

BAE SYSTEMS ANNOUNCES 2021 FULL YEAR RESULTS

24 February 2022 - **Charles Woodburn, Chief Executive**, said: "Our strong results reflect the outstanding efforts of our employees who have continued to adapt and work closely with our customers, suppliers and trades unions to deliver capabilities which keep nations and citizens safe. "We are continuing to evolve our business, increasing our investments in advanced technologies to deliver differentiated solutions to meet our customers' priorities.

"Our diverse portfolio, together with our focus on programme execution, cash generation and efficiencies, is helping us to navigate the challenging operating environment, meaning we are well positioned for sustained top line and margin growth in the coming years."

Results in brief

Financial performance measures as defined by the Group ¹			Financial performance measures derived from IFRS ²		
	2021	2020		2021	2020
Sales	£21,310m	£20,862m	Revenue	£19,521m	£19,277m
Underlying EBIT ³	£2,205m	£2,037m	Operating profit	£2,389m	£1,930m
Underlying earnings per share ³			Basic earnings per share	55.2p	40.7p
excluding one-off tax benefit (2021 only) ⁴	47.8p	44.3p			
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Free cash flow ³					
excluding £1bn pension contribution (2020 only)			Net cash flow from operating activities	£2,447m	£1,166m
including £1bn pension contribution (2020 only)	£1,864m	£1,367m			
	£1,864m	£367m			
Net debt (excluding lease liabilities)	£(2,160)m	£(2,718)m	Order book	£35.5bn	£36.3bn
Order intake ⁵	£21,458m	£20,915m	Dividend per share ⁶	25.1p	23.7p
			Group's share of net post-employment benefits deficit	£(2.1)bn	£(4.5)bn
Order backlog ⁵	£44.0bn	£45.2bn			

Our financial highlights

Financial performance measures as defined by the Group¹

- Sales increased by £0.4bn to £21.3bn, a 5% increase, excluding the impact of currency translation⁷.
- Underlying EBIT³ increased to £2,205m, a 13% increase on a constant currency basis⁷.
- Underlying earnings per share³ increased by 12% on a constant currency basis⁷ to 47.8p, excluding the impact of the current year one-off tax benefit⁴.

- Free cash flow³ was £1,864m (2020 inflow of £1,367bn, excluding the £1bn contribution into the UK pension scheme).
- Net debt (excluding lease liabilities) decreased to £2,160m (2020 £2,718m).
- Order intake⁵ increased by £0.6bn to £21.5bn (2020 £20.9bn).
- Order backlog⁵ decreased by £1.2bn to £44.0bn (2020 £45.2bn).

Financial performance measures derived from IFRS²

- Revenue increased by £0.2bn to £19.5bn.
- Operating profit increased by £459m to £2,389m (2020 £1,930m).
- Basic earnings per share was 55.2p (2020 40.7p).
- Net cash flow from operating activities was £2,447m (2020 £1,166m, including the effect of the £1bn contribution to the UK pension scheme).
- Order book decreased by £0.8bn to £35.5bn.
- Group's share of the pre-tax accounting net post-employment benefits deficit decreased to £2.1bn, driven by higher discount rates and strong asset performance (2020 deficit of £4.5bn).

Dividends and share buyback

- Final dividend of 15.2p per share making a total of 25.1p per share in respect of the year ending 31 December 2021, an increase of 6% over dividends in respect of the year ended 31 December 2020 of 23.7p per share. The total of 37.5p per share for 2020 includes an interim dividend of 13.8p per share in respect of the year ended 31 December 2019, which was originally proposed as a 2019 final dividend but subsequently deferred in the light of the COVID-19 pandemic.
- The £500m share buyback programme announced on 29 July 2021 was completed in February 2022.

1. We monitor the underlying financial performance of the Group using alternative performance measures. These measures are not defined in International Financial Reporting Standards (IFRS) and therefore are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. Accordingly, the relevant IFRS measures are also presented where appropriate. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 12.

2. International Financial Reporting Standards.

3. With effect from 2021, the Group adopted the underlying EBIT profitability measure, to include charges relating to software and development intangible amortisation, in place of the underlying EBITA measure. It reflects a better measure of underlying profitability, by including amortisation of software and development intangibles as these charges are viewed as a recurring operational cost for the business. Underlying earnings per share has also been recalculated to ensure consistency with the updated operational profitability measure. The underlying performance for 2020 of segments and the Group has been re-presented on this new basis. During 2020 the Group determined that Free cash flow was its key performance measure for utilisation of cash at a Group level. The Group continues to use Operating business cash flow as its key segment metric, to monitor operational cash generation.

4. A one-off tax benefit of £94m was recognised in the year, in respect of agreements reached regarding the exposure arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company regime.

5. Including share of equity accounted investments.

6. The 2020 dividend per share of 23.7p is in respect of the year ended 31 December 2020. An interim dividend of 13.8p per share was paid in 2020, in respect of the year ended 31 December 2019, having been proposed as a 2019 final dividend but deferred in light of the pandemic.

