

2017 Half Year Results

2 August 2017



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Sir Roger Carr

Chairman



Charles Woodburn

Chief Executive

Strategic Overview

- Right strategy to:
 - Sustain and grow business
 - Win international business
 - Leverage capabilities and technology
 - Address challenges
 - Secure opportunities



Capital allocation unchanged – underpins strategy

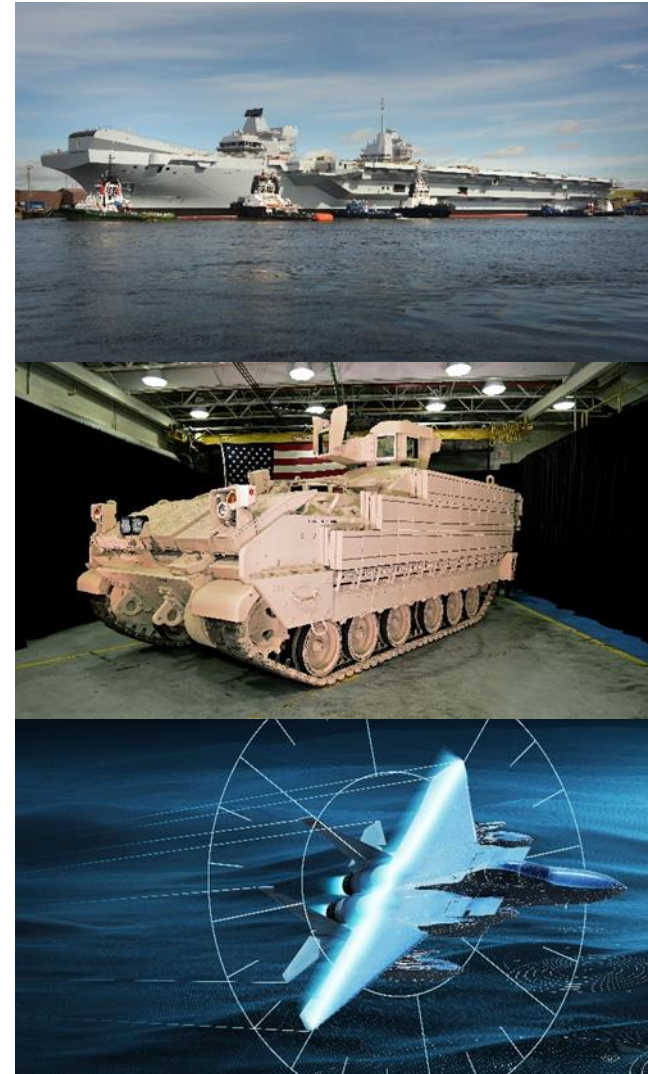
Business Overview

- Strong well run business
- Robust order backlog
- Key competitive advantages
 - Long term programme positions
 - Broad geographic footprint
 - Diversified market position
 - Track record of successful partnerships
 - World leading technologies



Focus Areas

- Market environment competitive and fast moving
- Position of strength today and focus on:
 - Operational excellence
 - Competitiveness
 - Technological innovation

