



Half Year Results

30 July 2020

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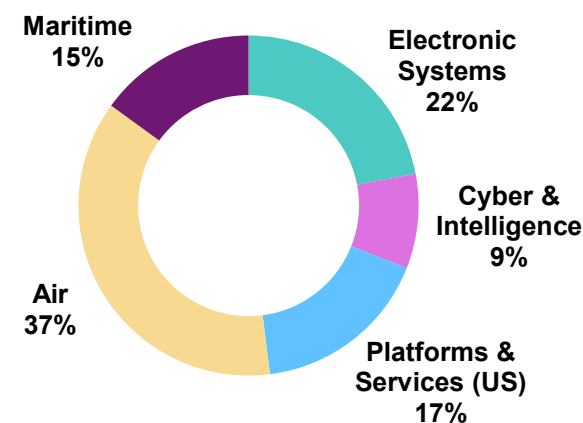
Charles Woodburn
Chief Executive

2020 – Half Year Overview

- Resilient business – sales and cash growth
- Q2 profit impact from COVID-19 disruptions
- Customer demand and relationships strong
- Defence business fundamentals robust
 - US backlog growth - \$1.3bn up ~7%
- Strategic actions proceeding as planned
 - US acquisitions
 - One-off payment into UK pension scheme
- Improving execution on key programmes
- Defence operations near normal activity levels
- Dividends:
 - 13.8p payment in September in respect of FY19 financial performance
 - 9.4p Interim dividend in respect of HY20

	2020 Half Year	2019 Half Year
Sales⁽¹⁾	£9,871m	£9,416m
Underlying EBITA	£895m	£999m
Underlying EPS	18.7p	21.9p
Operating Cash flow⁽²⁾	£120m	£(309)m
Net Debt	£(2,038)m	£(743)m*
Order intake	£9,339m	£8,418m
Order backlog	£46.1bn	£45.4bn*

2020 Half Year Sales by reporting segment



Foundations for growth and enhanced cash flow remain in place

(1) Revenue plus the Group's share of revenue of equity accounted investments
 (2) 2020 Half Year excluding £1bn UK pension contribution

COVID-19 - Key Points

- Impacts
 - Rapidly addressed short-term objectives
 - Protecting the well-being of our employees
 - Delivering against customer priorities
 - Supporting our supply chain
 - Protecting our capabilities
 - Driving cost control measures
 - Maintaining balance sheet strength
 - Q2 operational impacts
 - UK Maritime & Air sites
 - US Commercial – avionics and power and propulsion
 - US Defence business – facilities continued operating
 - KSA and Australia – some disruption but impact not significant
- Response
 - New working practices introduced in collaboration with stakeholders
 - Resilience built in for a prolonged period of disruption
 - Site critical workers able to return to work safely
 - Continued to deliver on critical work for our customers
 - Significant levels of employees still home working
 - Governments supportive in key markets
 - Prioritisation of capabilities, supply chains and cash flow
 - Social needs of governments and communities prioritised where needed

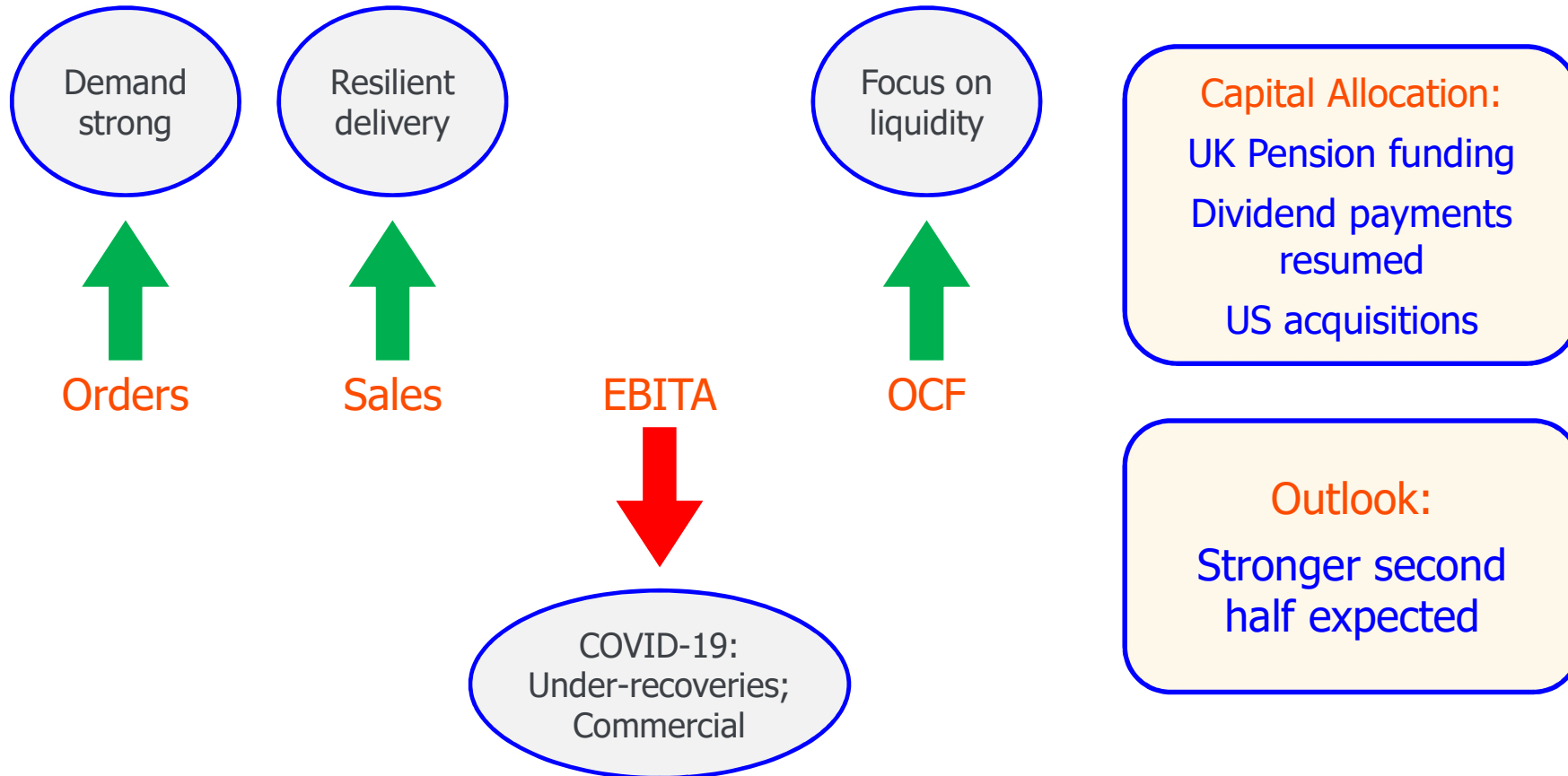
Many defence operations have well over 90% of employees working



