BAE SYSTEMS

Half-yearly Report 2021

BAE Systems plc
Half-yearly Report 2021

Results in brief

Financial performance measures as defined by the Group[1]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Sales	**£10,035m**	£9,871m	£20,862m
Underlying EBIT[3]	**£1,028m**	£849m	£2,037m
Underlying earnings per share[3]			
excluding one-off tax benefit (2021 only)	**21.9p**	17.5p	44.3p
including one-off tax benefit (2021 only)	**24.8p**	17.5p	44.3p
Free cash flow[3]			
excluding £1bn pension contribution (2020 only)	**£461m**	£(110)m	£1,367m
including £1bn pension contribution (2020 only)	**£461m**	£(1,110)m	£367m
Net debt (excluding lease liabilities)	**£(2,745)m**	£(2,038)m	£(2,718)m
Order intake	**£10,582m**	£9,339m	£20,915m
Order backlog	**£44.6bn**	£46.1bn	£45.2bn

Financial performance measures derived from IFRS[2]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Revenue	**£9,339m**	£9,180m	£19,277m
Operating profit	**£1,303m**	£808m	£1,930m
Basic earnings per share	**31.3p**	16.7p	40.7p
Net cash flow from operating activities	**£623m**	£(727)m	£1,166m
Order book	**£35.5bn**	£37.2bn	£36.3bn

Dividend and post-employment benefits

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Dividend per share	**9.9p**[4]	9.4p[4]	23.7p
Dividend per share – in respect of 2019 performance		13.8p[4]	13.8p[4]
Group's share of the net post-employment benefits deficit	**£(2.4)bn**	£(6.0)bn	£(4.5)bn

Charles Woodburn, Chief Executive, said: *"Thanks to the outstanding efforts of our employees across the Group, we have delivered a strong first half performance which underlines our confidence in the full year guidance for top line growth, margin expansion and three-year cash targets.*

"We are well positioned for sustained growth in the coming years and are ramping up our investments in advanced technologies to deliver capabilities for our customers in the face of an evolving threat environment.

"Following the decisive action taken to accelerate our UK deficit pension payments in 2020, the committed investment in the business coupled with the good operational performance, we are driving enhanced cash generation. This enables us today to announce a 5% increase in the interim dividend as well as initiating a new share buyback programme of up to £500m."

Guidance for 2021

Whilst the Group is subject to geopolitical uncertainties and there remain uncertainties arising from the COVID-19 pandemic, progress continues in combatting the virus under the vaccination programme in our major markets and our good operational performance underlines our overall confidence in the full year guidance.

Our full year guidance, issued earlier this year, was provided on the basis of an exchange rate of \$1.35:£1. Our results for the first half year have been reported at an average rate of \$1.39:£1. While the pound has strengthened we still expect the Group's sales to grow in the 3% to 5% range over 2020. If these higher currency rates persist in line with the first half average rates, we expect reported sales to be at the lower end of this guidance range.

Given the strong operational performance to date, we continue to expect reported underlying EBIT to increase in the range of 6% to 8% over 2020 and underlying EPS to increase in the range of 3% to 5% over 2020, even if the higher than guided $:£ exchange rate continues to year-end. This therefore represents an underlying improvement to the original guidance.

Notwithstanding the higher $:£ exchange rate, we continue to expect to deliver in excess of £1bn of free cash flow this year and this excludes the benefit of the sale of the Filton and Broughton sites referred to in this report. We also maintain our three-year cash flow target for 2021 to 2023 of in excess of £4bn.

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 derived from International Financial Reporting Standards for the six months ended 30 June 2021 are provided in the Group financial review on pages 11 to 17.

Financial highlights

Financial performance measures as defined by the Group[1]

– Sales increased by 6% on a constant currency basis[5] to £10.0bn.
– Underlying EBIT of £1,028m increased by 27% on a constant currency basis[5].
– Underlying earnings per share increased by 25% to 21.9p, excluding the impact of the one-off tax benefit. The Group's underlying effective tax rate (excluding the one-off tax benefit) for the first half of the year was 18%.
– Free cash inflow of £461m (2020 outflow of £110m, excluding the £1bn pension contribution).
– Net debt (excluding lease liabilities) at £2,745m (£2,718m at 31 December 2020).
– Order backlog of £44.6bn (£45.2bn at 31 December 2020).

Financial performance measures derived from IFRS[2]

– Revenue increased by 2% to £9.3bn.
– Operating profit increased by 61% to £1,303m.
– Basic earnings per share increased to 31.3p (2020 16.7p).
– Net cash inflow from operating activities of £623m (2020 £727m outflow).
– Order book of £35.5bn (£36.3bn at 31 December 2020).

Dividend and share buyback

The directors have declared an interim dividend of 9.9p per share in respect of the half year ended 30 June 2021. This dividend will be payable on 30 November 2021. The directors have also approved a new share buyback programme of up to £500m over the next 12 months, which will commence immediately.

Post-employment benefits deficit

The Group's share of the pre-tax accounting post-employment benefits deficit decreased to £2.4bn (31 December 2020 £4.5bn).

One-off tax benefit

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

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. For alternative performance measure definitions see glossary on page 9.
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 previously reported underlying EBITA measure, as 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 measure, to monitor operational cash generation.
4. Interim dividends declared (see note 7). Final 2020 dividend of 14.3p making a total of 23.7p per share in respect of the year ended 31 December 2020. In addition to the 23.7p per share in respect of the year ended 31 December 2020, an interim dividend of 13.8p per share was paid in respect of the year ended 31 December 2019, which was originally proposed as a 2019 final dividend but subsequently deferred in light of the COVID-19 pandemic.
5. Current period compared with prior period translated at current period exchange rates.

Operational and strategic key points

COVID-19

We have remained focused on employee safety, whilst adjusting to evolving positions in our key markets to deliver on customers' critical programmes, and to progress the strategic priorities of the Group.

Electronic Systems

- Cumulatively, over 900 F-35 electronic warfare systems have been delivered on the F-35 programme as at the end of the first half.
- Terminal High Altitude Area Defense (THAAD) seeker production is at full rate levels.
- Contract valued at more than $325m (£235m) received to deliver Increment 1 M-Code devices.
- Demand in the Controls & Avionics Solutions and Power & Propulsion Solutions commercial markets has started to recover from COVID-19 impacts.

Platforms & Services (US)

- Process and automation improvements continue to support the ramp up of combat vehicle production.
- The M109A7 vehicle is consistently delivering at full rate production levels.
- Deliveries of all five variants of Armored Multi-Purpose Vehicles to the US Army continue, and a new contract worth up to $600m (£434m) for AMPV sustainment and technical support was received in early July.
- Amphibious Combat Vehicle deliveries to US Marine Corps continue, with design and development under way for new mission variants.
- Bradley vehicle upgrade work continues on contracts for 459 vehicles, and deliveries continued through the half year.
- BAE Systems Hägglunds is poised to grow having secured multiple contracts for CV90 and BvS10 work.
- The US Ship Repair business was significantly impacted by the COVID-19 pandemic, but has seen some recent signs of recovery. Orders totalling $478m (£346m) were received in the period.
- A $164m (£119m) competitive award was secured as design agent for the mechanical portion of the US Navy's Vertical Launch System.

Air

- Production of F-35 rear fuselage assemblies is ramping up to full rate levels. 70 assemblies have been completed in the period.
- The Qatar Typhoon and Hawk programme continues to progress well, with agreement also reached to base Qatari Hawk aircraft at RAF Leeming.
- Work has commenced on the German Typhoon programme.
- The future electronically scanned European Common Radar Solution is progressing in line with the Typhoon ten-year plan.
- The sector continues to work closely with industry partners and the UK government to continue to fulfil contractual support arrangements in Saudi Arabia.
- The Tempest next-generation Future Combat Air System (FCAS) programme continues to progress well with the initial Concept & Assessment Phase contract secured.
- In Australia the Hunter Class Frigate programme continues through prototyping with continued engagement with the Commonwealth to determine the shipbuilding strategy and timing.
- Sale of Advanced Electronics Company to Saudi Arabia Military Industries completed in February.

Maritime

- Construction of the first three City Class Type 26 frigates for the Royal Navy is now under way.
- The fifth Astute Class submarine, HMS Anson, was launched in April.
- Construction of the first two Dreadnought Class submarines continues to advance.
- Contracts worth more than £1bn were received under the UK Ministry of Defence's Future Maritime Support Programme.
- Maritime Services provided support and preparation capabilities to the UK's Carrier Strike Group ahead of its first operational deployment.
- RBSL secured the Challenger 3 Main Battle Tank contract.

Cyber & Intelligence

- The US-based Intelligence & Security business continues to increase its bid pipeline, perform on existing contracts and win new orders.
- Applied Intelligence performed well, benefiting from high levels of customer demand and ongoing improvements in operational efficiency.

HQ

- Operating business cash flow benefited from the proceeds of the Filton and Broughton sites of £250m, as well as our ongoing focus on liquidity.
- Air Astana returned to profitability in the first half of the year.

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Analyst and investor presentation

A presentation, for analysts and investors, of the Group's first half results for 2021 will be available via webex at 11.00am today (29 July 2021).

Details can be found on **investors.baesystems.com**, together with presentation slides and a pdf copy of this report. A recording of the webex will be available for replay later in the day.

About BAE Systems

At BAE Systems, we provide some of the world's most advanced, technology-led defence, aerospace and security solutions. We employ a skilled workforce of 90,000 people[1] in over 40 countries. We help our customers to stay a step ahead when protecting people and national security, critical infrastructure and vital information. We also work closely with local partners to support economic development through the transfer of knowledge, skills and technology.

1. Including share of equity accounted investments.

Interim management report

Half year overview

We entered 2021 building on a strong and resilient performance last year, against the backdrop of the global pandemic. In the first half of the year we have sustained that operational momentum and delivered a strong set of results with growth in order intake, sales, underlying EBIT and free cash flow versus the same period last year. The health and safety of our employees remained our priority as they have continued to perform and adapt amid the pandemic. We have remained focused, continued to meet our commitments to our customers and delivered positive results across our global portfolio. We have continued to integrate successfully the Airborne Tactical Radios and Military Global Positioning System businesses acquired last year. Both have made a positive contribution with the favourable outlook prospects from existing capabilities alongside evolving synergy opportunities with the wider Electronic Systems portfolio.

Strategically, our geographically diverse portfolio is aligned with growing defence budgets and we are leveraging our leading capabilities in evolving markets. As expected, the near-term Brexit impacts across the business have been limited.

Financial focus is on margin expansion and cash conversion over the medium term and performance in the first half has demonstrated positive progress in line with our expectations in both areas.

We have also made good progress against our strategic priorities of operational performance, investing in technology, driving our competitiveness as well as accelerating our sustainability agenda.

