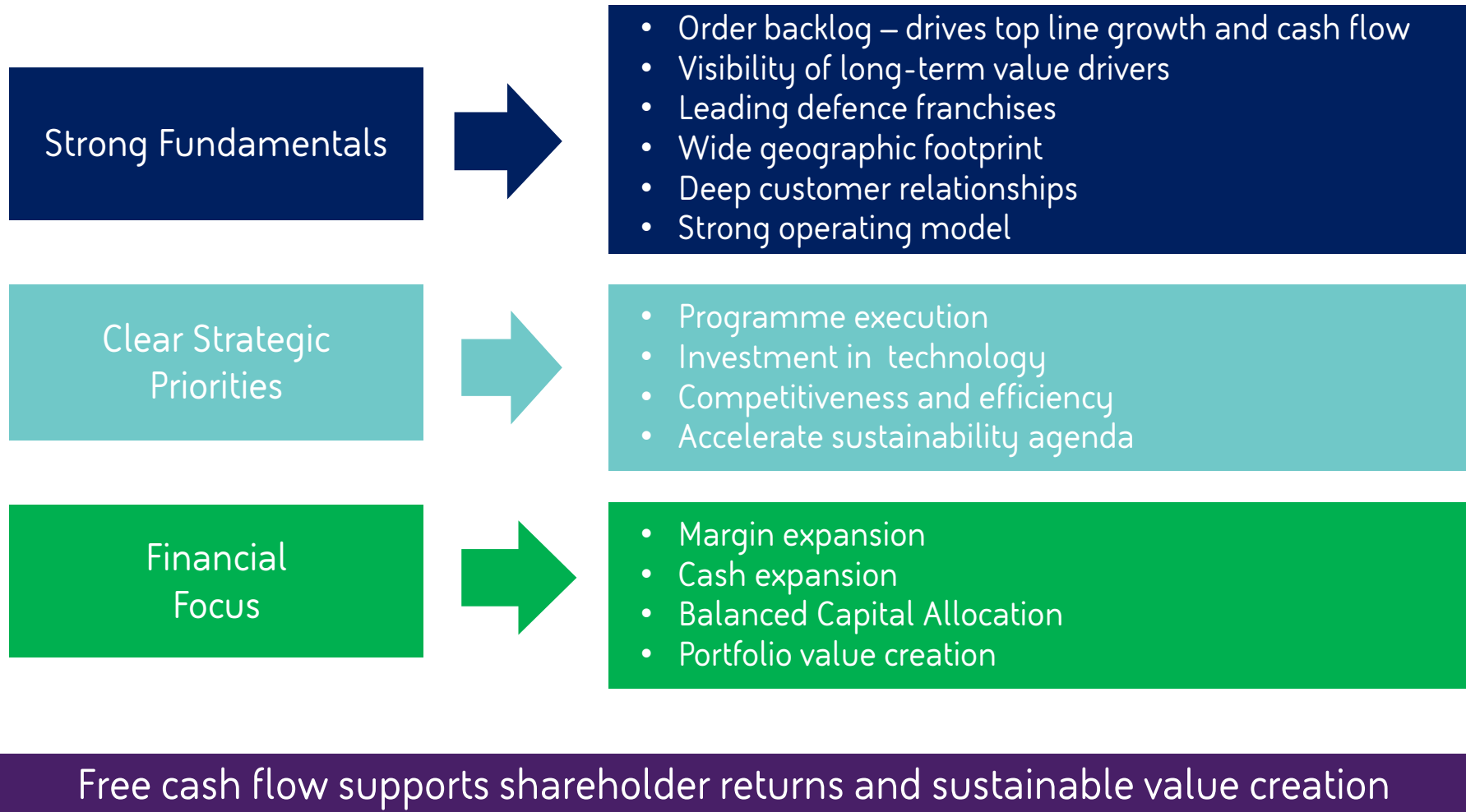
Capital allocation



1) Per current funding plan. Next triennial review will be in 2022.