Brad Greve

Group Finance Director

■ Key Points



2020 Half Year Financial Summary

	2020 Half Year	2019 Half Year
Sales	£9,871m	£9,416m
Underlying EBITA ⁽¹⁾	£895m	£999m
Underlying Finance Costs ⁽²⁾	£(127)m	£(130)m
Underlying Earnings per Share ⁽³⁾	18.7p	21.9p
Operating Business Cash Flow		
- excluding £1bn pension contribution	£120m	£(309)m
- including £1bn pension contribution	£(880)m	£(309)m
Net Debt	£(2,038)m	£(1,889)m
Order Intake	£9,339m	£8,418m
Order Backlog ⁽⁴⁾	£46.1bn	£45.4bn

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

(4) Comparative as at 31 December 2019

(5) Average £/\$ rate at 30 June 2020 \$1.26 & 2019 \$1.29

Balance Sheet

£m	30 Jun 2020	31 Dec 2019	Drivers
Intangible fixed assets	10,992	10,371	Acquisition of Airborne Tactical Radios, fx
Tangible fixed assets ⁽¹⁾	3,296	3,188	Capital expenditure, fx
Investments	380	441	Increased share of pension deficit
Working capital ⁽¹⁾	(2,085)	(2,854)	Utilisation of advances, timing of receipts/payments
Pension deficit	(5,970)	(4,455)	Discount rate decrease
Lease liabilities ⁽²⁾	(1,304)	(1,291)	
Tax assets & liabilities	1,109	690	Increased pension deficit
Financial assets & liabilities	176	34	
Net debt	(2,038)	(743)	
Assets held for sale	142	130	AEC & Silversky
Net Assets	4,698	5,511	

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

(2) Lease liabilities includes Finance Lease receivable

■ UK Pensions

- Increase in IAS 19 accounting deficit resulting from 50bps reduction in net discount rate
- In the period to 30 June 2020:
 - Assets increased over contributions made
 - Contributions of £1.3bn, including £1bn non-recurring contribution
- Funding position:
 - In line with agreed Recovery Plan final £250m deficit payments due in scheme year ending March 2021
 - Funding position improved since triennial valuation in October 2019
 - Next triennial valuation date March 2022

Deficit contributions determined by funding position not accounting deficit

Net Cash / (Debt)

£m	2020 Half Year	
Opening Net Debt	(743)	
Underlying Operating Cash Flow	120	▶
Non-recurring UK pension contribution	(1,000)	
Operating Business Cash Flow	(880)	
Interest & Tax	(230)	
Free Cash Flow	(1,110)	
Dividends paid, incl. minorities	(3)	
M&A	(217)	
Other	35	
Closing Net Debt	(2,038)	▶

Electronic Systems	64
Cyber & Intelligence	107
Platforms & Services (US)	143
Air	17
Maritime	(67)
HQ	(144)
Underlying Operating Cash Flow	120

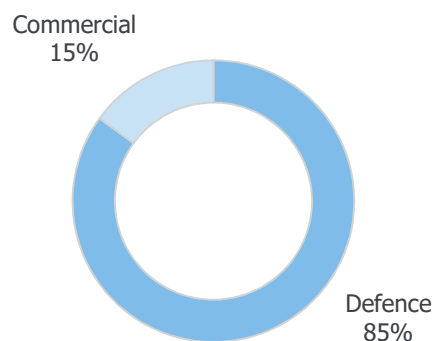
Gross Debt	Gross Cash
£(4,561)m	£2,523m

Electronic Systems

<i>Half Year:</i>	2020	2019
Sales	\$2,777m	\$2,772m
Underlying EBITA	\$367m	\$409m
Margin	13.2%	14.8%
Cash flow	\$81m	\$177m
Order intake	\$3,554m	\$2,882m
Order backlog	\$9.0bn	\$7.9bn ⁽¹⁾

- Sales stable
 - Commercial sales down 32%
 - Defence sales up 9%
- Margin performance impacted by lower commercial sales
- Cash conversion reflects usual 2nd half bias
 - Capex investment to support growth
- Book-to-bill at 1.28x
- Record order backlog
 - F-35, APKWS & Threat Detection Solutions
- Integration of Airborne Tactical Radios ongoing
 - Military GPS acquisition expected to complete shortly

2020 Sales



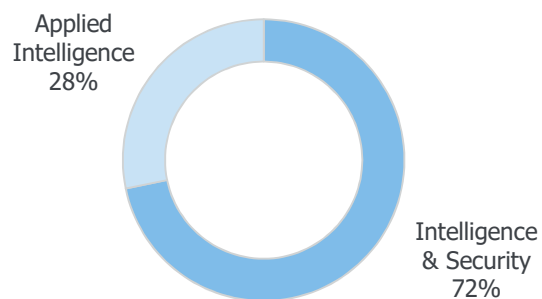
(1) as at 31 December 2019

Cyber & Intelligence

<i>Half Year:</i>	2020	2019
Sales	\$1,151m	\$1,103m
Underlying EBITA	\$74m	\$32m
Margin	6.5%	2.9%
Cash flow	\$135m	\$30m
Order intake	\$1,269m	\$1,250m
Order backlog	\$2.2bn	\$2.3bn ⁽¹⁾

- Sales up 5% like-for-like
 - Intelligence & Security 8% higher
 - Applied Intelligence stable ⁽²⁾
- Margin performance
 - Intelligence & Security at 8%
 - Applied Intelligence profitable; HY19 included £25m restructuring charge
- Cash flow performance reflects accelerated funding on government contracts
- Book-to-bill at 1.1x

2020 Sales



(1) as at 31 December 2019

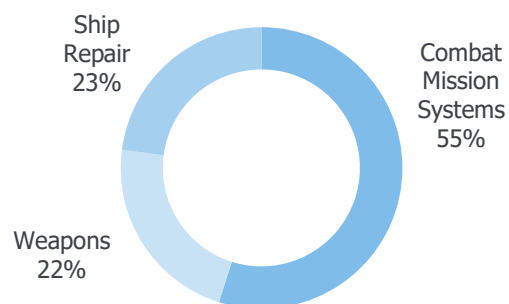
(2) Applied Intelligence based on £ figures