Continued response to COVID-19

The resilience we built into the business in the initial stages of the COVID-19 pandemic last year has stood us in good stead as we have continued to focus on keeping our employees safe, whilst adjusting to evolving positions in our key markets to deliver on our customers' critical programmes and progressing the strategic priorities for the Group. We have maintained close collaboration across all our major stakeholders which has enabled us to deliver this strong set of half year results. A high proportion of employees continued to work offsite in the first half of the year. As restrictions ease we are planning along with our customers a gradual re-integration on sites and re-opening of collaborative workspaces.

Recent employee feedback has focused on safety and wellbeing, the opportunities for collaboration and new ways of working. We will continue to leverage this, looking at organisational design, workplace climate and continued employee engagement to develop a future workplace that empowers employees to thrive and succeed.

Operational performance

We have been pleased with our operational performance in the first half of 2021, underlining our confidence in our programme execution capabilities and in the guidance for sales growth, margin expansion and our three-year cash targets.

Electronic Systems performed strongly, benefiting from a full contribution from last year's acquisitions alongside good execution from key existing franchises. The sector saw a continued ramp in the F-35 and F-15 programmes. Our civil market operations most impacted by COVID-19 have stabilised and we are now seeing signs of a recovery in the commercial Controls & Avionics Solutions and Power & Propulsion Solutions businesses.

There is positive momentum in Platforms & Services (US) especially around combat vehicle deliveries which have more than doubled compared to the first half of last year. US Ship Repair has improved from last year, but there remains work to be done this year to get back to pre-COVID-19 levels of performance.

The Air sector is performing in line with sales growth expectations this year. Production of rear fuselage assemblies for the F-35 Lightning II aircraft programme progresses towards targeted full rate production levels in 2021. Production of Typhoon is currently focused on the Kuwait, Qatar and German Quadriga programmes. We continue to provide Typhoon operators with ongoing support and training services to deliver availability, maintenance and upgrade enhancements. The Tempest technology maturation programme is progressing well and we secured the first order for the Future Combat Air System Concept & Assessment Phase.

The Maritime sector performance progress made last year has been maintained. Manufacturing work on the Type 26 programme in the UK continues to increase with the first three ships now all in production. Construction of the first two Dreadnought submarines is progressing, whilst on the Astute programme, the fifth boat was launched in April. The remaining two are in an advanced build state.

Intelligence & Security delivered growth in sales and profit as it performed on its long-term support contracts, some of which are on the most sensitive and critical US national security programmes. Applied Intelligence delivered its strongest first half profit, benefiting from strong demand in the government sector and improved operational performance, together with the benefits realised from the restructuring in the prior year.

Competitiveness and efficiency

We remain focused on operational excellence. This is vital to our success, since we recognise we will win and grow in the future based on our performance today. We have a number of programmes to achieve efficiency and simplification across the Group, building on the lessons learned in the last year on working practices and cost savings, and are also bringing data analytics to bear across the Group to benchmark and drive efficiency. To improve performance, cost and efficiency we are employing innovative techniques such as robotic welding and manufacturing techniques for building combat vehicles. The Platforms & Services (US) team is also applying virtual design techniques through modelling and simulation tools, and remote monitoring of machining performance for optimisation. In our US Intelligence & Security business, we are employing robotic process automation (RPA) for repetitive tasks. We are accelerating the adoption of RPA tools throughout the sector with 'Build-a-Bot' workshops and have already trained 250 employees. We also created RPA dashboards for our business-winning teams to increase efficiencies. In addition, we are applying virtual model-based systems engineering design techniques throughout our programmes in order to increase efficiencies and reduce costs.

Evolving to a sustainable business

We are progressing our programme to achieve our target of net zero greenhouse gas emissions across our operations by 2030, and working towards a net zero value chain by 2050, with assessments of the impacts associated with our operations and products, as well as the opportunities through future technologies and our supply chain. We have joined the United Nations 'Race to Zero' campaign by signing up to the Business Ambition for 1.5°C and we are further assessing the potential impacts of climate risk as part of our commitment to implementing the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

In the US, we have joined the US Environmental Protection Agency's ENERGY STAR® programme, marking our commitment to protecting the environment through continuous improvement of energy performance across our facilities and operations. This partnership will provide access to resources, tools and essential benchmarking across our defence industry peers, enabling us to take a leadership position to execute from one milestone to another on the journey to achieve our Net Zero 2030 objective.

We continue to drive a bolder set of diversity and inclusion ambitions to be recognised as a leading employer in Defence and Security for valuing diversity and inclusion. Specific targets include achieving 50:50 gender diversity on the Executive Committee by 2030 and more than 30% women overall employed in the UK by 2030.

In the UK, as part of the government's flagship youth unemployment programme, Kickstart, we are providing placements for 28 young unemployed people. This is a potential pipeline into our apprentice and graduate programmes. Earlier this year we agreed on a three-year partnership with the Prince's Trust, 'Unlocking Potential', to provide additional support to the young unemployed across the UK. This will build on the work we already support through our strong involvement with Movement to Work and Kickstart.

In the US, we are supporting the Thurgood Marshall College Fund and Race Forward to help fund their efforts to advocate for historically underserved communities. We have also established a partnership with the National Black Child Development Institute as it focuses on the social and emotional learning of students of colour.

The progress we are making on our ESG/sustainability agenda has been reflected with an improvement in our CDP score, and we have maintained our AA leader class rating with MSCI.

Advancing and further leveraging our technology

Investment in advanced technology and innovation is a benefit which spans the breadth of the business, supporting operational performance, competitiveness, our sustainability objectives and growth aspirations. The threat environment consists not just of the physical risks but also those in the grey zone which need to be addressed. It is critical to our customers to have a fully integrated combination of capabilities to negate these threats. Against this backdrop we are increasing our self-funded research and development investments and positioning the Group towards future growth areas aligned to our customer priorities, by identifying collaboration opportunities and investing in our leading capabilities and technologies across electronic warfare, combat aircraft, precision weaponry, cyber and the underwater battlespace. From these established positions we are developing, linking and transitioning solutions into priority areas such as multi domain networks, big data, autonomy, space and sustainability-driven technology developments.

While our R&D investments are important, we sustain our leading positions through collaboration with our customers, educational institutions and in partnership with defence laboratories and research institutions like DARPA, the Air Force Research Laboratory, and the Office of Naval Research. Additionally, we accelerate the pace and reach of our innovation by collaborating across our global enterprise. We also continue to search out technology bolt-on acquisitions in many cases as substitutional R&D, as demonstrated by our recent acquisition of Pulse Power and Measurement Limited into our Air division, to complement the Group's existing strong digital and data capabilities.

Demand outlook

Our backlog and programme positions support our growth expectations in the coming years, and the pipeline of opportunities across all sectors remains strong.

Our geographic diversity positions us strongly in the post-pandemic cycle where many of the countries in which we operate have made plans to increase their spending to counter the challenging threat environments.

In the US, the President's budget request for fiscal year 2022 included top line defence funding of $715bn, representing a relatively stable funding level compared to $704bn in the current fiscal year. BAE Systems is prominent on many of the most important long-term defence programmes for the US Armed Forces. Our portfolio is diverse, not reliant on any one programme, military service or customer which provides enhanced stability. We have worked over time to shape our portfolio to be closely aligned with enduring customer priorities and the key focus areas outlined in the US National Defense Strategy, and this underpins our confidence in our near-term expectations and supports our growth aspirations.

Through a wide range of leading capabilities, long-standing incumbencies often with deep customer relationships and high barriers to market entry, we are demonstrating a competitive advantage in many domains. We are well placed to address requirements for long-range precision munitions, air and missile defence systems, unmanned and autonomous vehicles, long-range strike platforms and systems, space systems and combat vehicles.

In the UK, the publication of the Defence Command Paper was positive for the Group, with renewed commitments to our major long-term programmes in complex warship, submarine and combat aircraft design and build, allowing for long-term investment in these key sovereign capabilities, as well as strong support for cyber. The opportunity pipeline is positive with domestic, export and collaboration opportunities identified, and we have capabilities to support our UK customer in its space ambitions.

In Europe, a number of nations including Germany and France continue to increase their defence budgets to address the threat environment and move towards their 2% of GDP NATO commitments.

We remain well placed in the region through our positions on the Eurofighter Typhoon, our shareholding in MBDA and our BAE Systems Hägglunds land business based in Sweden, with a number of opportunities being pursued in addition to the significant wins secured in the last year.

In our Middle East markets, our long-standing relationships at government and company levels, continued regional instability and in many areas the nature of our long-term contracts, mean we expect defence and security to remain a priority. Despite the impacts of a low oil price in recent times there are a number of opportunities being pursued with existing customers.

Additionally, our portfolio is well positioned to benefit from increased defence spending in our Australian business, which is already set to grow significantly from our contracted positions, as well as through export opportunities to the region.

Balance sheet and capital allocation

The Group recognises the importance to investors of a clear and consistent capital allocation policy. The Group's balance sheet is managed conservatively in line with its policy to retain its investment grade credit rating and to ensure operating flexibility. The Group expects to continue to meet its pension obligations, invest in research and technology and other organic investment opportunities, and plans to pay dividends in line with its policy of long-term sustainable cover of around two times underlying earnings.

Consistent with this approach, the Group has initiated a share repurchase programme of up to £500m. Discussions with the Group's UK pension scheme trustees have concluded to address any implications of this programme for deficit funding plans. Investment in value enhancing acquisitions will continue to be considered where market conditions are right, where they deliver on the Group's strategy and where they offer greater value than repurchasing the Group's own shares.

Post-employment benefits schemes

The Group's share of the pre-tax accounting net post-employment benefits deficit decreased to £2.4bn (31 December 2020 £4.5bn). The decrease was mainly driven by an increase in discount rates during the first half of the year. The Group's deficit funding programme has completed with the next triennial valuation exercise due to take place in 2022.

Directors and the Board

Dame Carolyn Fairbairn and Dr Ewan Kirk were appointed to the Board as non-executive directors of the Company on 1 March and 1 June 2021 respectively. The Company has announced that Crystal E. Ashby will join the Board as a non-executive director with effect from 1 September 2021.

Summary

The fundamentals of our business remain strong, and the strategy of the Group is unchanged. Our business benefits from a large order backlog, with established positions on long-term programmes in the US, UK, Saudi Arabia and Australia. Governments in our key markets continue to prioritise defence and security, with strong demand for our capabilities. This backdrop, together with our focus on programme execution, positions us to grow our sales profitably and increase cash conversion in the coming years. We are evolving the business to have an appropriate sustainability agenda embedded at its core with a constant focus on operational performance and value creation. As demonstrated this half year, higher cash generation gives us increased strategic flexibility focused on technology aligned to our customers' priorities and enables us to deliver increased cash returns to shareholders.