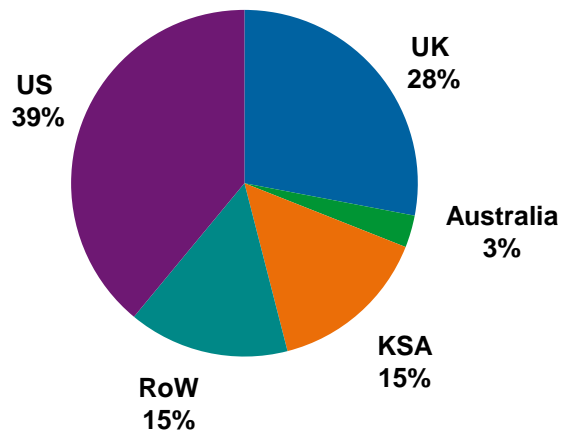


2017 – Half Year Overview

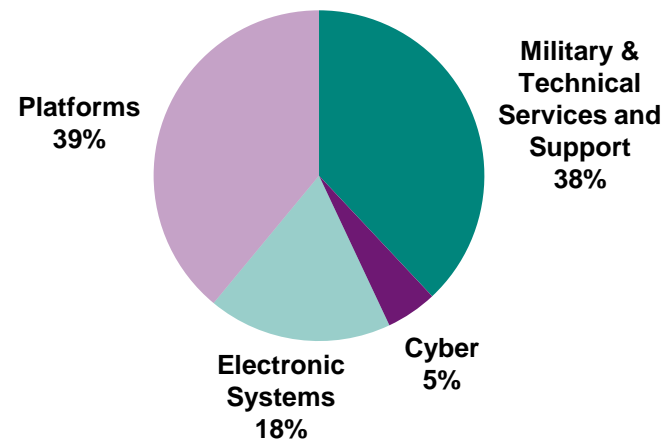
- Performance in line with expectation
- Strong demand for capabilities
- Large order backlog
- Geographic and business mix

	2017 Half Year	2016 Half Year
Sales	£9,565m	£8,714m
Underlying EBITA	£945m	£849m
Underlying EPS	19.8p	17.4p
Dividend per share	8.8p	8.6p
Order backlog	£42.3bn	£42.0bn*

2017 Half Year
Sales by Destination



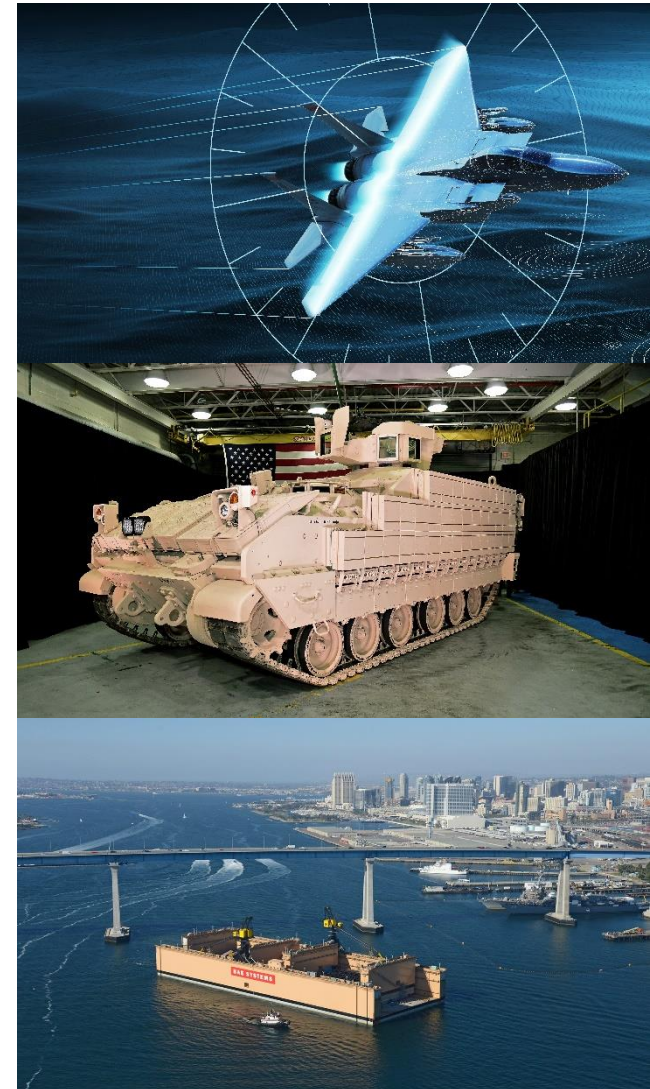
2017 Half Year
Sales by Activity



First Half performance supports Full Year Group outlook

Key Markets - US

- Return to growth in defence budgets
- Portfolio well positioned
- Electronic Systems - strong franchises
 - F-35 ramp-up
- Land business - positioned for growth
 - M109 upgrade and AMPV
 - Bradley franchise
- Ship repair - dry dock capacity in San Diego operational



Key Markets - UK

Military Air

- Typhoon
 - Exports
 - Typhoon capability development and support
- F-35
 - Production rate increasing

Maritime

- Astute and Dreadnought class in production
- Type 26 - production contract signed
- QEC Carriers - first of class sea trials commenced