■ Platforms & Services (US)

<i>Half Year:</i>	2020	2019
Sales	\$2,165m	\$1,970m
Underlying EBITA	\$153m	\$175m
Margin	7.0%	8.9%
Cash flow	\$180m	\$7m
Order intake	\$2,608m	\$2,342m
Order backlog	\$8.0bn	\$7.7bn ⁽¹⁾

- Sales growth at 10%
 - AMPV, M109A7 & Bradley A4 activity
- Margin impacted by:
 - COVID-19 related under-recoveries & supply chain interruption
 - AMPV & ACV at initial low levels
- Cash flow performance strong
 - Improved receipts
 - Progress payments / lower retentions on US contracts
- Book-to-bill at 1.2x
- Order backlog increased with awards on M109A7, Bradley & AMPV

2020 Sales



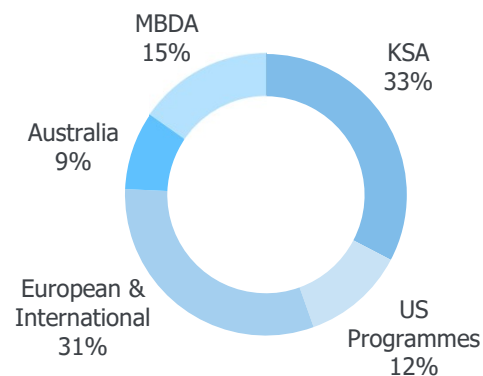
(1) as at 31 December 2019

Air

<i>Half Year:</i>	2020	2019
Sales	£3,610m	£3,366m
Underlying EBITA	£356m	£438m
Margin	9.9%	13.0%
Cash flow	£17m	£(163)m
Order intake	£2,482m	£2,046m
Order backlog	£23.2bn	£23.9bn ⁽¹⁾

- Sales up 8% like-for-like:
 - Qatar Typhoon, F-35, MBDA
- Margin:
 - Under-recoveries
 - Increased Tempest self-funded R&D
- Cash flow
 - Utilisation of advances
- Order backlog reduction on trading of Saudi support & Qatar contracts offset by F-35 funding

2020 Sales



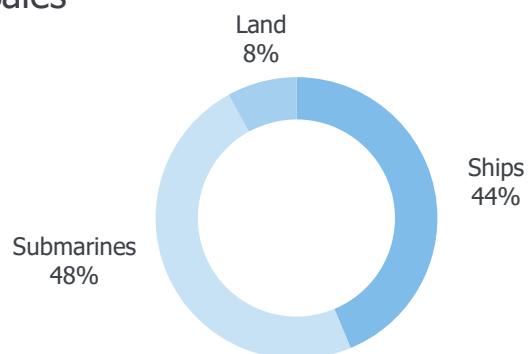
(1) as at 31 December 2019

Maritime

<i>Half Year:</i>	2020	2019
Sales	£1,505m	£1,525m
Underlying EBITA	£122m	£133m
Margin	8.1%	8.7%
Cash flow	£(67)m	£(92)m
Order intake	£1,035m	£1,334m
Order backlog	£8.1bn	£8.6bn ⁽¹⁾

- Sales broadly unchanged
- Margin performance impacted by COVID-19 related costs
- Cash flow
 - Utilisation of advances, including UK Munitions supply contract
- Order backlog
 - Trading on Submarine programmes & Type 26 partially offset by UK Naval Support contract extension

2020 Sales



(1) as at 31 December 2019

■ 2020 Guidance ^(1,2)

• Trading Guidance

- **Sales** – expected to increase by **low-single digit percentage** compared to 2019
 - Increased F-35, Combat Vehicles & Qatar Typhoon trading
 - Growth in electronic defence portfolio offsets decline in commercial businesses

- **Earnings per share** – expected **mid-single digit percentage lower** than 45.8p⁽³⁾ in 2019
 - Improved second half performance partially mitigates the COVID-19 impact seen in the first half
 - Tax rate now expected to be around 19%

• Cash Guidance

- **Free cash flow**⁽⁴⁾, excluding £1bn non-recurring UK pension contribution, expected to be around £800m allowing for the lower earnings

(1) The guidance includes the impact of the acquisitions of the Airborne Tactical Radios & Military Global Positioning System businesses announced on 20 January 2020. Planning rate \$1.25

(2) Whilst the Group is subject to geopolitical uncertainties, and subject to continued uncertainty in respect of COVID-19, the guidance is provided on current expected operational performance

(3) Excluding the one-off tax benefit of 5.0p

(4) Operating business cash flow less interest paid (net) and taxation



Charles Woodburn

Chief Executive

■ Positive outlook for the business

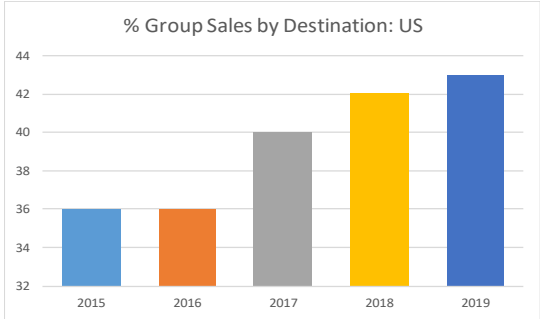
- Strategy highly relevant and working
- Well-positioned defence portfolio
- Governments continue to prioritise defence and security
 - Role to play in economic recovery
- Strong order backlog and programme visibility
- Acquisitions - a unique opportunity to accelerate technology strategy
- Operational performance improvement
- Cash generation set to improve
- Pension actions good for all stakeholders

Strong sustainable business model - well placed for growth

Market Environment - US

- Alignment to US National Defense Strategy priorities and programme positions underpin good growth
- Strong 2019 order book increased by over \$1bn in the first half, adding further resilience to the portfolio
- Strong book to bill in Electronic Systems and Combat Mission Systems
- Funded backlog for classified electronics work grew by over 10% in the first half
- Acquisition of Airborne Tactical Radios business for \$275m completed in May
- Proposed acquisition of Collins Aerospace Military Global Positioning System business to close shortly