Dividend

The Board has declared an interim dividend of 9.9p for the half year ended 30 June 2021, an increase of 5% on the interim dividend in respect of the first half of 2020. This will be paid on 30 November 2021 in line with our usual dividend timetable.

Glossary

We monitor the underlying financial performance of the Group using alternative performance measures (APMs). 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 Group uses these APMs as a mechanism to support year-on-year business performance and cash generation comparisons, and to enable management's planning and decision making on the allocation of resources. The APMs are also used to provide information in line with the expectations of investors, and when setting guidance on expected future business performance. The Group presents these measures to the users to enhance their understanding of how the business has performed within the period, and do not consider them to be more important than, or superior to, their equivalent IFRS measures.

Measure	Definition	Purpose	Reconciled
Financial performance measures as defined by the Group			
Sales	Revenue plus the Group's share of revenue of equity accounted investments, excluding subsidiaries' revenue from equity accounted investments.	Allows management to monitor the revenue performance of subsidiaries and equity accounted investments.	Page 11
Underlying EBIT[1]	Operating profit excluding amortisation of programme, customer-related and other intangible assets, finance costs and taxation expense of equity accounted investments (EBIT) and non-recurring items[2].	Provides a measure of operating profitability that is comparable over time.	Page 42
Return on sales	Underlying EBIT as a percentage of sales.	Provides a measure of operating profitability that is comparable over time.	Page 11
Underlying earnings per share	Profit for the period attributable to shareholders, excluding post-tax impact of amortisation of programme, customer-related and other intangible assets, non-cash finance movements on pensions and financial derivatives, and non-recurring items[2] attributable to shareholders, being underlying earnings, divided by number of shares as defined for Basic EPS in accordance with International Accounting Standard 33 Earnings per Share.	Provides a measure of underlying performance that is comparable over time.	Page 45
Operating business cash flow	Net cash flow from operating activities excluding taxation and including net capital expenditure and lease principal amounts, financial investment and dividends from equity accounted investments.	Allows management to monitor the operational cash generation of the Group.	Page 15
Free cash flow[1]	Operating business cash flow less interest paid (net) and taxation.	Allows management to monitor utilisation of cash in line with the Group's capital allocation policy.	Page 15
Net debt	Cash and cash equivalents, less loans and overdrafts (including debt-related derivative financial instruments). Net debt does not include lease liabilities.	Allows management to monitor the indebtedness of the Group.	Page 17
Order intake	Funded orders received from customers including the Group's share of order intake of equity accounted investments.	Allows management to monitor the order intake of subsidiaries and equity accounted investments.	N/a
Order backlog	Funded and unfunded unexecuted customer orders including the Group's share of order backlog of equity accounted investments. Unfunded orders include the elements of US multi-year contracts for which funding has not been authorised by the customer.	Supports future years' sales performance of subsidiaries and equity accounted investments.	Page 43

Measure	Definition
Financial performance measures derived from IFRS	
Revenue	Income derived from the provision of goods and services by the Company and its subsidiary undertakings.
Operating profit	Profit for the period before finance costs and taxation expense. This measure includes finance costs and taxation expense of equity accounted investments.
Return on revenue	Operating profit as a percentage of revenue.
Basic earnings per share	Basic earnings per share in accordance with International Accounting Standard 33 Earnings per Share.
Net cash flow from operating activities	Net cash flow from operating activities in accordance with International Accounting Standard 7 Statement of Cash Flows.
Order book	The transaction price allocated to unsatisfied and partially satisfied performance obligations as defined by IFRS 15 Revenue from Contracts with Customers.
Other financial measures	
Net post-employment benefits deficit	Net International Accounting Standard 19 Employee Benefits deficit excluding amounts allocated to equity accounted investments.
Dividend per share	Interim dividend paid and final dividend proposed per share.

1. 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 previously reported underlying EBITA measure, as 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 measure, to monitor operational cash generation.
2. Non-recurring items are items of financial performance which have been determined by management as being material by their size or incidence and not relevant to an understanding of the Group's underlying business performance. The Group's definition of non-recurring items includes profit or loss on business transactions, the impact of substantively enacted tax rate changes, and costs incurred which are one-off in nature, for example non-routine costs or income relating to post-retirement benefit schemes, and other exceptional items which management has determined as not being relevant to an understanding of the Group's underlying business performance. The Group does not recognise any non-recurring adjustments which look to normalise business performance by excluding the estimated impact of the COVID-19 pandemic. Note 2 Segmental analysis includes more information on those items reported as non-recurring in the period.

Group financial review

Income statement summary

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m
Financial performance measures as defined by the Group[1]		
Sales	**10,035**	9,871
Underlying EBIT	**1,028**	849
Return on sales	**10.2%**	8.6%
Financial performance measures derived from IFRS[2]		
Revenue	**9,339**	9,180
Operating profit	**1,303**	808
Return on revenue	**14.0%**	8.8%
Reconciliation of sales to revenue		
Sales	**10,035**	9,871
Deduct Share of revenue of equity accounted investments	**(1,233)**	(1,208)
Add Revenue from sales to equity accounted investments	**537**	517
Revenue	**9,339**	9,180
Reconciliation of underlying EBIT to operating profit and profit for the period		
Underlying EBIT	**1,028**	849
Non-recurring items	**346**	(21)
Amortisation of programme, customer-related and other intangible assets	**(43)**	(3)
Financial expense of equity accounted investments	**(15)**	(15)
Taxation expense of equity accounted investments	**(13)**	(2)
Operating profit	**1,303**	808
Net finance costs	**(152)**	(119)
Taxation expense	**(49)**	(130)
Profit for the period	**1,102**	559

Segmental analysis

Financial performance measures as defined by the Group[1]

	Sales		Underlying EBIT	
	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m
Electronic Systems	**2,142**	2,203	**335**	286
Platforms & Services (US)	**1,595**	1,718	**109**	118
Air	**3,827**	3,610	**407**	340
Maritime	**1,656**	1,505	**149**	109
Cyber & Intelligence	**861**	913	**84**	59
HQ	**129**	102	**(56)**	(63)
Deduct Intra-group	**(175)**	(180)	**–**	–
	10,035	9,871	**1,028**	849

Financial performance measures derived from IFRS[2]

	Revenue		Operating profit / (loss)	
	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m
Electronic Systems	**2,142**	2,203	**327**	281
Platforms & Services (US)	**1,565**	1,688	**107**	105
Air	**3,279**	3,029	**522**	324
Maritime	**1,628**	1,478	**146**	108
Cyber & Intelligence	**861**	913	**84**	56
HQ	**19**	26	**117**	(66)
Deduct Intra-group	**(155)**	(157)	**–**	–
	9,339	9,180	**1,303**	808

Exchange rates

Average	**Six months ended 30 June 2021**	Six months ended 30 June 2020
£/$	**1.388**	1.260
£/€	**1.153**	1.144
£/A$	**1.801**	1.920

Period end	**30 June 2021**	30 June 2020
£/$	**1.381**	1.236
£/€	**1.165**	1.100
£/A$	**1.840**	1.794

Year end	31 December 2020
£/$	1.367
£/€	1.117
£/A$	1.770

Sensitivity analysis	**£m**
Estimated impact on annual sales of a ten cent movement in the average exchange rate:	
$	**625**
€	**100**
A$	**45**

Sales in the first half increased to £10.0bn (2020 £9.9bn), up 6% on a constant currency basis[3].

Underlying EBIT was £1,028m (2020 £849m), up 21% on last year, or 27% on a constant currency basis[3].

Revenue increased to £9.3bn (2020 £9.2bn), up 2%.

Operating profit was £1,303m (2020 £808m), up 61% on last year.

Non-recurring items in 2021 comprises a gain on the sale of the Filton and Broughton sites (£182m), gains on disposal of Advanced Electronics Company in the Air sector (£131m, of which £63m is attributable to non-controlling interests) and on disposal of a business in our Electronic Systems segment (£26m), and a £7m gain relating to a historical acquisition. The 2020 expense of £21m represented a £14m impairment charge relating to Platform & Services' legacy Commercial Shipbuilding business which the business exited in 2018, and advisory fees of £7m relating to the Group's acquisition and disposal activities.

Amortisation of programme, customer-related and other intangible assets was £43m (2020 £3m), the increase being driven by amortisation charges in the Electronics Systems businesses acquired during 2020.

Net finance costs were £152m (2020 £119m). The underlying interest charge, excluding pension accounting, and fair value and foreign exchange adjustments on financial instruments and investments, was £122m (2020 £127m). There was a charge of £9m (2020 gain of £42m) in respect of rolling hedges on balances with the Group's subsidiaries and equity accounted investments.

Taxation expense, including taxation expense of equity accounted investments, of £62m (2020 £132m) reflects the Group's underlying effective tax rate for the period of 18% (2020 19%), plus the tax charge on non-recurring items, less a one-off tax benefit of £94m in respect of agreements reached regarding the exposure arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company regime and the impact of the UK tax rate adjustment (see note 4).

The underlying effective tax rate for the full year is expected to be around 18% (excluding the one-off tax benefit) with the final rate dependent on the geographical mix of profits.

1. For alternative performance measure definitions see glossary on page 9. 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 previously reported underlying EBITA measure, as 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.
2. International Financial Reporting Standards.
3. Current period compared with prior period translated at current period exchange rates.

Earnings per share

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m
Financial performance measures as defined by the Group[1]		
Underlying earnings (excluding the one-off tax benefit – 2021 only)	**701**	558
Underlying earnings per share (excluding the one-off tax benefit – 2021 only)	**21.9p**	17.5p
Underlying earnings (including the one-off tax benefit – 2021 only)	**795**	558
Underlying earnings per share (including the one-off tax benefit – 2021 only)	**24.8p**	17.5p

Financial performance measures derived from IFRS[2]		
Profit for the period attributable to equity shareholders	**1,000**	532
Basic earnings per share	**31.3p**	16.7p
Reconciliation of underlying earnings to profit for the period		
Underlying earnings attributable to shareholders (excluding the one-off tax benefit – 2021 only)	**701**	558
Non-recurring items attributable to shareholders, post tax[3]	**277**	(18)
Amortisation of programme, customer-related and other intangible assets, post tax	**(35)**	(3)
Net interest expense on retirement benefit obligations, post tax	**(27)**	(35)
Fair value and foreign exchange adjustments on financial instruments and investments, post tax	**(10)**	30
One-off tax benefit	**94**	–
Profit for the period attributable to equity shareholders	**1,000**	532
Non-controlling interests	**102**	27
Profit for the period	**1,102**	559

Underlying earnings per share (excluding the one-off tax benefit) for the period increased by 25% to 21.9p (2020 17.5p). Underlying earnings per share including the one-off tax benefit was 24.8p.

Basic earnings per share for the period increased by 87% to 31.3p (2020 16.7p). The increase was driven mainly by the higher operating profit and the impact of the one-off tax benefit.