Key Markets - International

KSA

- Typhoon and Hawk delivered into service
- Support activities performing well

Australia

- Long-term support and upgrade business
- Bid activity on Land 400 and SEA 5000

MBDA

- Order backlog underpins good future growth

India

- M777 - first deliveries achieved
- Hawk batch 3 - discussions underway



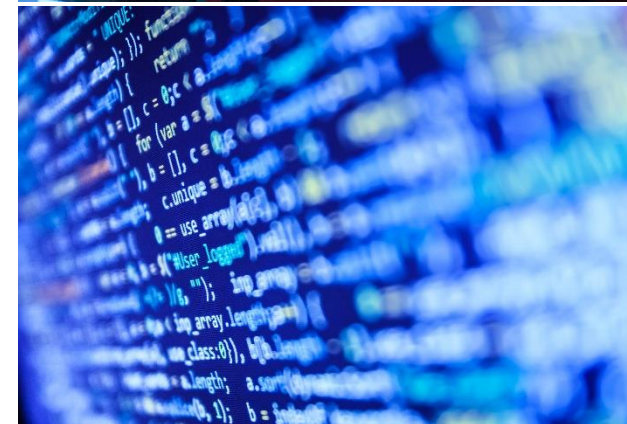
Cyber

Intelligence and Security

- Competitive market
- High level of bid activity

Applied Intelligence

- Double digit sales growth
- Market review undertaken
- Focused investment in Commercial Cyber





Peter Lynas

Group Finance Director

2017 Half Year Financial Summary

	2017 Half Year	2016 Half Year
Sales	£9,565m	£8,714m
Underlying EBITA ⁽¹⁾	£945m	£849m
Underlying Finance Costs ⁽²⁾	£(129)m	£(120)m
Underlying Earnings per share ⁽³⁾	19.8p	17.4p
Operating Business Cash Flow	£277m	£(20)m
Net Debt	£(1,741)m	£(2,036)m
Order backlog ⁽⁴⁾	£42.3bn	£42.0bn
Dividend per share	8.8p	8.6p

(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) Comparative as at 31 December 2016

(5) Average £/\$ rate at 2017 Half Year \$1.26 & 2016 Half Year \$1.43

Balance Sheet

(£m)	30 Jun 2017	31 Dec 2016	Drivers
Intangible fixed assets	10,974	11,264	exchange translation
Tangible fixed assets ⁽¹⁾	1,984	1,999	
Investments	283	305	
Working capital	(3,091)	(3,564)	advances & provision utilisation
Pension deficit	(5,860)	(6,054)	asset performance
Tax assets & liabilities	846	935	deferred tax on pension deficit
Financial assets & liabilities	80	121	
Net debt	(1,741)	(1,542)	
Assets held for sale	4	-	
Net Assets	3,479	3,464	

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

Pension Deficit (IAS 19)

(£bn)	30 Jun 2017	31 Dec 2016
Assets	26.3	25.9
Liabilities	(32.7)	(32.5)
Pension deficit	(6.4)	(6.6)
Group share of deficit	(5.9)	(6.1)
UK - Bond yields	2.6%	2.7%
Inflation rate	3.1%	3.2%
US - Bond yields	3.9%	4.2%

Net Cash / (Debt)

(£m)	2017 Half Year
Opening Net Debt	(1,542)
Operating business cash flow	277
Interest & Tax	(207)
Equity dividends paid	(404)
Other, incl foreign exchange	135
Closing Net Debt	(1,741)



Electronic Systems	118
Cyber & Intelligence	46
Platforms & Services (US)	38
Platforms & Services (UK)	107
Platforms & Services (Int'l)	102
HQ	(134)
Operating business cash flow	277

Gross Debt	Gross Cash
£(4.1)bn	£2.4bn

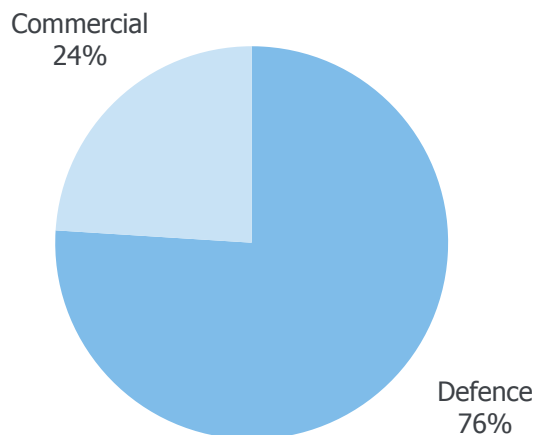
No material debt maturities before 2019

Electronic Systems

<i>Half Year:</i>	2017	2016
Sales	\$2,173m	\$2,067m
Underlying EBITA	\$323m	\$300m
Margin	14.9%	14.5%
Cash flow	\$149m	\$150m
Order backlog	\$6.6bn	\$6.5bn *