National Defense Strategy/ Service Priorities	BAE Programs & Opportunities
 Next Generation Combat Vehicles	New manned and robotic combat vehicles
 Long Range Precision Fires	Extended-range precision munitions and artillery, Long Range Anti-Ship Missile
 Air & Missile Defense	Seekers, Hypervelocity Projectile, missile defense system integration
 Unmanned & Autonomous Vehicles	Mission system autonomy, unmanned undersea vehicles
 Long Range / Survivable Strike	B-21, F-35, F-15 EPAWSS, F-22
 Space	Space electronics, space resilience, ground systems
 Nuclear Modernization	ICBM systems engineering

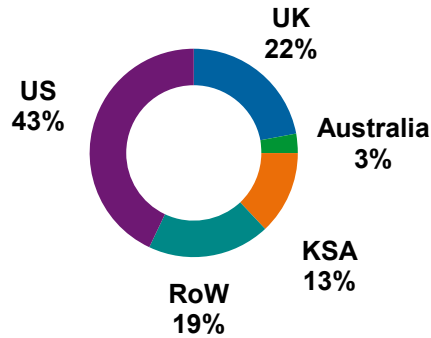


Well positioned against the stated priorities of military services

Market outlook remains positive ✓

Market Environment

2019 Full Year Sales by Destination



UK

- Defence and security remains a priority
 - Above inflationary spend committed
- Defence and Security review restarted
- Long-term contract positions – stable outlook
- Critical defence programmes
- Over 30,000 employed + supply chain
- Combat air strategy
 - Sweden & Italy working with UK
 - Continues towards outline business case



Saudi Arabia

- Defence and security remains a key priority
- Managing licence position
- 70%+ Saudi Nationals
- Long standing support contracts
- Continue to support 2030 vision



Australia

- Recommitted to defence budget growth
- Hunter Class frigate programme
- Business expected to grow significantly



Qatar

- Major defence spending underway
- Typhoon, Hawk and MBDA contracts
- Future opportunities

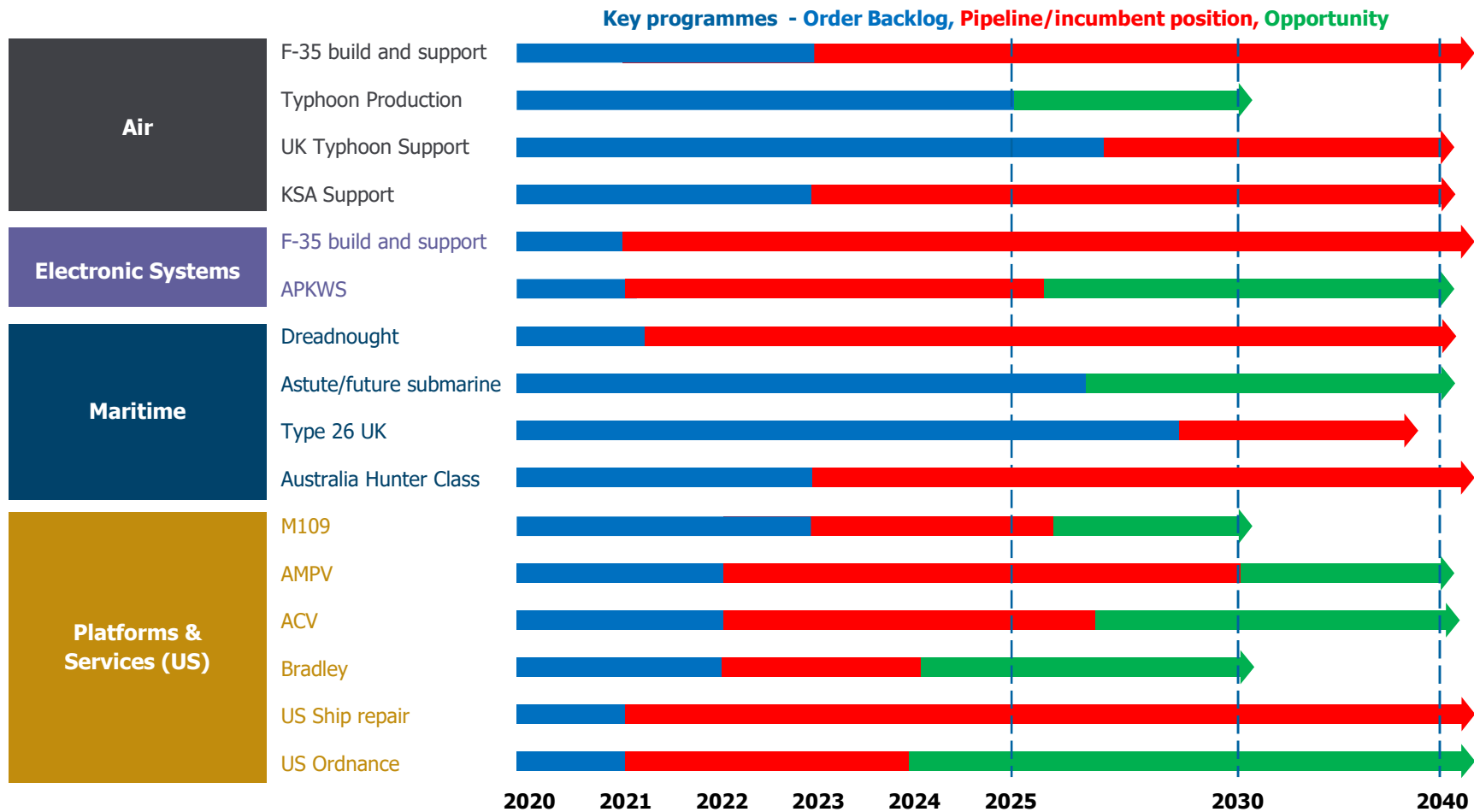


Europe

- Increases in defence spending
- Typhoon opportunities – Germany near prospect
- MBDA
- Land vehicle opportunities

Key Franchises and Programmes – Illustrative timeline

- £46.1bn Order Backlog; incumbent positions on key long term programmes; opportunities predominantly on aircraft sales and support, electronic systems and land vehicles



Strong long term visibility - focus on execution of orders and further strengthening backlog

(1) Dates reflect position at 1st January each year



Major Programme Status

- **F-35** – Targeted year on year 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; Boats 5-7 in production
- **Dreadnought** – Production on Boats 1 and 2 underway; revenues on programme now exceed Astute
- **UK OPVs** – 4th ship accepted in February; final ship due to complete in 2020
- **Type 26 UK** – 2nd ship construction underway; First of Class planned for mid 2020s
- **Australia Hunter class** – Design and production readiness phase underway
- **M109** – Now at full rate production level - performing well
- **AMPV** – LRIP production underway; 5 different variants in build - 1st deliveries 2020, some COVID-19 impact
- **ACV** – LRIP deliveries underway – some COVID-19 supply chain impact
- **US Ship Repair** – Working with customer to improve utilisation
- **US Ordnance** – On-going Radford sub contractor performance issue
- **Electronic Systems portfolio** – Production ramps on F-35 and APKWS; delivering classified programmes