1. For alternative performance measure definitions see glossary on page 9. 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 previously reported underlying EBITA measure, as 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.
2. International Financial Reporting Standards.
3. In 2021, £63m of the gain on disposal of AEC was attributable to non-controlling interest. Therefore, only the gain attributable to shareholders has been removed in calculating the underlying earnings attributable to shareholders. See note 11 for more details.

Cash flow summary

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m
Financial performance measures as defined by the Group[1]		
Operating business cash flow	**694**	(880)
Taxation	**(116)**	(128)
Interest paid, net of interest received	**(117)**	(102)
Free cash flow	**461**	(1,110)
Financial performance measures derived from IFRS[2]		
Net cash flow from operating activities	**623**	(727)
Reconciliation from operating business cash flow to net cash flow from operating activities		
Operating business cash flow	**694**	(880)
(Deduct)/Add back Net capital expenditure and financial investment	**(67)**	189
Add back Principal element of lease payments and receipts	**123**	116
Deduct Dividends received from equity accounted investments	**(11)**	(24)
Deduct Taxation	**(116)**	(128)
Net cash flow from operating activities	**623**	(727)
Net capital expenditure and financial investment	**67**	(189)
Principal element of finance lease receipts	**5**	4
Dividends received from equity accounted investments	**11**	24
Interest received	**12**	12
Cash flow in respect of acquisitions, disposals and held for sale assets	**187**	(217)
Net cash flow from investing activities	**282**	(366)
Interest paid	**(129)**	(114)
Equity dividends paid	**(461)**	–
Dividends paid to non-controlling interests	**(172)**	(3)
Partial disposal of shareholding in subsidiary undertaking	**27**	–
Principal element of lease payments	**(128)**	(120)
Cash flow from matured derivative financial instruments	**(81)**	72
Cash flow from cash collateral	**(4)**	14
Cash flow from loans	**–**	1,136
Net cash flow from financing activities	**(948)**	985
Net decrease in cash and cash equivalents	**(43)**	(108)
Foreign exchange translation	**37**	(193)
Other non-cash movements	**(21)**	142
Deduct Cash flow from loans	**–**	(1,136)
Increase in net debt (excluding lease liabilities)	**(27)**	(1,295)
Opening net debt (excluding lease liabilities)	**(2,718)**	(743)
Net debt (excluding lease liabilities)	**(2,745)**	(2,038)

1. For alternative performance measure definitions see glossary on page 9.
2. International Financial Reporting Standards.

Segmental analysis

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m
Financial performance measures as defined by the Group[1]		
Electronic Systems	**254**	64
Platforms & Services (US)	**(9)**	143
Air	**165**	17
Maritime	**(12)**	(67)
Cyber & Intelligence	**94**	107
HQ	**202**	(1,144)
Operating business cash flow	**694**	(880)
Taxation paid[3]	**(116)**	(128)
Interest paid, net of interest received	**(117)**	(102)
Free cash flow	**461**	(1,110)
Financial performance measures derived from IFRS[2]		
Electronic Systems	**328**	163
Platforms & Services (US)	**13**	164
Air	**260**	100
Maritime	**32**	(35)
Cyber & Intelligence	**107**	120
HQ	**(1)**	(1,111)
Deduct Taxation[3]	**(116)**	(128)
Net cash flow from operating activities	**623**	(727)

Free cash flow was an inflow of £461m (2020 outflow of £1,110m, after the £1bn injection into the UK pension scheme). **Operating business cash inflow** was £694m (2020 outflow £880m). The inflow reflects our ongoing sharp focus on liquidity, as well as the £250m inflow from the sale of the Filton and Broughton sites, and the absence of lump sum pension deficit contributions.

Net cash inflow from operating activities was £623m (2020 outflow £727m).

Taxation payments decreased to £116m (2020 £128m).

Net capital expenditure and financial investment comprises a net inflow of £67m (2020 £189m outflow), mainly as a result of the proceeds from the site sales.

Dividends received from equity accounted investments were £11m (2020 £24m). **Dividends paid to non-controlling interests** of £172m primarily reflect payments made by our partially owned subsidiaries in Saudi Arabia.

Cash flows in respect of acquisitions, disposals and held for sale assets comprises a net inflow of £187m, primarily in relation to the divestment of the Advanced Electronics Company. In 2020, the outflow of £217m represented the acquisition of the Airborne Tactical Radios business.

Equity dividends paid in 2021 represents the 2020 final dividend.

There was a **cash outflow from matured derivative financial instruments** of £81m (2020 inflow £72m) primarily from rolling hedges on balances with the Group's subsidiaries and equity accounted investments.

Foreign exchange translation primarily arises in respect of the Group's US dollar-denominated borrowing.

1. For alternative performance measure definitions see glossary on page 9.
2. International Financial Reporting Standards.
3. Taxation is managed on a Group basis.

Net debt (excluding lease liabilities)

	30 June 2021 £m	31 December 2020 £m
Components of net debt (excluding lease liabilities)		
Cash and cash equivalents	**2,611**	2,768
Debt-related derivative financial instrument assets – non-current	**115**	137
Loans – non-current	**(4,512)**	(4,957)
Loans and overdrafts – current	**(763)**	(467)
Debt-related derivative financial instrument liabilities – non-current	**(177)**	(182)
Debt-related derivative financial instrument liabilities – current	**(19)**	(17)
Net debt (excluding lease liabilities)	**(2,745)**	(2,718)

The Group's **net debt** (excluding lease liabilities) at 30 June 2021 is £2,745m, a net increase of £27m from the position of £2,718m at the start of the year.

Cash and cash equivalents of £2,611m (31 December 2020 £2,768m) are held primarily for the repayment of debt securities, payment of the 2021 interim dividends and management of working capital.

Going concern

After making due enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of this report and, therefore, continue to adopt the going concern basis in preparing the financial statements.

The Group continues to conduct ongoing risk assessments in relation to its business operations and liquidity, including in relation to the potential future impact of the COVID-19 pandemic. Demand from the Group's key customers remains strong, underpinned by our order backlog, programme positions and pipeline of opportunities across all sectors. The Group also continues to work with and support its supply chain to actively address the risk of disruption.

The Group's liquidity has remained strong despite the pandemic. We have continued to work closely with customers and the supply chain to manage risk in this area. Cash flow forecasting is performed by the businesses on a monthly basis. The Group also monitors a rolling forecast of its liquidity requirements to ensure that there is sufficient cash to meet operational needs and maintain adequate headroom.

Having undertaken these assessments, the directors consider that the Group will be able to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group for the remainder of the year are unchanged from those reported in the Annual Report 2020.

The Group's principal risks and uncertainties at 31 December 2020 were detailed on pages 93 to 99 of the Annual Report 2020, and related to the following areas: outbreak of contagious diseases; international markets; defence spending; competition in international markets; contract risk and execution; government customers; contract awards and cash profiles; pension funding; laws and regulations; information technology security; people; acquisitions; and climate change and the environment.

Segmental performance: Electronic Systems

Electronic Systems, with 16,500 employees[1], comprises the US- and UK-based electronics activities, including electronic warfare systems, navigation systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, space electronics and electric drive propulsion systems.

Financial performance

Financial performance measures as defined by the Group[2]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Sales	**£2,142m**	£2,203m	£4,557m
Underlying EBIT	**£335m**	£286m	£674m
Return on sales	**15.6%**	13.0%	14.8%
Operating business cash flow	**£254m**	£64m	£580m
Order intake	**£2,234m**	£2,820m	£4,722m
Order backlog	**£6.6bn**	£7.3bn	£6.5bn

Financial performance measures derived from IFRS[3]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Revenue	**£2,142m**	£2,203m	£4,557m
Operating profit	**£327m**	£281m	£648m
Return on revenue	**15.3%**	12.8%	14.2%
Cash flow from operating activities	**£328m**	£163m	£767m
Order book	**£5.3bn**	£6.0bn	£5.3bn

– Sales of £2.1bn are up 6% on a constant currency basis. The strong contributions of the acquisitions were partially offset by the effect of COVID-19 on the commercial Controls & Avionics Solutions business.

– Return on sales was 15.6%, up 260bps reflecting strong operational performance and good contributions from the acquisitions.

– First half cash conversion of EBIT[4] reflects good working capital management and programme execution.

– Order backlog grew slightly since year-end, with a book-to-bill ratio[5] of over one driven by orders received on multiple electronic warfare programmes and strong demand for our precision strike and C4ISR capabilities.

1. Including share of equity accounted investments.
2. For alternative performance measure definitions see glossary on page 9.
3. International Financial Reporting Standards.
4. Operating business cash flow as a percentage of Underlying EBIT.
5. Ratio of Order intake to Sales.

Operational performance

Electronic Combat Solutions

The F-35 Lightning II programme completed deliveries for Lot 13 and has delivered a cumulative total of more than 900 electronic warfare (EW) systems as of the end of June. We are also supporting the Block 4 modernisation efforts under multiple contracts worth over $500m (£362m), and we continue to operate under a five-year Performance-Based Logistics contract to provide EW module availability and support for the F-35 sustainment programme.

Under contract from Boeing, we continue to deliver our next-generation electronic warfare Eagle Passive Active Warning Survivability System to support the upgrade of the US Air Force F-15 platform and testing on F-15E and F-15EX test aircraft at both Eglin and Edwards Air Force bases. In March, we were awarded an initial $58m (£42m) contract for low-rate initial production.

We are providing Lots 2 and 3 of the sensor hardware/software functionality for the Long Range Anti-Ship Missile (LRASM), and in April, we received a contract totalling $117m (£85m) from Lockheed Martin for LRASM sensor production Lots 4 and 5. We are also executing a Diminishing Material Sources contract for the next configuration of LRASM.

Due to the sensitive nature of electronic combat systems and technology, many of our programmes are classified. These include our work as a world leader in electronic warfare providing next-generation defence technologies.

C4ISR Systems
We continue to progress our strategic integration of last year's acquisition to advance our presence in the communications marketplace, bringing together technology in communications, cryptography, and navigation to compete and grow our portfolio in joint all-domain command and control markets.

We successfully captured a highly competitive space technology development programme. The team will demonstrate and qualify the next-generation, radiation-hardened Application Specific Integrated Circuit (ASIC) library technology, and will develop the infrastructure to offer ASIC design services. This win positions us well to continue as a leading provider in the space domain.

We continue to experience steady growth in signals intelligence. A successful customer design review was held in April leading to the opportunity for future upgrades.

Precision Strike & Sensing Solutions
Navigation and Sensor Systems was awarded a contract valued at more than $325m (£235m) from the Defense Logistics Agency to deliver Increment 1 M-Code devices through 2030.