- Sales up 5%
 - 2nd half weighting (F-35, APKWS, THAAD)
- Margin performance in line with guidance
- Cash conversion reflects inventory build and timing of receivables, to improve 2nd half
- Order backlog sustained

2017 Sales



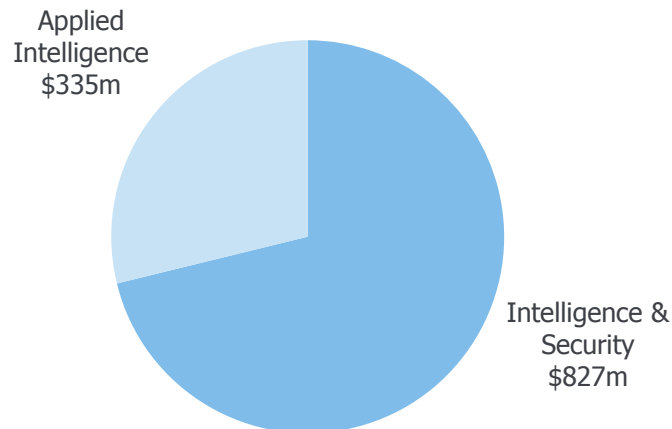
* as at 31 December 2016

Cyber & Intelligence

Half Year:	2017	2016
Sales	\$1,162m	\$1,194m
Underlying EBITA	\$44m	\$25m
Margin	3.8%	2.2%
Cash flow	\$58m	\$47m
Order backlog	\$2.9bn	\$3.0bn *

- Sales stable at constant currency
 - US business down 6%
 - Applied Intelligence up 21% ⁽¹⁾
- Margin performance
 - US business at 9.4%
 - Applied Intelligence loss £27m; targeted to break-even pre-anticipated 2nd half restructuring charge
- Cash conversion >100%
- Order backlog
 - US down on trading out of longer term contracts

2017 Sales



(1) Applied Intelligence growth based on £ figures

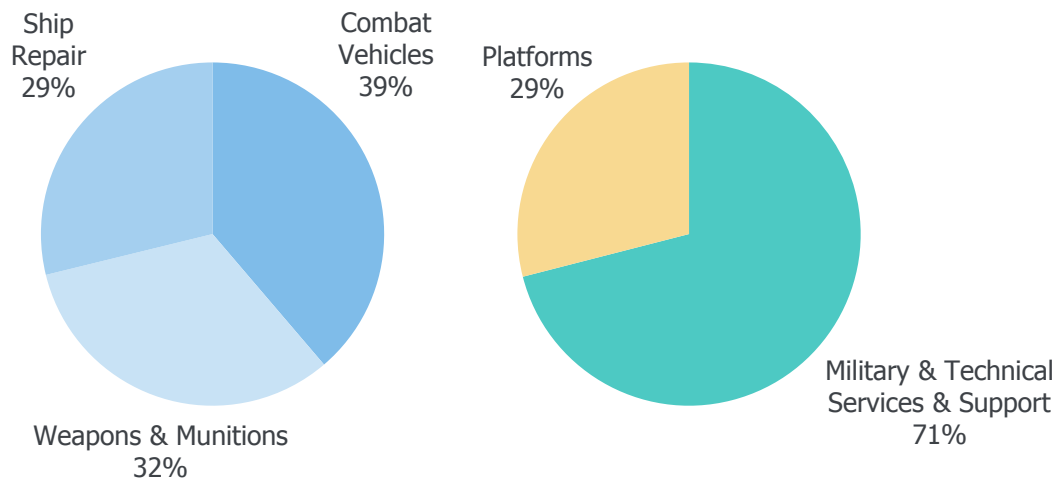
* as at 31 December 2016

Platforms & Services (US)

Half Year:	2017	2016
Sales	\$1,804m	\$1,844m
Underlying EBITA	\$137m	\$123m
Margin	7.6%	6.7%
Cash flow	\$48m	\$(47)m
Order backlog	\$6.1bn	\$5.7bn *

- Sales stable, like-for-like
 - 2nd half weighting (AAV Japan & Brazil, PIM)
- Margin performance improved
 - \$6m HY17 charge re Commercial Ships
- Cash conversion reflects inventory build-up, and utilisation of provisions
- Order backlog increase on M777 India award