Underlying programme performance improving

■ Lessons learned from COVID-19

- Demonstrated ability to be agile and rapidly adjust working practices
- Opportunity to contribute to our competitiveness and efficiency strategic priority
- Enforced changes may help future business operations through:
 - Streamlining of processes
 - G&A savings
 - Reduced footprint requirements
 - Flexible working practices
 - Agility and adaptability in delivering commitments

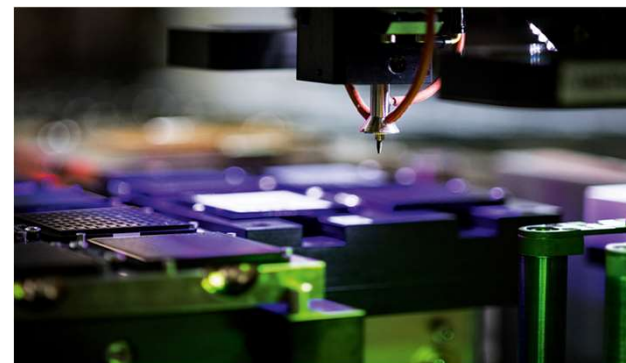
Drive
operational
excellence

Improve our
competitiveness
and efficiency

Advance and
further leverage
our technology

Summary

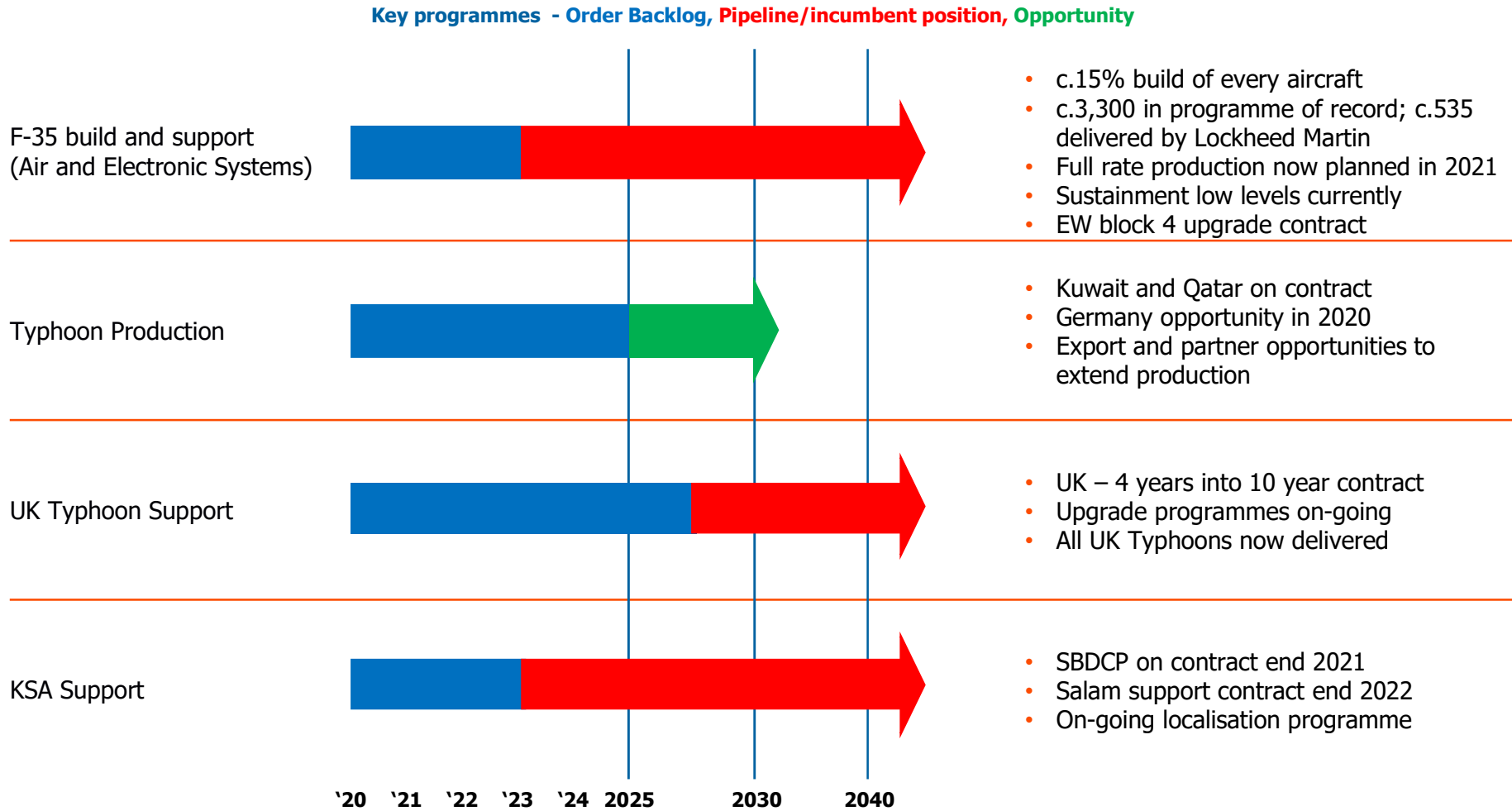
- Implemented change in Q2 to embed resilience
- Defence business back to near normal activity levels
 - Good H2 expected
- Strong customer relationships in our key markets
 - Defence and security remains a priority
- Multi year growth visibility underpinned by order backlog
- Focus on strong programme performance
 - Drives earnings and cash growth
- Balance sheet – maintain investment grade rating
- Capital Allocation unchanged



Free cash flow generation supports shareholder returns and sustainable value creation