The APKWS® guidance kit programme is executing at full-rate production under an indefinite delivery contract, with awards worth over $100m (£72m) received in the first half. Our testing of the programme's block upgrade is complete and the US Navy has initiated testing of this engineering change proposal.

The Terminal High Altitude Area Defense (THAAD) seeker programme is executing at full-rate production levels, providing critical targeting technology that helps to protect the US and its allies from ballistic missiles. The programme is currently working to design and manufacture next-generation THAAD infrared seekers.

On 1 April, we completed the sale of BAE Systems Rokar International Ltd., an Israel-based, international defence electronics company, to Elbit Systems for approximately $31m (£22m).

Countermeasure & Electromagnetic Attack Solutions
The Compass Call programme is currently executing contracts valued at $780m (£565m), including sustaining and upgrading prime mission equipment on the existing EC-130H fleet. In support of our cross-decking of the mission system to a special-mission Gulfstream G550 jet designated as the EC-37B, we have successfully demonstrated our Small Adaptive Bank of Electronic Resources (SABER) technology on 11 EC-130H flights. SABER provides a critical software upgrade to the EC-37B platform that is targeted to field in 2024.

Our Limited Interim Missile Warning System programme began delivering on the first production lot earlier this year, while receiving $62m (£45m) in US Army funding for the third production lot order.

Controls & Avionics Solutions
Due to COVID-19, demand for Original Equipment Manufacturer (OEM) deliveries and aftermarket services has been significantly reduced, though we are seeing the beginnings of a recovery in passenger traffic. While there is an impact to OEMs in the near-term, it does not change the underlying need for new aircraft in the long-term. We also see a trend towards more electric aircraft, for which the business is well positioned.

The business continues to develop the integrated flight control electronics and remote electronic units for the new Boeing 777X airplane family. The flight control system is performing as expected during flight testing, and we continue to work software updates and systems verification testing in support of aircraft certification.

Our engine control products continue to perform well across our legacy portfolio with FADEC International and FADEC Alliance, a joint venture between GE Aviation and FADEC International (our joint venture with Safran Electronics & Defense). The LEAP® FADEC family achieved a major milestone, delivering the 10,000th unit, making it our fastest ramp-to-rate engine control product. On the military side, the GE T901 FADEC is under development for the US Army's Future Attack Reconnaissance Aircraft.

Deliveries of the F-35 vehicle management computer and active inceptor systems have successfully ramped up, and we are enabling the first US Depot stand-up scheduled for 2022. Development of the advanced vehicle control system for the UK Dreadnought submarine remains on plan.

Power & Propulsion Solutions
Whilst the pandemic caused a temporary decline in urban transit demand, the business is now seeing signs of recovery as ridership returns and the demand for environmentally responsible transport solutions grows. In Dublin, Ireland, our electric drive propulsion systems were ordered for an additional 180 vehicles.

As the zero emission market ramps up, plans are underway to deliver our battery electric drivetrain solution in six North American cities, including: San Francisco, California; Milwaukee, Wisconsin; Chicago, Illinois; Louisville, Kentucky; Broome County, New York; and Vancouver, Canada. With an eye on emerging technologies, we are also collaborating with Plug Power, Inc. to provide a zero emission, hydrogen fuel cell powered solution to the transit industry.

Looking forward

Electronic Systems is well positioned for growth in the medium term as it continues to address current and evolving US defence priority programmes from its strong franchise positions in electronic warfare, navigation systems, precision guidance and seeker solutions. Electronic Systems has a long-standing programme of research and development. Its focus remains on maintaining a diverse portfolio of defence and commercial products and capabilities for US and international customers. The business expects to benefit from its ability to apply innovative technology solutions that meet defence customers' changing requirements. As a result, the business is well positioned for the medium term with significant roles on F-35 Lightning II, F-15 upgrade, M-Code GPS upgrades and classified programmes, as well as with specific products such as APKWS®. Over the longer term, the business is poised to leverage its technology strength in emerging areas of demand such as precision weaponry, space resilience, hyper-velocity and autonomous vehicles. With our electric drive propulsion capabilities we are well placed to continue to address the need for low- and zero-emission technology across an increasing number of platforms.

The commercial aviation market has been negatively impacted by the pandemic and whilst we are seeing early stages of recovery it is expected to take several years to reach previous levels. The business has been scaled appropriately and Electronic Systems' technology innovations are enabling the business to maintain its long-standing customer positions and adjust as the market evolves.

Segmental performance: Platforms & Services (US)

Platforms & Services (US), with 12,500 employees[1], has operations in the US, UK and Sweden. It manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including naval ship repair and the management and operation of government-owned munitions facilities.

Financial performance

Financial performance measures as defined by the Group[2]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Sales	**£1,595m**	£1,718m	£3,503m
Underlying EBIT	**£109m**	£118m	£190m
Return on sales	**6.8%**	6.9%	5.4%
Operating business cash flow	**£(9)m**	£143m	£382m
Order intake	**£1,845m**	£2,069m	£4,137m
Order backlog	**£6.1bn**	£6.5bn	£6.1bn

Financial performance measures derived from IFRS[3]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Revenue	**£1,565m**	£1,688m	£3,399m
Operating profit	**£107m**	£105m	£183m
Return on revenue	**6.8%**	6.2%	5.4%
Cash flow from operating activities	**£13m**	£164m	£458m
Order book	**£5.7bn**	£5.8bn	£5.6bn

- Sales of £1.6bn grew modestly on a constant currency basis. Combat Vehicle volumes more than doubled compared with the first half of last year, but the impact of COVID-19 on US Ship Repair and M777 sales to India held back the overall segment's growth.
- Return on sales performance for the half year was 6.8%, as the segment continued to be impacted by COVID-19 and operational challenges in its Ship Repair business. We expect further material return on sales expansion in the second half of the year.
- The first half saw a marginal cash outflow, having benefitted last year from customer-related COVID-19 actions. The first half cash flow reflects a more normal cash cycle within the segment.
- Strong demand and growth in this business is evidenced by the book-to-bill ratio[4] of more than one, with notable awards achieved on CV90 for the Netherlands and in our ship repair business.

1. Including share of equity accounted investments.
2. For alternative performance measure definitions see glossary on page 9.
3. International Financial Reporting Standards.
4. Ratio of Order intake to Sales.

Operational performance

Combat Mission Systems

Combat Mission Systems continues to make progress towards achieving consistent production throughput across multiple programmes. Investments in facilities and new manufacturing technologies, including automation and robotic welding, are delivering long-term benefits.

We continue to deliver Amphibious Combat Vehicles (ACVs) to the US Marine Corps under low-rate initial production contracts totalling $599m (£434m) for 116 vehicles. Design and development have begun on new ACV mission variants, and a 30mm gun system for the ACV-30 weapons variant was selected. The Marine Corps has awarded two full-rate production contracts totalling 72 vehicles for a combined value of $368m (£266m).

We continue to work on the US Army's Armored Multi-Purpose Vehicle (AMPV) programme under production contracts worth $1.3bn (£0.9bn). AMPV deliveries of the five variants have continued this year, and in July we received a $600m (£434m) sustainment and technical support services contract.

Progress continues on the M109A7 programme under cumulative awards totalling approximately $1.5bn (£1.1bn) for 204 vehicle sets. Following last year's full-rate production decision, we received a $339m (£245m) contract for 48 vehicle sets.

Work to upgrade Bradley vehicles to the A4 configuration continues. Following several contract modifications, the current contract is for $805m (£583m) for 459 vehicles and spares.

We are executing on a $32m (£23m) prototype contract received last year from the US Army's Rapid Capabilities and Critical Technologies Office to integrate a Hybrid-Electric Drive system onto Bradley Fighting Vehicles.

We continue to produce and sustain the US Army's M88 recovery vehicles, including under a contract valued at $148m (£107m) to upgrade 43 vehicles from the M88A1 to the M88A2 HERCULES configuration, and a $318m (£230m) contract to develop and test upgrades for the next-generation M88A3 configuration to restore single-vehicle recovery capability.

In April we submitted a proposal for the first phase of the Army's Optionally Manned Fighting Vehicle programme.

In the weapon systems product line, we are producing Mk41 Vertical Launch System (VLS) missile canisters for the US Navy under awards totalling $242m (£175m), which could reach $955m (£692m) over five years if all options are exercised. In April we successfully competed for a $164m (£119m), five-year contract to remain the Navy's design agent for the mechanical portion of the VLS.

We are working to deliver Mk45 Mod 4 gun systems to the US Navy under 2019 orders and 2020 contract modifications. Under an additional $19m (£14m) award, we are working to provide the US Navy and Coast Guard with Mk38 machine gun systems.

Deliveries continue on a contract to provide 37 Virginia Payload Module tubes for the US Navy's Block V Virginia Class submarines.

Ordnance Systems

We continue to operate and modernise the US Army's Radford and Holston ammunition plants under a total of $1.4bn (£1.0bn) in modernisation contracts. The Army is progressing towards a five-year extension for Radford operations.

At Holston, modernisation activities continue, including the construction of a Weak Acetic Acid Recovery Plant, and multiple contracts for a natural gas-fired steam facility, a wastewater management facility, and the design, construction and commissioning of new production facilities.

At Radford, construction of a modern nitrocellulose facility has been completed, with the facility currently in the commissioning phase that will extend through 2021.

US Ship Repair

The US Ship Repair business continues to conduct modernisation and maintenance activities for the US Navy's non-nuclear fleet. Our shipyards and programmes were significantly impacted by the COVID-19 pandemic, though recent trends show a lessening of those impacts, coupled with higher than usual levels of emergent work adding to the challenges. Our investments in operational excellence and additional resource are beginning to deliver benefits as we continue to execute and recover from both volume and timing impacts.

We received contracts in the first half of the year with a cumulative value of $478m (£346m) for maintenance and modernisation, including on the USS Detroit and USS Winston S Churchill in our Jacksonville yard, and the USS Makin Island, USS Manchester, USS Russell and USS San Diego in our San Diego shipyard.

We continue work on 2020 contracts, including on the USS Boxer and USS Preble in San Diego, and the USS Wasp in Norfolk. Under multi-year awards from earlier periods, we are modernising the USS Tortuga on a contract worth $239m (£173m), USS Vicksburg on a contract for $193m (£140m) and USS Gettysburg on a contract worth $159m (£115m). These ships are out of service for extensive maintenance over several years, resulting in greater scope change than we typically experience. These additional repairs, coupled with pandemic impacts, are causing delays in programme completion.

As previously announced, we ceased operations in Hawaii as planned in the first half of the year.

BAE Systems Hägglunds

The Netherlands has started work to upgrade and extend the life of its CV9035 fleet, and we are working under a previous contract to integrate Elbit Systems' Iron Fist Active Protection System and an anti-tank guided-missile system on the vehicles. In 2020, we received a contract to convert the Dutch fleet of CV90s to composite band track, and a new contract worth over $500m (£362m) for mid-life upgrades was received this year.