2) Sustainable cover of around two times earnings

Summary



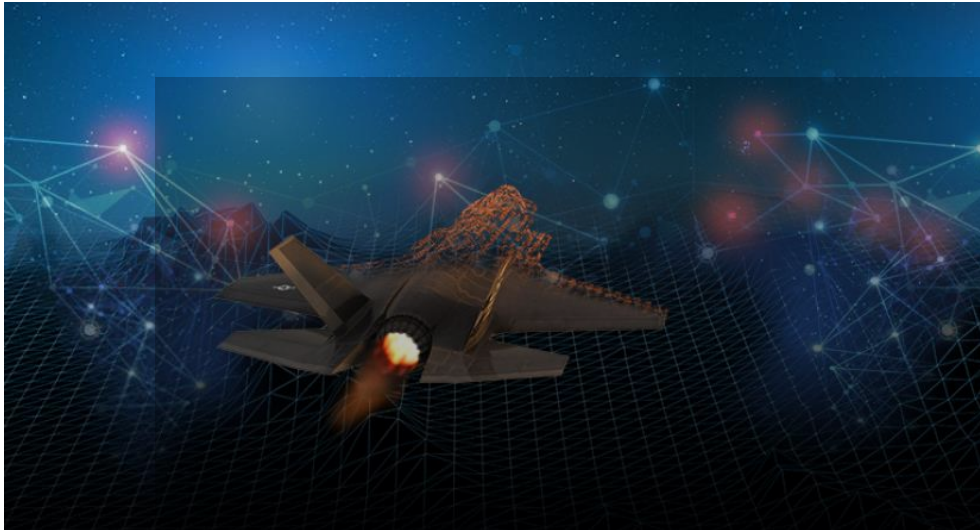
Q&A





Supplementary Information

Electronic Systems



2020 Sales %



Full year	2020	2019
Sales	\$5,848m	\$5,668m
Underlying EBITA	\$878m	\$877m
Margin	15.0%	15.5%
Cash flow	\$744m	\$858m
Order intake	\$6,060m	\$6,414m
Order backlog	\$8.8bn	\$7.9bn

- **Sales – Up 3.2%**
 - Defence business grew c.12% – acquisitions 4%
 - COVID impact on Commercial business c.\$300m
- **Margin performance – 15% with strong second half bias**
 - Slightly down y-o-y due to COVID impacts on higher margin commercial business
- **Cash – Usual high conversion levels**
 - Capex investment on-going
- **Order backlog – Record high**
 - Includes bringing in acquisitions
 - Key orders received on F-35, Precision Strike, C4ISR programmes

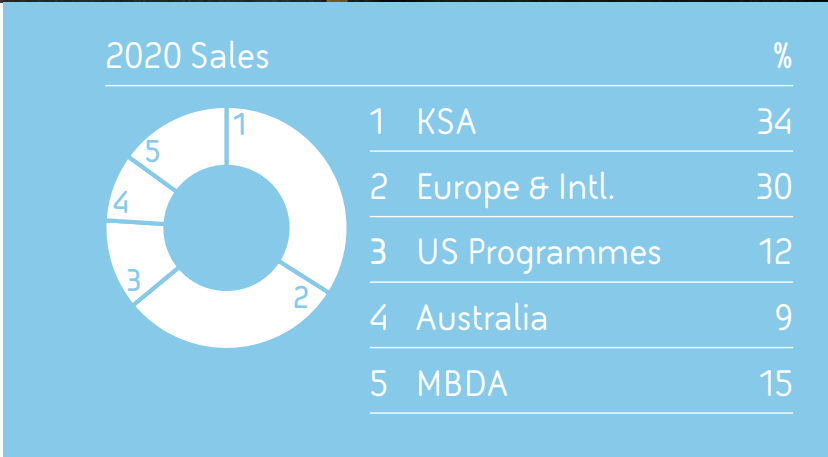
Platforms & Services (US)



Full year	2020	2019
Sales	\$4,496m	\$4,261m
Underlying EBITA	\$250m	\$341m
Margin	5.6%	8.0%
Cash flow	\$491m	\$309m
Order intake	\$5,309m	\$5,133m
Order backlog	\$8.3bn	\$7.7bn

- **Sales growth at 5.5%**
 - US combat vehicles - monthly vehicle production tripled
 - US Ship Repair and M777 to India impacted by COVID
- **Margin performance impacted primarily due to COVID**
 - Ship Repair fixed price contracts
 - AMPV less mature supply chains affected
- **Cash flow strong**
 - Improved working capital in US Combat vehicles
 - CV90 Switzerland advance payment received
- **Order backlog grew**
 - \$2.7bn of Combat vehicle orders on multiple programmes

Air



Full year	2020	2019
Sales	£7,910m	£7,457m
Underlying EBITA	£941m	£887m
Margin	11.9%	11.9%
Cash flow	£718m	£408m
Order intake	£6,494m	£4,594m
Order backlog	£22.5bn	£23.9bn

- **Sales up 6.1%**
 - F-35 build and Typhoon support higher activity
 - Qatar Typhoon and Hawk production ramp
- **Margin performance – strong second half at 13.6%**
 - Recoveries improved in H2 and continued cost savings
 - Good programme performance
- **Cash flow strong – good working capital management**
 - Advances on German Typhoon and F-35
- **Order backlog**
 - Down on long term support contracts trading out
 - German Typhoon work share £1.3bn