 **Supplementary Information**

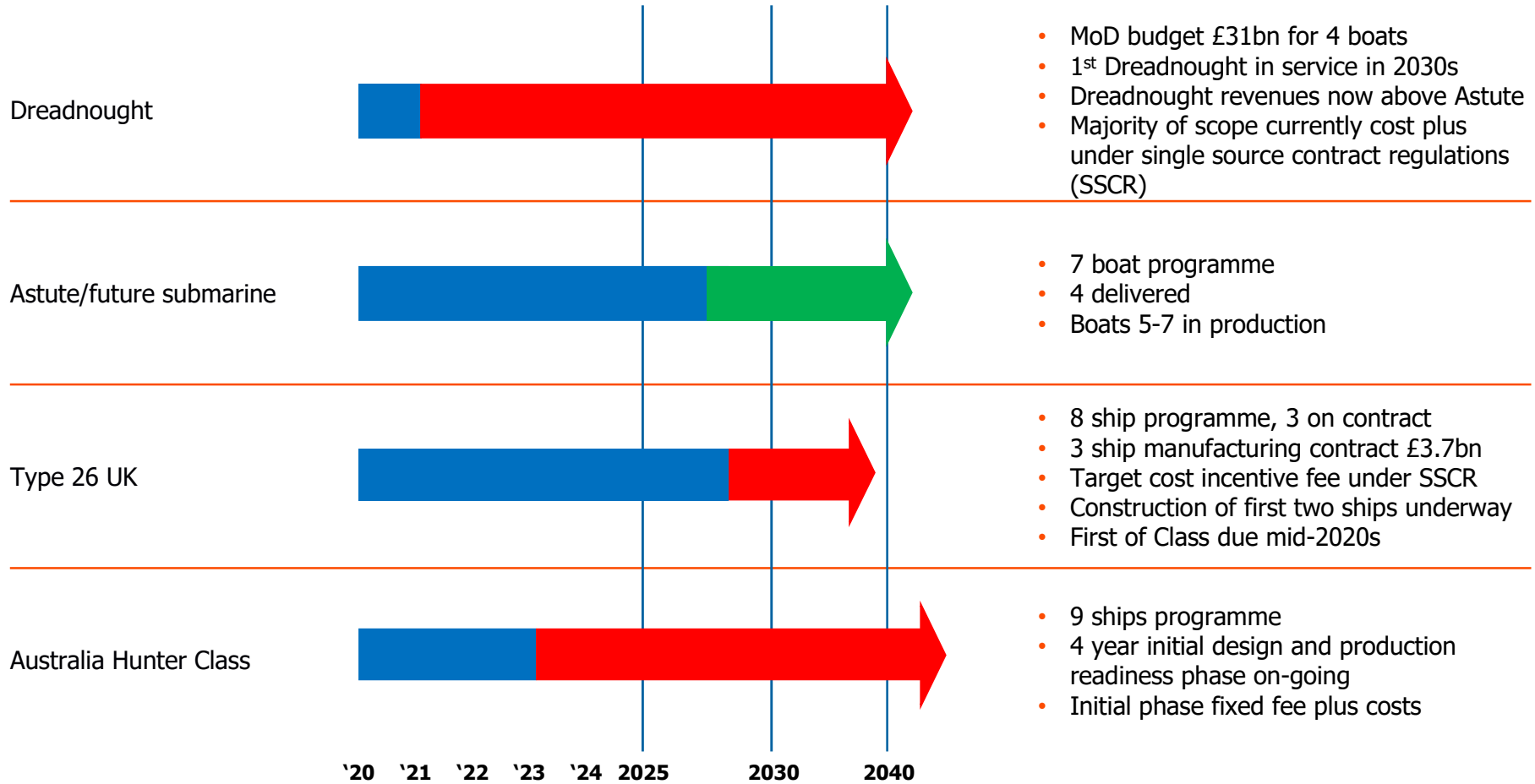
Key Franchises and Programmes – Outlook (illustrative timeline)



(1) Dates reflect position at 1st January each year

Key Franchises and Programmes – Outlook (cont.)

Key programmes - Order Backlog, Pipeline/incumbent position, Opportunity



- MoD budget £31bn for 4 boats
- 1st Dreadnought in service in 2030s
- Dreadnought revenues now above Astute
- Majority of scope currently cost plus under single source contract regulations (SSCR)

- 7 boat programme
- 4 delivered
- Boats 5-7 in production

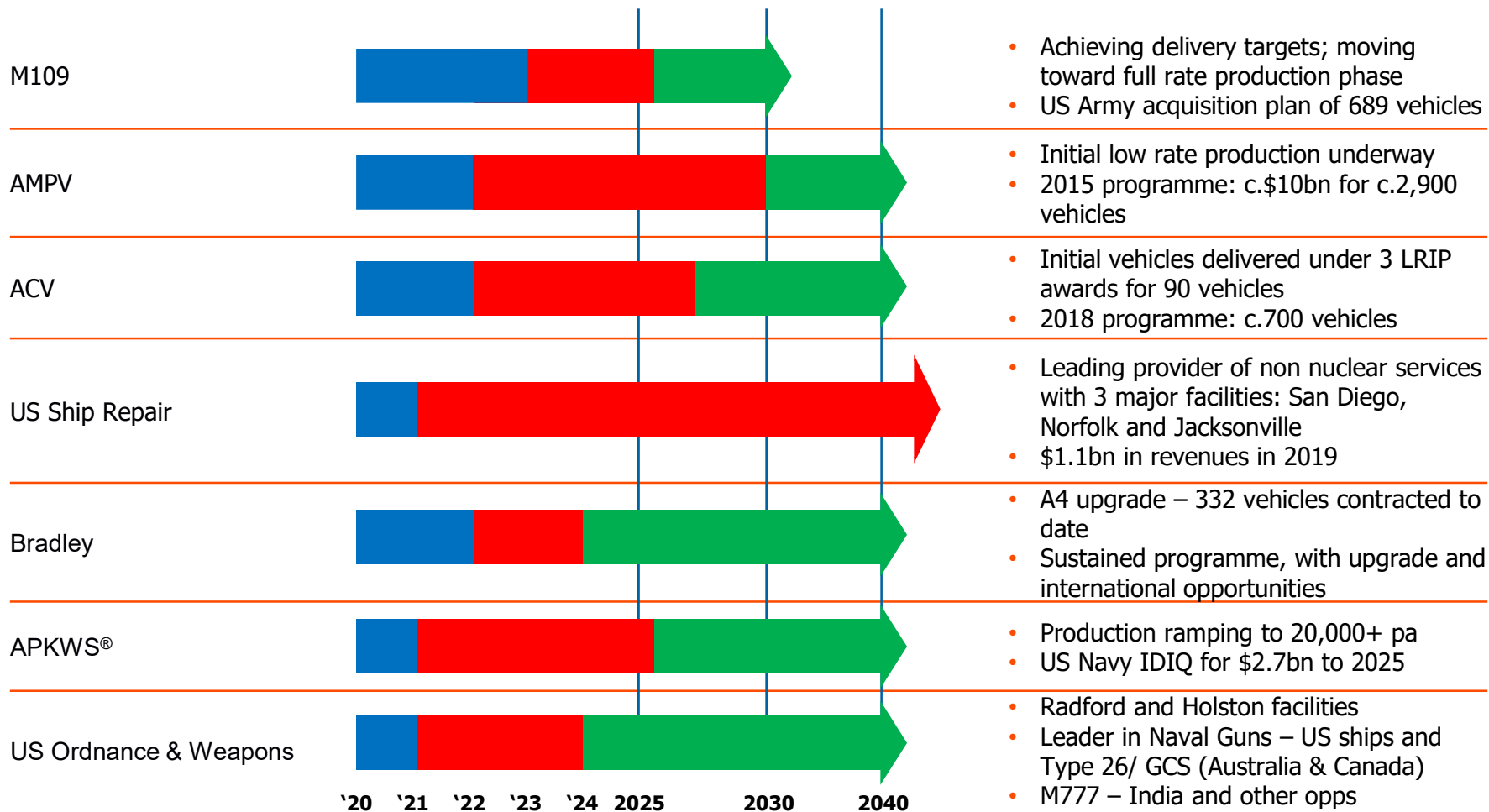
- 8 ship programme, 3 on contract
- 3 ship manufacturing contract £3.7bn
- Target cost incentive fee under SSCR
- Construction of first two ships underway
- First of Class due mid-2020s