Work is progressing to refurbish the Swedish CV90 fleet, and we continue deliveries of CV90-based Mjölner mortar systems.

Last November, we received a contract to extend the expected life of 186 Swiss Army CV90s to 2040. Discussions are underway with Finland and Norway for similar work on their CV90 inventories. Norway awarded us a contract exceeding $50m (£36m) in February for an additional 20 vehicles. We continue to pursue the Czech Republic's competitive procurement for a new fleet of fighting vehicles, which the government delayed due to COVID-19.

In our all-terrain vehicle portfolio, significant interest continued for new procurements to replace ageing BV 206 vehicles. We received a contract worth approximately $200m (£145m) from Sweden for 127 BvS10s. Our Beowulf unarmoured variant was selected along with a competitor to participate in trials this year for the US Army's Cold Weather All-Terrain Vehicle programme.

BAE Systems Bofors

We continue to deliver on Swedish and US Army contracts for 155mm BONUS ammunition. We are nearing completion of 24 additional ARCHER systems for Sweden, and the US Army selected ARCHER for further evaluation and demonstration for its wheeled howitzer requirements.

We are under multiple export contracts to deliver 40Mk4 and 57Mk3 naval gun systems, including a recent order for five 57Mk3s and ten 40Mk4s for the UK Royal Navy's Type 31 frigates. We are also delivering 57mm (Mk110) gun systems to the US Navy and Coast Guard. In February we were selected to provide 12 40Mk4s to the Belgian and Dutch navies in a joint procurement.

Weapon Systems UK

Production of 145 M777s for the Indian Army continues under a $542m (£392m) Foreign Military Sales contract. The programme has encountered delays due to pandemic impacts in India.

We announced proposed plans to cease manufacturing operations at the Barrow site due to a lower projected workload. We have recently concluded consultation with employees regarding the potential job losses, and we are confident that a large proportion of the identified headcount reduction will be mitigated by the active recruitment at the Group's nearby Submarines business.

FNSS

FNSS, our land systems joint venture based in Turkey, continues to produce 8x8 wheeled armoured vehicles for the Royal Malaysian Army. Work has begun to supply medium weight tanks to Indonesia, and a contract has been signed with the Philippines for specialist engineering vehicles. Deliveries to Oman for PARS wheeled armoured vehicles have been completed.

Multiple contracts for the Turkish Armed Forces worth in excess of €670m (£575m) are progressing, including contracts for air defence vehicles, assault amphibious vehicles, and special purpose 8x8 and 6x6 vehicles. Production continues for 260 anti-tank vehicles, and work will begin this year on a programme to modernise 133 armoured combat vehicles.

Looking forward

Combat Mission Systems is underpinned by a growing order backlog and incumbencies on key franchise programmes. These include the US Army's Armored Multi-Purpose Vehicle, M109A7 self-propelled howitzer, Bradley upgrade programmes, Amphibious Combat Vehicle, M88, as well as the CV90 and BvS10 export programmes from BAE Systems Hägglunds. FNSS continues to execute on its order book of both Turkish and international orders. These long-term contracts and franchise positions make the combat vehicles business well placed for growth in the medium term. The team is working on, and is closely following, the US Army's acquisition plans for its next generation of combat vehicles, in particular the Mobile Protected Firepower and Robotic Combat Vehicle programmes.

In the maritime domain, the sector has a strong position on naval gun programmes and US Navy ship repair activities where the business has invested in facilities in key home ports. This capitalised infrastructure represents a high barrier to entry, and the business remains well aligned to the US Navy's operational strategy and projected fleet increase.

The Group remains a leading provider of gun systems and precision strike capabilities and, in the complex ordnance manufacturing business, continues to manage and operate the US Army's Radford and Holston munitions facilities under previously awarded contracts.

Segmental performance: Air

Air, with 29,200 employees[1], comprises the Group's UK-based air activities for European and International markets and US Programmes, and its businesses in Saudi Arabia and Australia, together with its 37.5% interest in the European MBDA joint venture.

Financial performance

Financial performance measures as defined by the Group[2]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Sales	**£3,827m**	£3,610m	£7,910m
Underlying EBIT	**£407m**	£340m	£909m
Return on sales	**10.6%**	9.4%	11.5%
Operating business cash flow	**£165m**	£17m	£718m
Order intake	**£2,720m**	£2,482m	£6,494m
Order backlog	**£20.6bn**	£23.2bn	£22.5bn

Financial performance measures derived from IFRS[3]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Revenue	**£3,279m**	£3,029m	£6,593m
Operating profit	**£522m**	£324m	£862m
Return on revenue	**15.9%**	10.7%	13.1%
Cash flow from operating activities	**£260m**	£100m	£917m
Order book	**£14.6bn**	£17.0bn	£16.5bn

– Sales of £3.8bn were up 6% on a constant currency basis[4], driven by F-35, Typhoon support and upgrade activity, and the continued ramp in production on the Qatar programmes. Australia sales grew by over 20% led by the Hunter Class Frigate programme ramp up.

– The return on sales of 10.6% was 120bps ahead of the prior year due to excellent programme execution and the emergence from the pandemic.

– Cash flow of £165m largely reflects good working capital management and programme execution.

– Order backlog was £20.6bn, with the initial Tempest Concept and Assessment award, further F-35 awards and continued good demand in MBDA and Australia.

1. Including share of equity accounted investments.
2. For alternative performance measure definitions see glossary on page 9.
3. International Financial Reporting Standards.
4. Current period compared with prior period translated at current period exchange rates.

Operational performance

European & International markets

Activity on the 24 Typhoon and nine Hawk aircraft and associated support and training contract for the State of Qatar progresses well. The first three Hawk aircraft have completed their first flights. An agreement has been reached between the UK and the Qatari governments to base the Qatari Hawk aircraft at RAF Leeming, with entry into service planned in the second half of the year.

Four deliveries of major units under the Kuwait Typhoon contract, secured by Italian Eurofighter partner Leonardo, occurred in the period. The remaining Kuwait major unit deliveries are planned to be completed during 2022.

Mobilisation progresses to plan with four front fuselages in build on the £1.3bn German Air Force order for 38 aircraft to replace its original Typhoon Tranche 1 aircraft, received at the end of 2020.

The UK Typhoon fleet continues to achieve the contracted flying hours under the ten-year partnership arrangement. BAE Systems continues to support the European Partner Nations' own support arrangements as well as supporting international customers in achieving their flying commitments.

Support to the Royal Air Force's UK fleet of Hawk fast jet trainer aircraft continues and we remain in discussions concerning the follow-on arrangement for a long-term availability contract.

The future electronically scanned European Common Radar Solution is progressing with initial entry into service planned on Kuwait and Qatar aircraft. UK, German, Italian and Spanish Air Forces are expected to enhance the capability of their aircraft by upgrading some of their fleet with the new radar. The UK continues to fund activity for the future UK standard of weapon system and sensors as part of the Partner Nations' commitment to the ten-year Typhoon plan.

Future Combat Air System

The Tempest technology maturation programme is progressing well. The UK, Swedish and Italian governments are engaged to develop the next-generation combat air capability.

During the period, the company secured an initial approximately £250m order for the Future Combat Air System Concept & Assessment Phase. Working with industry partners and the Ministry of Defence, the contract will enable development of a range of digital concepts, embedding new tools and techniques to design, evaluate and shape the final design and capability requirements of Tempest.

The Defence Information business is well positioned for future opportunities across the multi-domain, information and digital areas identified in the recent UK Defence Command Paper.

The Group continues to invest in promising new and innovative technologies for the future. The PHASA-35® solar-electric powered unmanned aircraft is preparing to complete its first stratospheric flight trials during the second half of the year. Discussions with a range of customers continue in the development of this technology across a range of services.

US Programmes

The production of rear fuselage assemblies will ramp up to full rate during 2021. In the period, 70 rear fuselage assemblies were completed for the production contracts across Lots 12, 13 and 14. Negotiations have commenced for pricing on Lots 15 to 17 and are expected to conclude later this year.

The business continues to support the Royal Air Force in integrating the F-35 aircraft into its operational fleet and in forward deployments.

BAE Systems continues to play a significant role on the F-35 sustainment programme including the supply of spares and technical support, software products, upgrades and specialist workforce services.

Saudi Arabia

The Group is reliant on the continued approval of export licences by a number of governments in order to continue supplies to the Kingdom of Saudi Arabia. We are working closely with industry partners and the UK government to continue to fulfil the contractual support arrangements in Saudi Arabia.

BAE Systems continues to perform against the contract secured in 2018 to provide Typhoon support services to the Royal Saudi Air Force through to 2022. Through this contract the business also supports the Industrialisation of Defence capabilities in Saudi Arabia.

The Saudi British Defence Co-operation Programme five-year funding agreement through 2021 comprises a number of contracts, including support to the Tornado fleet, provision of officer and aircrew training and technician training for the Royal Saudi Air Force, as well as technical training and engineering and logistics services for the Royal Saudi Naval Forces. While there has been some disruption caused by the COVID-19 pandemic, we continue to meet the majority of our contractual obligations under these contracts. We continue to work with suppliers and the customer to sustain Hawk trainer aircraft availability and reliability.

Negotiations on the next five-year Saudi British Defence Co-operation Programme Funding Arrangement have commenced between the UK and Saudi Arabian governments, with representation from relevant UK government and BAE Systems stakeholders.

A total of 15 Hawk aircraft assembled in-Kingdom have now been completed and formally accepted by the Royal Saudi Air Force, including three in the period. The remaining seven aircraft are scheduled to be delivered by the end of the year.

We continue to reorganise our portfolio of interests in a number of industrial companies in Saudi Arabia. The Saudi Arabia Military Industries (SAMI) purchase of Advanced Electronics Company completed in February 2021. We continue to explore opportunities to collaborate with Saudi defence entities to deliver further In-Kingdom Industrial Participation, in line with the Kingdom's National Transformation Plan and Vision 2030.

Australia

Progress on the Hunter Class Frigate programme continues through prototyping where the shipyard processes are being tested and analysed against yard design productivity assumptions. Entry to the System Definition Review approval process was achieved as planned in the period with exit expected by the end of the year.

The Jindalee Operational Radar Network continues to meet its interim baseline plan and the upgrade schedule, under joint review with the Commonwealth of Australia, is expected to proceed to contract in the second half.

We continue to work to mitigate supply chain quality issues on the Hawk Mk127 Lead-In Fighter aircraft availability, and pilot training for the Australian Defence Force has not been impacted. Recovery plans have been agreed with the customer and are being deployed. An announcement of an extension of service to 2031 with associated support contract is expected shortly.

Sustainment activity continues for the regional F-35 fleet at our Williamtown facility, with airframe depot operations commencing in Q1 2021 and RAAF squadron operational maintenance being undertaken.