2017 Sales



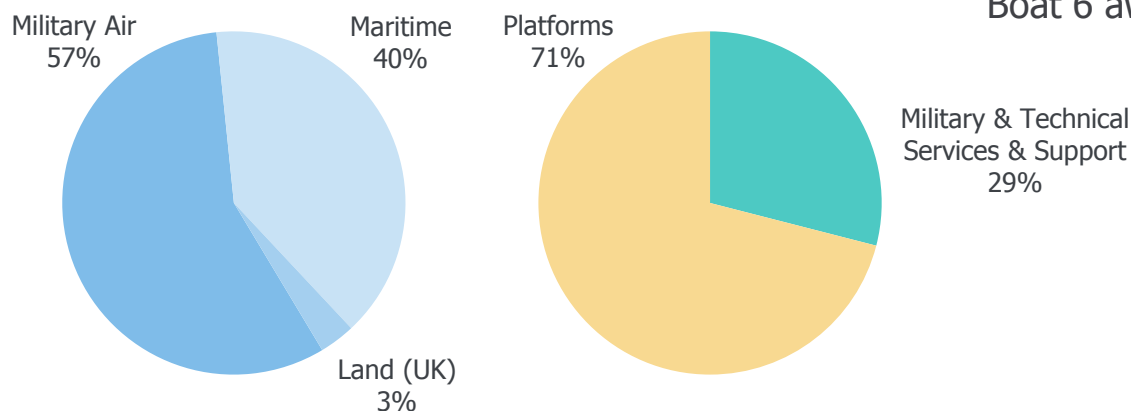
* as at 31 December 2016

Platforms & Services (UK)

Half Year:	2017	2016
Sales	£3,913m	£3,664m
Underlying EBITA	£416m	£414m
Margin	10.6%	11.3%
Cash flow	£107m	£(154)m
Order backlog	£18.6bn	£17.8bn *

- Sales up 7%
 - Saudi Typhoon deliveries completed
 - First two Omani Typhoons delivered
 - F-35 ramp up
- Margin in line with guidance
 - HY16 benefitted from initial Astute trading
- Cash flow reflects advance utilisation on the Typhoon production programmes
- Order backlog increased on Type 26 & Astute Boat 6 awards

2017 Sales



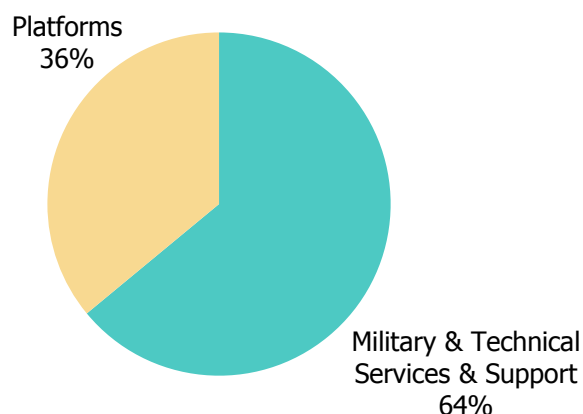
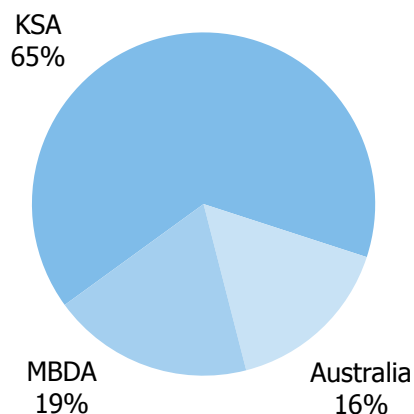
* as at 31 December 2016

Platforms & Services (International)

Half Year:	2017	2016
Sales	£1,771m	£1,739m
Underlying EBITA	£176m	£158m
Margin	9.9%	9.1%
Cash flow	£102m	£178m
Order backlog	£12.9bn	£13.1bn *

- Sales stable
 - 2nd half weighting (MBDA, Saudi support)
- Margin in line with guidance
- Operating cash flow reflects utilisation of 2016 accelerated year end receipts
- Order backlog stable:
 - further awards booked on Saudi support contract

2017 Sales



* as at 31 December 2016

2017 Guidance - Trading

	2016 Actual		2017 Guidance ^(1,2)	
	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 (International)	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 = \$1.28 ; EPS sensitivity 10 cents = c.1p