- 9 ships programme
- 4 year initial design and production readiness phase on-going
- Initial phase fixed fee plus costs

(1) Dates reflect position at 1st January each year

Key Franchises and Programmes – Outlook (cont.)

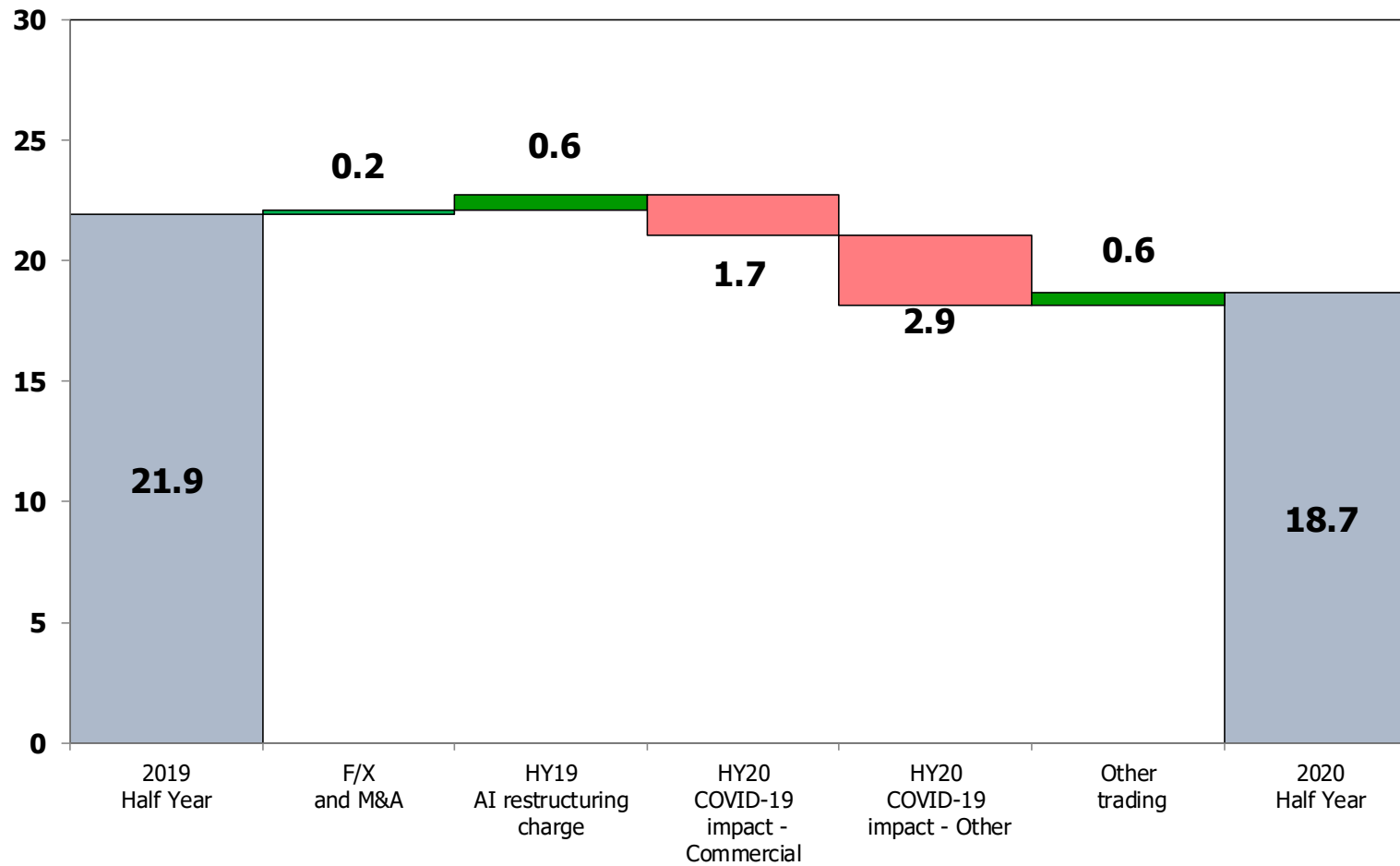
Key programmes - Order Backlog, Pipeline/incumbent position, Opportunity



- Achieving delivery targets; moving toward full rate production phase
- US Army acquisition plan of 689 vehicles
- Initial low rate production underway
- 2015 programme: c.\$10bn for c.2,900 vehicles
- Initial vehicles delivered under 3 LRIP awards for 90 vehicles
- 2018 programme: c.700 vehicles
- Leading provider of non nuclear services with 3 major facilities: San Diego, Norfolk and Jacksonville
- \$1.1bn in revenues in 2019
- A4 upgrade – 332 vehicles contracted to date
- Sustained programme, with upgrade and international opportunities
- Production ramping to 20,000+ pa
- US Navy IDIQ for \$2.7bn to 2025
- Radford and Holston facilities
- Leader in Naval Guns – US ships and Type 26/ GCS (Australia & Canada)
- M777 – India and other opps