The ANZAC frigate upgrade programme continues to meet customer requirements and is forecast to complete in 2023.

Research and development activity in Australia has continued to grow, with progress made supporting both the Boeing Australia Loyal Wingman programme which achieved its first flight in March 2021, and the Australian Army assessment of autonomous M113 armoured personnel carriers.

MBDA

During the first half of 2021, MBDA has continued to win domestic and export orders, with several key bids underway. The business is well placed to benefit from defence spending in a number of European countries and International opportunities.

In the period new contracts were signed, including the development of the SAMP/T NG (New Generation) ground-based air defence system for the French and Italian customers, Aster air defence missile Mid-Life Update for the UK and Italian customers, and the production of MICA NG next-generation interception, combat and self-defence missiles for the French customer.

The Assessment Phase contract for the Future Cruise / Anti-Ship Weapon (the Anglo / French co-operation programme to replace Storm Shadow / Harpoon in the UK and SCALP / Exocet in France) is expected to be awarded in the second half of 2021. In export markets, contracts for weapons packages in Greece and Egypt were received.

Good progress has been made on a number of development programmes including MICA Next Generation, Spear Capability 3 and Aster Block 1 New Technology.

Looking forward

Future Typhoon production and support sales are underpinned by existing contracts. Discussions continue in relation to potential further contract awards for Typhoon, which would extend current production revenues. Production of rear fuselage assemblies for the F-35 will increase in 2021 and is expected to be sustained at these levels. The business plays a significant role in the F-35 sustainment programme in support of Lockheed Martin, and revenues are set to grow as the number of aircraft deployed increases over the coming years. Defence and security remains a priority for the UK government. The UK Combat Air Strategy provides the base to enable long-term planning and investment in a key strategic part of the business.

In Saudi Arabia, the In-Kingdom Industrial Participation programme continues to make good progress consistent with our long-term strategy, as well as the Saudi Arabian government's National Transformation Plan and Vision 2030. Our in-Kingdom support business is expected to remain stable underpinned by long-standing contracts renewed every five years.

In order to provide ongoing capability to international customers, the Group is reliant on the continued approval of export licences by a number of governments. The withholding of such export licences may have an adverse effect on the Group's provision of capability to the Kingdom of Saudi Arabia and the Group will seek to work closely with the UK government to manage the impact of any such occurrence.

The Australian business has long-term sustainment and upgrade activities in maritime, air, wide-area surveillance, missile defence and electronic systems. It has expanded into ship design and production on the Hunter Class Frigate programme, which will drive growth in the coming years.

MBDA has a strong order backlog supporting future years' sales. Development programmes continue to improve the long-term capabilities of the business in air, land and sea domains.

Segmental performance: Maritime

Maritime, with 17,900 employees[1], comprises the Group's UK-based maritime and land activities.

Financial performance

Financial performance measures as defined by the Group[2]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Sales	**£1,656m**	£1,505m	£3,257m
Underlying EBIT	**£149m**	£109m	£279m
Return on sales	**9.0%**	7.2%	8.6%
Operating business cash flow	**£(12)m**	£(67)m	£243m
Order intake	**£2,771m**	£1,035m	£3,772m
Order backlog	**£10.2bn**	£8.1bn	£9.1bn

Financial performance measures derived from IFRS[3]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Revenue	**£1,628m**	£1,478m	£3,195m
Operating profit	**£146m**	£108m	£272m
Return on revenue	**9.0%**	7.3%	8.5%
Cash flow from operating activities	**£32m**	£(35)m	£317m
Order book	**£9.3bn**	£7.9bn	£8.5bn

– Sales were up by 10% at £1.7bn, with last year particularly impacted by COVID-19. Dreadnought and Type 26 activity continues to climb, while support services for the deployment of the UK Carrier Strike Group delivered further growth.

– Return on sales was at 9.0%, an expansion of 180bps compared to the prior year, reflecting strong programme execution and the emergence from the pandemic.

– The operating business cash outflow was £12m, reflecting the usual first half timing profile.

– Order backlog increased to £10.2bn, reflecting the Future Maritime Support Programme, ongoing Dreadnought funding, and the flow down from RBSL of work for the Challenger 3 Main Battle Tank programme.

1. Including share of equity accounted investments.
2. For alternative performance measure definitions see glossary on page 9.
3. International Financial Reporting Standards.

Operational performance

Maritime

Naval Ships

The Type 26 programme continues to progress with construction now underway on the first three City Class Type 26 frigates.

The forward and aft blocks of the first of class vessel, HMS Glasgow, have now been rolled out of the build hall with block integration underway in Glasgow. For the second of class, HMS Cardiff, over 40% of the units are in construction with a number being integrated within our build hall, while the steel cut ceremony for the third ship, HMS Belfast, took place in June. The programme sustains more than 4,000 jobs in total across the UK.

The Canadian Surface Combatant team, working through Lockheed Martin Canada into Irving Shipbuilding Inc., is now well into the Preliminary Design Phase of the programme and is progressing well.

Submarines

Our Submarines business is a member of the Dreadnought Alliance, working alongside the Submarine Delivery Agency and Rolls-Royce to deliver the replacement for the Royal Navy's Vanguard Class, which carries the UK's independent nuclear deterrent. The value of the programme to the Company to date is £7.1bn, with contract funding of £1.2bn received in 2021. Four Dreadnought Class submarines will be built in Barrow, with the first of these due to be in operational service in the early 2030s. Construction of the first and second submarines continues to advance.

The major programme of investment to redevelop the Barrow site to support the delivery of Dreadnought is progressing, with one of the two new facilities which form part of a significant extension to the Devonshire Dock Hall now in operation.

Four Astute class submarines have been delivered to the Royal Navy, while the fifth, HMS Anson, was launched in April. Final installation and commissioning activities continue to ready her for sea trials, scheduled to begin in 2022. The remaining two submarines, HMS Agamemnon and HMS Agincourt, are at an advanced stage of construction.

Maritime Services

Our Maritime Services business secured two HM Naval Base Portsmouth contracts, Ship Engineering and, in partnership with KBR, the Hard Facilities and Alongside Services contract, worth more than £1bn under the UK Ministry of Defence's Future Maritime Support Programme (FMSP). FMSP will replace the current support framework in October this year and will run for at least five years. We have now established the KBS Maritime joint venture that will deliver the Hard Facilities and Alongside Services contract.

HMS Queen Elizabeth, HMS Diamond, HMS Defender and HMS Kent were all successfully prepared and supported for the first operational deployment of the UK's Carrier Strike Group in May. We are providing support throughout the duration of the deployment.

The £270m Spearfish torpedo upgrade programme, delivered for the UK Ministry of Defence and Royal Navy, reached a key milestone with the upgraded weapon achieving initial operational capability in March. This was followed in April by successful firing trials from HMS Audacious at the AUTEC range in the Bahamas.

A £119m export order for our Commander land radar was secured. The order secures highly skilled jobs at our Cowes site.

Land UK

Following the award of the Next Generation Munitions Solution (NGMS) contract in November, the business has stood up a delivery team comprising key BAE Systems, UK Ministry of Defence and British Army Front Line Command personnel and mobilisation is progressing well. This new contract will guarantee the delivery of munitions products and engineering support to the UK Armed Forces between 2023 and 2037.

The RBSL joint venture secured a contract to upgrade 148 Challenger 2 Main Battle Tanks for the British Army, worth £300m to BAE Systems. The upgraded vehicle, to be known as Challenger 3, will be a network-enabled, digital Main Battle Tank with state-of-the-art lethality, upgraded survivability, plus world-class surveillance and target acquisition capabilities. RBSL will produce the vehicles at its Telford facility in the West Midlands, with support from the UK supply chain. The contract is expected to create and sustain over 200 skilled jobs and over 60 apprenticeships for RBSL sites in Telford, Bristol and Newcastle, as well as over 450 jobs across the UK supply chain. Together with the Mechanised Infantry Vehicle contract, received in November 2020, these programmes will provide workload for the business for the next ten years.

Looking forward

Maritime

The outlook is stable based on long-term contracted positions. Within Submarines, the business is executing on two long-term programmes. On the Astute Class programme, the fifth of class is undergoing final commissioning activities and the two remaining boats are in build. On the Dreadnought programme manufacturing activities continue on the first two boats of a four-boat programme. Investment continues in the Barrow facilities in order to provide the capabilities to deliver these long-term programmes through the decade and beyond. In shipbuilding, sales through the decade and beyond are underpinned by the manufacture of Type 26 frigates. The through-life support of surface ship platforms provides a sustainable business in technical services and mid-life upgrades.

Land UK

Future work will be underpinned by existing support contracts and the contracted workshare on the Mechanised Infantry Vehicle and Challenger 3 Main Battle Tank programmes. Munitions supply continues under the Munitions Acquisition Supply Solution partnering agreement which will be followed in 2023 by the recently agreed 15-year Next Generation Munitions Solution.

Segmental performance: Cyber & Intelligence

Cyber & Intelligence, with 9,800 employees[1], comprises the US-based Intelligence & Security business and UK-headquartered Applied Intelligence business, and covers the Group's cyber security, secure government and commercial financial security activities.

Financial performance

Financial performance measures as defined by the Group[2]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Sales	**£861m**	£913m	£1,812m
Underlying EBIT	**£84m**	£59m	£135m
Return on sales	**9.8%**	6.5%	7.5%
Operating business cash flow	**£94m**	£107m	£221m
Order intake	**£991m**	£1,007m	£1,987m
Order backlog	**£1.7bn**	£1.7bn	£1.7bn

Financial performance measures derived from IFRS[3]

	Six months ended 30 June 2021	Six months ended 30 June 2020	Year ended 31 December 2020
Revenue	**£861m**	£913m	£1,812m
Operating profit	**£84m**	£56m	£138m
Return on revenue	**9.8%**	6.1%	7.6%
Cash flow from operating activities	**£107m**	£120m	£251m
Order book	**£1.1bn**	£1.2bn	£1.1bn

– The Applied Intelligence business was stable with 10% growth in its Government business, offset by the impact of the commercial business disposals in the prior year. The US Intelligence & Security business grew sales by 1% on a constant currency basis[4]. On a reported exchange rate basis, segment sales were down 6%.

– Return on sales was 9.8%, an expansion of 330bps led by the Applied Intelligence business benefitting from high utilisation in its Government business and cost base improvements.

– Operating business cash flow in the first half of the year was £94m.

– Order backlog remained in line with the year-end, with a book-to-bill ratio[5] of more than one, and a particularly strong order flow in Applied Intelligence.

1. Including share of equity accounted investments.
2. For alternative performance measure definitions see glossary on page 9.
3. International Financial Reporting Standards.
4. Current period compared with prior period translated at current period exchange rates.
5. Ratio of Order intake to Sales.