7. Current year compared with prior year translated at current year exchange rates.

Operational and strategic key points

Electronic Systems

- Cumulatively more than 1,000 electronic warfare systems delivered on F-35 programme
- Limited Interim Missile Warning System indefinite delivery, indefinite quantity sustainment and support contract awarded worth \$872m (£644m) over ten years
- EPAWSS testing underway on F-15E and F-15EX aircraft
- Contract received from Defense Logistics Agency valued at more than \$640m (£473m) to deliver Increment 1 M-Code devices
- Rising demand for low and zero emission vehicles in our Power & Propulsion Solutions business
- Demand in our Controls & Avionics Solutions commercial markets starting to recover from pandemic impacts

Platforms & Services (US)

- Selected to participate in the design concept phase for the US Army's Optionally Manned Fighting Vehicle programme
- Consistent deliveries of the M109A7 Self-Propelled Howitzer enabled the programme to surpass 350 cumulative system deliveries
- Received a \$600m (£443m) sustainment and technical support services contract for Armored Multi-Purpose Vehicle, and AMPV deliveries continued against the rebaselined customer schedule
- Amphibious Combat Vehicle deliveries against LRIP and design development have begun on mission variants
- Contract received worth approximately \$200m (£148m) from Sweden for 127 BvS10s
- Contract received exceeding \$500m (£369m) for mid-life upgrades of Dutch CV90s
- US Ship Repair was significantly impacted by the pandemic, but has seen some recent signs of recovery
- Ordnance Systems awarded additional contracts for modernisation projects at Holston

Air

- Qatar Typhoon and Hawk programme is progressing well, with first Qatar Typhoon flight achieved in November and deliveries on schedule to commence in 2022
- F-35 rear fuselage production reached full rate levels, with 151 assemblies completed in the year
- Production progressing to plan on the German Typhoon programme
- Initial entry into service of the future electronically scanned European Common Radar Solution was achieved in December
- Tempest next-generation Future Combat Air System programme continues to progress well, with initial Concept & Assessment Phase contract secured
- Air sector continues to work closely with industry partners and the UK government to continue to fulfil contractual support arrangements in Saudi Arabia
- Australia Hunter Class Frigate programme continues through prototyping, with good engagement with the Commonwealth to agree revised schedule for production to commence
- MBDA won several export orders on air platforms

Maritime

- Construction of first three City Class Type 26 frigates for the Royal Navy is now underway
- Canadian Surface Combatant programme entered a key design milestone in December, ahead of moving into the next Functional Design phase
- Fifth Astute Class submarine, Anson, launched in April, with final installation and commissioning activities continuing to ready her for scheduled exit in 2022
- Construction of the first two Dreadnought Class submarines continues to advance

- Contract awarded and early design and concept work underway on Royal Navy's next generation of submarines
- Contracts worth more than £1bn received under UK Ministry of Defence's Future Maritime Support Programme
- Maritime Services provided preparation and support capabilities to the UK's Carrier Strike Group ahead of, and during, its first operational deployment
- RBSL secured the Challenger 3 Main Battle Tank upgrade contract

Cyber & Intelligence

Intelligence & Security

- US-based Intelligence & Security business continues to maintain its bid pipeline, perform on existing contracts and win new orders
- Awarded a five-year, up to \$478m (£353m) Systems Engineering and Integration Support Services contract from the US Navy Strategic Systems Programs office
- Awarded classified contracts from Department of Defense and Intelligence Community customers in excess of \$0.8bn (£0.6bn) to deliver mission-enabling engineering services
- Agreement announced for the proposed acquisition of Bohemia Interactive Simulations, a global software developer of simulation and training solutions for allied military customers

Applied Intelligence

- Strong order intake and revenue growth driven by the government- and defence-facing business units
- Increasing profitability, supported by strong programme execution, productivity and cost base optimisation. Financial Services' profitability benefited from restructuring in 2020
- Acquisition of In-Space Missions, a UK-based satellite and satellite systems company, to accelerate our Space capabilities

Guidance for 2022

While the Group is subject to geopolitical and other uncertainties, the following guidance is provided on current expected operational performance.

The guidance is based on the measures used to monitor the underlying financial performance of the Group. Reconciliations from these measures to the financial performance measures defined in International Financial Reporting Standards for 2021 are provided in the Group financial review on pages 12 to 20.

Group guidance

With a strong year behind us, we look forward to continued top-line growth with margin expansion and good cash delivery against our rolling targets. Guidance is provided on the basis of an exchange rate of \$1.38:£1, which is in line with the actual 2021 exchange rate, therefore guidance is the same for both reported and constant exchange rates.

For the year ending 31 December 2022, the Group's sales are expected to grow in the 2% to 4% range over 2021. Sales growth is expected in the Electronic Systems, Air, Maritime and Cyber & Intelligence segments, whilst Platforms & Services (US) is expected to be stable. Approximately 75% of the expected sales are already in the order backlog.

Underlying EBIT is expected to increase in the range of 4% to 6%.

Finance costs are expected to be approximately £240m, with an effective tax rate expected to be around 20%, and non-controlling interest expected to be around £70m.

Underlying earnings per share is expected to increase in the range of 4% to 6%. Sensitivity to EPS is around one pence for every five cent movement.

Free cash flow for 2022 is anticipated to be in excess of £1bn, with a three-year target for 2022 to 2024 in excess of £4bn. The three-year cash flow target for the period 2020 to 2022, originally set at £3.5bn to £3.8bn, has been upgraded to be in excess of £4bn.

Segment guidance¹

The following table provides guidance by segment, aligned to the Group guidance:

Year ended 31 December 2022	Expected sales	Expected underlying EBIT margin ^{2,3}
Electronic Systems	Up 2% to 4%	16% to 17%
Platforms & Services (US)	Stable	8% to 9%
Air	Up 2% to 4%	10% to 11%
Maritime	Up 3% to 5%	8% to 9%
Cyber & Intelligence	Up 3% to 5%	8% to 9%

1. The above guidance ranges do not reflect the establishment, in 2022, of the Group's new Digital Intelligence business nor the transition of our BAE Systems Australia business from the Air segment to the Maritime segment. The re-representation of 2021 segments to reflect these changes will be issued in due course.
2. Underlying EBIT as percentage of Sales.
3. In 2022, HQ underlying EBIT is expected to be broadly similar to 2021 (expense of £120m).