(1) Dates reflect position at 1st January each year

EPS Bridge (pence)



2020 Half Year Financial Performance

<i>(£m / £bn backlog)</i>	Sales	Underlying EBITA	Margin	Cash Flow	Order Intake	Order Backlog
Electronic Systems	2,203	291	13.2%	64	2,820	7.3
Cyber & Intelligence	913	59	6.5%	107	1,007	1.7
Platforms & Services (US)	1,718	121	7.0%	143	2,069	6.5
Air	3,610	356	9.9%	17	2,482	23.2
Maritime	1,505	122	8.1%	(67)	1,035	8.1
HQ	102	(54)		(1,144)	88	-
Eliminations	(180)				(162)	(0.7)
	9,871	895	9.1%	(880)	9,339	46.1

Underlying Earnings per Share:

18.7p

Pensions – IAS 19

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

Like-for-Like Sales & Underlying EBITA

Half Year:

(£m / pence EPS)

	Sales			Underlying EBITA			Underlying EPS		
	2020	2019	Yr-on-Yr	2020	2019	Yr-on-Yr	2020	2019	Yr-on-Yr
As Reported	9,871	9,416	<i>+5%</i>	895	999	<i>(10)%</i>	18.7p	21.9p*	<i>(15)%</i>
M&A	(13)			1					
Foreign exchange:									
USD		110			14				} 0.2p
EUR		(17)			(2)				
Other		(1)			-				
Adjusted for M&A & f/x	9,858	9,508	<i>+4%</i>	896	1,011	<i>(11)%</i>	18.7p	22.1p	<i>(15)%</i>

* excluding one-off tax benefit

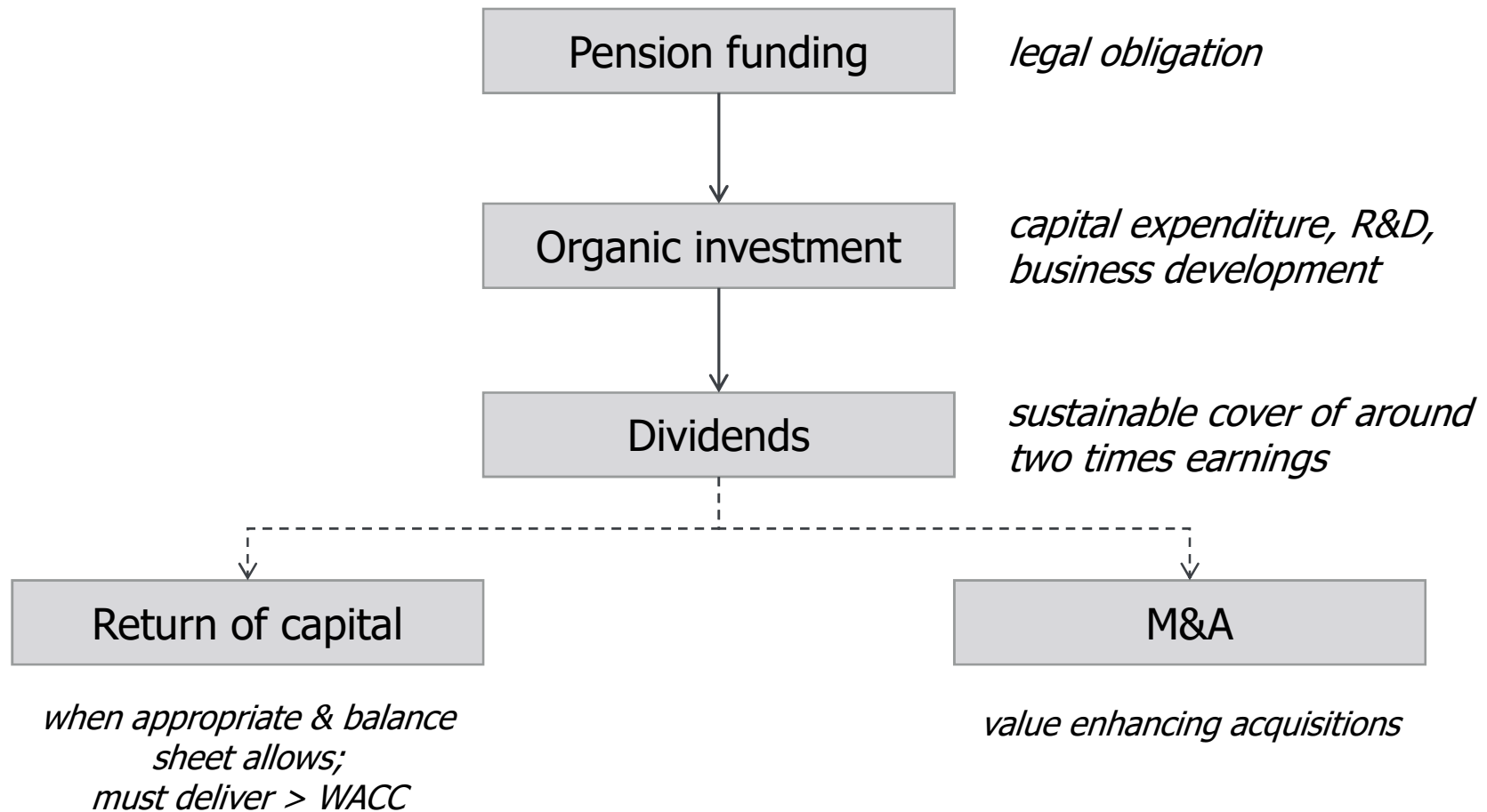
Reconciliation of Half Year Earnings

(£m / pence EPS)

	2020 Underlying	2019 Underlying	2020 Reported	2019 Reported
Underlying EBITA	895	999	895	999
Non-recurring items			(21)	(28)
EBITA			874	971
Amortisation/Impairment			(49)	(49)
Underlying Finance Costs	(127)	(130)	(127)	(130)
Pensions & Fair Value mvmts			(7)	-
Finance Costs			(134)	(130)
Underlying Tax	(146)	(151)	(146)	(151)
Other Tax ⁽¹⁾			14	15
One-off Tax Benefit			-	161
Tax			(132)	25
Non-controlling interest	(27)	(22)	(27)	(22)
Earnings	595	696	532	795
Earnings per Share	18.7p	21.9p	16.7p	25.0p

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

Capital Allocation



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