Maritime



2020 Sales

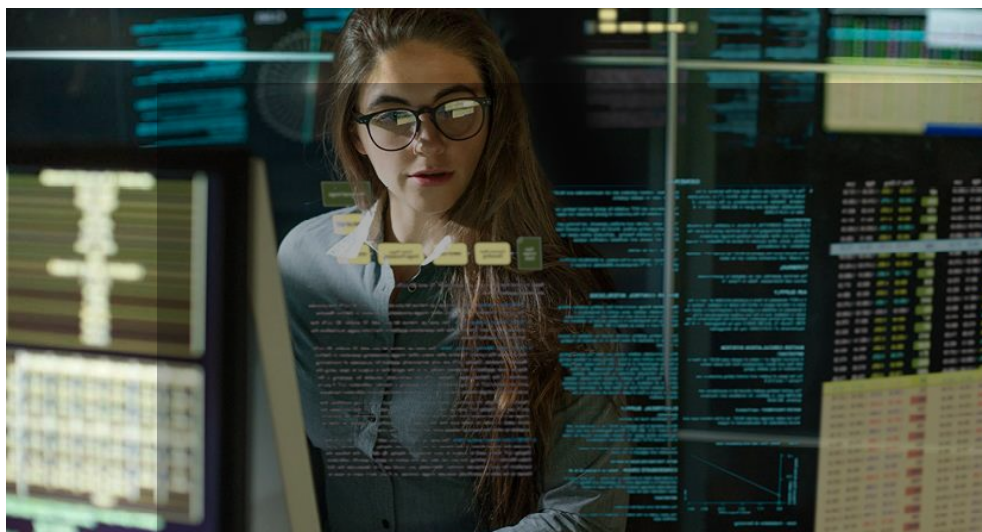


		%
1	Naval Ships	42
2	Submarines	49
3	Land	9

Full year	2020	2019
Sales	£3,257m	£3,116m
Underlying EBITA	£306m	£268m
Margin	9.4%	8.6%
Cash flow	£243m	£150m
Order intake	£3,772m	£2,875m
Order backlog	£9.1bn	£8.6bn

- **Sales growth at 4.5%**
 - Continued ramp on Dreadnought, now over £1bn p.a
- **Margin performance improved**
 - Good programme performance
 - OPV build contract completed
- **Cash conversion improved**
 - QEC Carrier and OPV build contracts now completed
- **Order backlog growth**
 - UK Next Generation 15 year munitions contract
 - Boxer programme workshare for RBSL JV

Cyber & Intelligence



2020 Sales %



1 Applied Intelligence based on £ figures

Full year	2020	2019
Sales	\$2,326m	\$2,211m
Underlying EBITA	\$175m	\$116m
Margin	7.5%	5.3%
Cash flow	\$283m	\$86m
Order intake	\$2,550m	\$2,357m
Order backlog	\$2.3bn	\$2.3bn

- **Sales up 5.2%**
 - I&S growth of 7% - all divisions contributed growth
 - AI stable – Government services up 14%; commercial weakness
- **Margin performance**
 - I&S stable year on year
 - AI improved profitability after restructuring actions
- **Cash flow strong**
 - Accelerated collections on a number of government contracts
- **Order backlog**
 - I&S book to bill 1.09 and Applied Intelligence 1.1

Major programme status

- **F-35** – Year on year sales increase in 2020 despite COVID-19; ramp to full rate by 2021
- **Qatar Typhoon and Hawk** – Typhoon and Hawk build programmes meeting milestones
- **UK Typhoon support** – 4 years in, continuing to meet operational performance levels
- **KSA support** – Managing licence position; Platform availability – key contractual requirements being met
- **Astute** – Boat 4 delivered to customer in 2020; Boats 5-7 in production
- **Dreadnought** – Production on Boats 1 and 2 underway; revenues on programme now exceed Astute and over £1bn pa
- **UK OPVs** – Build programme completed in October 2020
- **Type 26 UK** – 2nd ship construction underway; First of Class planned to enter service in mid 2020s
- **Australia Hunter class** – Design and production readiness phase underway
- **M109** – Transitioned to full rate production phase
- **AMPV** – LRIP production underway of 5 different variants, 1st deliveries of each made despite COVID impacts
- **ACV** – Initial Operational Capability achieved and full rate production announced
- **US Ship Repair** – Working with customer to improve utilisation. COVID impacts, delays and performance challenges pressured 2020 throughput and profitability
- **US Ordnance** – Operating and modernising Holston and Radford, with progress toward completion of new Radford nitrocellulose facility
- **Electronic Systems portfolio** – Production ramps on F-35 and precision weapons, delivering classified programmes, GPS and radio acquisitions performing well