(2) 2017 Guidance as presented in February 2017. Half Year 2017 update – whilst there is no change to Group-level earnings guidance, some softening in the top line of, and an anticipated restructuring charge in, the Cyber & Intelligence sector are expected to be offset across the rest of the business

Cash Guidance

(£bn)

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

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

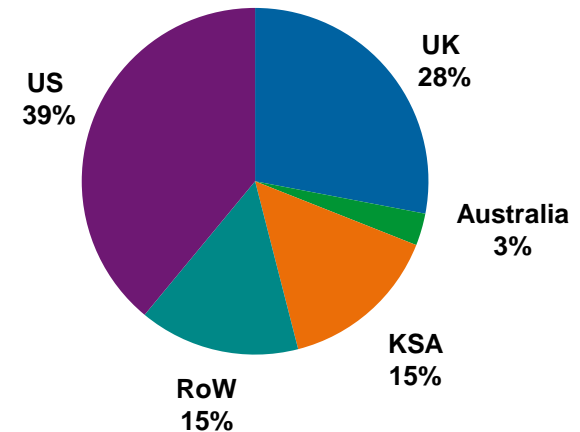
2017 – Summary

Solid performance in first half 2017:

- Group-level guidance confirmed
- Clear strategy and capital allocation
- Large order backlog
- Market environment improving
- Good returns to shareholders

	2017 Half Year	2016 Half Year
Sales	£9,565m	£8,714m
Underlying EBITA	£945m	£849m
Underlying EPS	19.8p	17.4p
Dividend per share	8.8p	8.6p
Order backlog	£42.3bn	£42.0bn*

2017 Half Year
Sales by Destination



First Half performance supports Full Year Group outlook



Supplementary Information

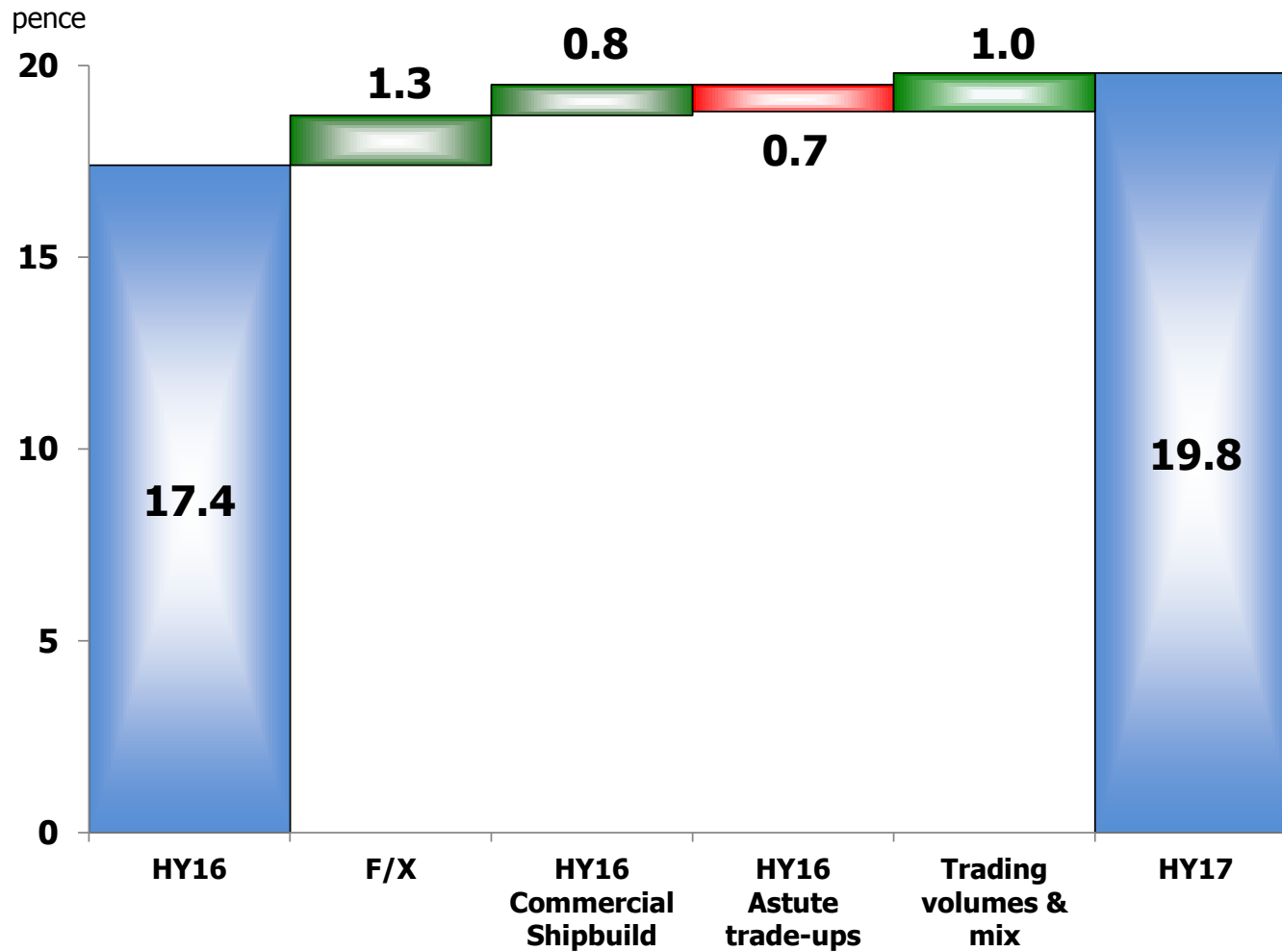
2017 Half Year Financial Performance

<i>(£m / £bn backlog)</i>	Sales	Underlying EBITA	Margin	Cash Flow	Order Backlog
Electronic Systems	1,726	257	14.9%	118	5.1
Cyber & Intelligence	923	35	3.8%	46	2.2
Platforms & Services (US)	1,433	109	7.6%	38	4.7
Platforms & Services (UK)	3,913	416	10.6%	107	18.6
Platforms & Services (Int'l)	1,771	176	9.9%	102	12.9
HQ	128	(48)		(134)	-
Eliminations	(329)				(1.2)
	9,565	945	9.9%	277	42.3

Underlying earnings per share

19.8p

EPS Bridge



Like-for-Like Sales & Underlying EBITA

<i>Half Year:</i>	Sales			Underlying EBITA		
	2017	2016	<i>Yr-on-Yr</i>	2017	2016	<i>Yr-on-Yr</i>
As Reported	9,565	8,714	<i>10%</i>	945	849	<i>11%</i>
Foreign exchange:						
USD		412			43	
EUR		30			2	
Other		57			6	
Adjusted for foreign exchange	9,565	9,213	<i>4%</i>	945	900	<i>5%</i>
Transactions:						
Acquisitions & Disposals	-	(24)		-	-	
Adjusted for f/x and transactions	9,565	9,189	<i>4%</i>	945	900	<i>5%</i>

Reconciliation of Half Year Earnings

(£m / pence EPS)

	2017 Underlying	2016 Underlying	2017 Reported	2016 Reported
Underlying EBITA	945	849	945	849
Non-recurring items			(4)	-
EBITA			941	849
Amortisation/Impairment			(41)	(43)
Underlying Finance Costs	(129)	(120)	(129)	(120)
Pensions/Fair Value/FX movements			(48)	(143)
Finance Costs			(177)	(263)
Underlying Tax	(184)	(168)	(184)	(168)
Tax - other (amort'n/impair't etc)			20	43
Tax			(164)	(125)
Non-controlling interest	(4)	(10)	(4)	(10)
Earnings	628	551	555	408
Earnings per share	19.8p	17.4p		

Working Capital Movements - reconciliation to Cash Flow

(£m)

Movement analysed between:

	30 Jun 2017	31 Dec 2016	Mvmt	F/X	M&A	Other	Cash Flow
Inventories	773	744	(29)	29	16	-	(74)
Receivables – current	3,653	3,305					
Receivables – non-current	334	351					
Total Receivables	3,987	3,656	(331)	102	3	(25)	(411)
Payables – current	(6,471)	(6,540)					
Payables – non-current ⁽¹⁾	(804)	(818)					
Total Payables ⁽¹⁾	(7,275)	(7,358)	(83)	(75)	(17)	15	(6)
Liability Provisions – current	(211)	(234)					
Liability Provisions – non-current	(365)	(372)					
Total Liability Provisions	(576)	(606)	(30)	(13)	2	12	(31)
Working Capital	(3,091)	(3,564)					

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