November 2020 major programmes and franchises presentation can be found on : investors.baesystems.com/results-centre

2020 summary salients by sector

(£m / £bn backlog)	Sales	Underlying EBITA	Margin	Operating Cash Flow ¹	Order Intake	Order Backlog
Electronic Systems	4,557	684	15.0%	580	4,722	6.5
Platforms & Services (US)	3,503	195	5.6%	382	4,137	6.1
Air	7,910	941	11.9%	718	6,494	22.5
Maritime	3,257	306	9.4%	243	3,772	9.1
Cyber & Intelligence	1,812	136	7.5%	221	1,987	1.7
HQ	190	(130)		(318)	171	–
Eliminations	(367)				(368)	(0.7)
	20,862	2,132	10.2%	1,826	20,915	45.2

Underlying Earnings per Share: 46.8p

¹ Excluding £1bn one-off UK pension contribution

2021 Guidance – Reporting Segments

- guidance below assumes a \$1.35:£1 exchange rate

	2020 Actual		2021 Guidance ⁽¹⁾	
	Sales (£m)	Underlying EBITA margin (%)	Sales	Underlying EBITA margin
Electronic Systems *	4,557	15.0	up 4% to 6%	15% to 16%
Platforms & Services (US) *	3,503	5.6	down 3% to 5%	8% to 9%
Air	7,910	11.9	up 7% to 9%	10% to 12%
Maritime	3,257	9.4	up 2% to 4%	9% to 10%
Cyber & Intelligence *	1,812	7.5	down 3% to 5%	7% to 8%
HQ (EBITA)		(130)	c.10% lower	

* Sales growth in the US businesses would be approximately 5% higher on a constant currency basis

(1) Whilst the Group is subject to geopolitical uncertainties, the guidance is provided on current expected operational performance

2020 Balance sheet

Summarised balance sheet	31 Dec 2020 £m	31 Dec 2019 £m
Intangible fixed assets	11,745	10,371
Tangible fixed assets ¹	3,158	3,188
Investments	409	441
Working capital ¹	(3,012)	(2,854)
Pension deficit	(4,485)	(4,455)
Lease liabilities	(1,203)	(1,291)
Tax assets & liabilities	906	690
Financial assets & liabilities	36	34
Net debt	(2,718)	(743)
Assets held for sale	94	130
Net assets	4,921	5,511

¹ Net of funding received for the Dreadnought submarine programme

Net Cash / (Debt)

£m	excl. £1bn one-off UK pension contribution	£1bn one-off UK pension contribution	2020
Opening Net Debt			(743)
Operating business cash flow	1,826	(1,000)	826
Interest & Tax	(459)	-	(459)
Free Cash Flow	1,367	(1,000)	367
Dividends paid, incl. minorities			(765)
M&A			(1,674)
Other			97
Closing Net Debt			(2,718)

IAS 19 Pensions

	(£bn)	31 Dec 2020	30 Jun 2020	31 Dec 2019
Assets		29.8	29.3	27.7
Liabilities		(34.6)	(35.7)	(32.5)
Pension deficit		(4.8)	(6.4)	(4.8)
Group share of deficit		(4.5)	(6.0)	(4.5)
UK - Bond yields		1.4%	1.5%	2.1%
Inflation rate		2.7%	2.7%	2.8%
US - Bond yields		2.4%	2.6%	3.1%

Reconciliation of Earnings

(€m / pence EPS)	Underlying ⁽¹⁾		Reported	
	2020	2019	2020	2019
Underlying EBITA	2,132	2,117	2,132	2,117
Non-recurring items			19	(27)
EBITA			2,151	2,090
Amortisation/Impairment			(141)	(115)
Underlying Finance Costs	(255)	(257)	(255)	(257)
Pensions & Fair Value mvmts			(111)	(39)
Finance Costs			(366)	(296)
Underlying Tax	(312)	(347)	(312)	(347)
Other Tax ⁽²⁾			39	39
One-off Tax Benefit		-	-	161
Tax			(273)	(147)
Non-controlling interest	(72)	(56)	(72)	(56)
Earnings	1,493	1,457	1,299	1,476
Weighted average number of shares	3,191	3,183	3,191	3,183
Earnings per Share	46.8p	45.8p	40.7p	46.4p

(1) 2019 excluding one-off tax benefit of 5p

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