Operational performance

Intelligence & Security

Air and Space Force Solutions

On the US Air Force Intercontinental Ballistic Missile Integration Support Contractor programme, we continue to provide programme management, systems engineering, integration and testing, sustainment, and cyber defence support, with cumulative funding approaching the $1.1bn (£0.8bn) contractual ceiling. We submitted a proposal for the recompete of the programme in January 2021 for the next 18-year contract. An award announcement is expected before the end of the year.

We were awarded Delivery Order 3 valued at $32m (£23m), taking our total award value to $70m (£51m) on a multi-year Indefinite Delivery, Indefinite Quantity contract to provide electronic hardware and engineering services for a US government customer, with an expected lifecycle value of $474m (£343m).

Integrated Defense Solutions

We are executing the fifth year of a five-year, $368m (£266m) sole-source contract to support weapon systems on board US Ohio and UK Vanguard Class submarines, as well as future US Columbia Class and UK Dreadnought Class submarines.

Continuing more than 30 years of strong performance for the Naval Air Warfare Center, we were awarded a five-year, $140m (£101m) follow-on contract to provide research and development, evaluation, engineering, integration, testing, logistics, alteration, installation, training, and hardware support services across a variety of fixed and mobile, shipboard, and shore-based and airborne platforms.

We were also awarded a five-year, $65m (£47m) contract to provide air traffic control (ATC) platform sustainment and engineering services to develop, produce, equip, test, sustain, and update key expeditionary ATC aviation systems.

Intelligence Solutions

We are executing on the five-year, $300m (£217m) indefinite delivery, indefinite quantity operations and maintenance contract from the Federal Emergency Management Agency, and we anticipate additional task orders later this year as we provide enterprise and mission-critical information technology support.

Following an award last year of one of three Phase I contracts from the US Marine Corps to develop a state-of-the-art wargaming system for the new Wargaming Center in Quantico, Virginia, we were subsequently down selected as the single prime contractor in Phase II. As the Lead Systems Integrator, we are conducting integrated prototyping of modelling and simulation tools, databases, and IT, which will lead to final baselining, production, and execution.

Applied Intelligence

The business has continued to perform well in the first half of 2021, benefiting from high levels of customer demand and ongoing improvements in operational efficiency. Double digit order intake and revenue growth in the core business has been driven by increased activity across our Government customer base. Profitability has continued to increase, benefiting from strong programme execution, high levels of utilisation and productivity across the workforce and a focus on optimising costs. The workforce has operated effectively throughout the pandemic, with the large majority of our people continuing to work remotely.

Government

Order intake and revenue have continued to grow in our National Security business, benefiting from increasing involvement in major customer programmes. A steady increase in skilled resources has enabled the growth, along with particularly high levels of utilisation and productivity.

Our International Government business has delivered significant revenue growth as a number of major programmes with international key accounts have ramped up in the year. Travel limitations have had some minor impacts on delivery but these have been largely overcome by effective remote working.

The UK Government business has delivered high revenue growth in the first half as a result of a number of new account wins and ongoing involvement in a number of major programmes across central Government departments.

Within our Defence business we continue to focus on enabling our customer to achieve information advantage across land, sea, air, space and cyber. Our solutions and services in cyber and electromagnetic activities, digital transformation and complex communications have continued to see high levels of customer demand, driving an increase in order intake and revenue for the business unit. Resourcing and investment in skills remains a key focus to drive further growth going forward.

Financial Services

The Financial Services business has delivered a significant improvement in profitability in the first half of the year, a result of the restructuring activity completed in the second half of 2020. Order intake growth has been driven by some large account wins in North America that position the business well for growth going forward.

Looking forward

Intelligence & Security

The outlook for the US government services sector is stable with the opportunity for modest mid-term growth, although market conditions remain highly competitive and continue to evolve in response to the change in administration and shifting government priorities. The US business remains well positioned and will continue to leverage its established market positions and reputation for reliable and adaptable performance to meet customer demands for innovative, cost-effective and cyberhardened solutions to pursue both recompeted contracts and new business across its portfolio of sustainment, integration and modernisation solutions for military and intelligence customers.

Applied Intelligence
The services and products we offer in our Government business ensure that we are well placed to deliver growth as UK cyber, data and digital budgets increase and cyber security and information advantage continue to be an important part of a nation's security.

We continue to shape the Financial Services division to deliver growth given the ongoing market demand for anti-fraud and regulatory compliance solutions.

Responsibility statement of the directors in respect of the half-yearly financial report

Each of the directors (as detailed below) confirms that to the best of his / her knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting, contained in UK-adopted IFRS.
- The interim management report on pages 1 to 31 includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules (DTR), being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
  - (b) DTR 4.2.8R of the DTR, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Company during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the directors:

Sir Roger Carr

Chairman
28 July 2021

Directors

Sir Roger Carr	Chairman
Charles Woodburn	Chief Executive
Tom Arseneault	President and Chief Executive Officer of BAE Systems, Inc.
Brad Greve	Group Finance Director
Nick Anderson	Non-executive director
Dame Elizabeth Corley	Non-executive director
Dame Carolyn Fairbairn	Non-executive director
Jane Griffiths	Non-executive director
Chris Grigg	Non-executive director
Ewan Kirk	Non-executive director
Stephen Pearce	Non-executive director
Nicole Piasecki	Non-executive director
Ian Tyler	Non-executive director

Independent review report to BAE Systems plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income, the Condensed consolidated statement of changes in equity, the Condensed consolidated balance sheet, the Condensed consolidated cash flow statement and related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards . The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London
United Kingdom

28 July 2021

Condensed consolidated income statement (unaudited)

	Notes	Six months ended 30 June 2021 £m	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Six months ended 30 June 2020 £m
Continuing operations					
Revenue	2		**9,339**		9,180
Operating costs			**(8,475)**		(8,452)
Other income			**403**		73
Share of results of equity accounted investments			**36**		7
Operating profit	2		**1,303**		808
Financial income		**93**		12	
Financial expense		**(245)**		(131)	
Net finance costs	3		**(152)**		(119)
Profit before taxation			**1,151**		689
Taxation expense	4		**(49)**		(130)
Profit for the period			**1,102**		559
Attributable to:					
Equity shareholders			**1,000**		532
Non-controlling interests			**102**		27
			1,102		559
Earnings per share	5				
Basic earnings per share			**31.3p**		16.7p
Diluted earnings per share			**31.1p**		16.6p

Condensed consolidated statement of comprehensive income (unaudited)

	Six months ended 30 June 2021			Six months ended 30 June 2020		
	Other reserves £m	**Retained earnings £m**	**Total £m**	Other reserves £m	Retained earnings £m	Total £m
Profit for the period	**–**	**1,102**	**1,102**	–	559	559
Other comprehensive income						
Items that will not be reclassified to the income statement:						
Subsidiaries:						
Remeasurements on post-employment benefit schemes	**–**	**2,157**	**2,157**	–	(2,510)	(2,510)
Tax on items that will not be reclassified to the income statement	**–**	**(320)**	**(320)**	–	575	575
Equity accounted investments (net of tax)	**–**	**55**	**55**	–	(68)	(68)
Items that may be reclassified to the income statement:						
Subsidiaries:						
Currency translation on foreign currency net investments	**(111)**	**–**	**(111)**	582	–	582
Reclassification of cumulative currency translation reserve on disposal	**(9)**	**–**	**(9)**	–	–	–
Fair value (loss)/gain arising on hedging instruments during the period	**(4)**	**–**	**(4)**	23	–	23
Cumulative fair value gain on hedging instruments reclassified to the income statement	**(23)**	**–**	**(23)**	(10)	–	(10)
Tax on items that may be reclassified to the income statement	**6**	**–**	**6**	–	–	–
Equity accounted investments (net of tax)	**(9)**	**–**	**(9)**	28	–	28
Total other comprehensive income/(expense) for the period (net of tax)	**(150)**	**1,892**	**1,742**	623	(2,003)	(1,380)
Total comprehensive income/(expense) for the period	**(150)**	**2,994**	**2,844**	623	(1,444)	(821)
Attributable to:						
Equity shareholders	**(153)**	**2,892**	**2,739**	615	(1,471)	(856)
Non-controlling interests	**3**	**102**	**105**	8	27	35
	(150)	**2,994**	**2,844**	623	(1,444)	(821)

Condensed consolidated statement of changes in equity (unaudited)

	Attributable to equity holders of BAE Systems plc						
	Issued share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2021	87	1,249	5,923	(2,616)	4,643	278	4,921
Profit for the period	–	–	–	1,000	1,000	102	1,102
Total other comprehensive income for the period	–	–	(153)	1,892	1,739	3	1,742
Total comprehensive income for the period	–	–	(153)	2,892	2,739	105	2,844
Share-based payments (inclusive of tax)	–	–	–	44	44	–	44
Cumulative fair value gain on hedging instruments transferred to the balance sheet (net of tax)	–	–	(28)	–	(28)	–	(28)
Ordinary share dividends	–	–	–	(461)	(461)	(172)	(633)
At 30 June 2021	**87**	**1,249**	**5,742**	**(141)**	**6,937**	**211**	**7,148**

	Issued share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2020	87	1,249	6,156	(2,085)	5,407	104	5,511
Profit for the period	–	–	–	532	532	27	559
Total other comprehensive income for the period	–	–	615	(2,003)	(1,388)	8	(1,380)
Total comprehensive income for the period	–	–	615	(1,471)	(856)	35	(821)
Share-based payments (inclusive of tax)	–	–	–	28	28	–	28
Partial disposal of shareholding in subsidiary undertaking	–	–	–	(6)	(6)	12	6
Cumulative fair value gain on hedging instruments transferred to the balance sheet (net of tax)	–	–	(23)	–	(23)	–	(23)
Ordinary share dividends	–	–	–	–	–	(3)	(3)
At 30 June 2020	87	1,249	6,748	(3,534)	4,550	148	4,698

Condensed consolidated balance sheet (unaudited)

	Notes	**30 June 2021 £m**	31 December 2020 £m
Non-current assets			
Intangible assets		**11,625**	11,745
Property, plant and equipment		**2,700**	2,655
Right-of-use assets		**987**	1,053
Investment property		**72**	128
Equity accounted investments		**480**	409
Other receivables		**547**	506
Post-employment benefit surpluses	6	**447**	408
Other financial assets		**300**	248
Deferred tax assets		**708**	972
		17,866	18,124
Current assets			
Inventories		**879**	858
Trade and other receivables		**2,796**	2,912
Contract receivables		**2,794**	2,579
Current tax		**68**	6
Other financial assets		**195**	189
Cash and cash equivalents		**2,611**	2,768
Assets held for sale		**–**	94
		9,343	9,406
Total assets		**27,209**	27,530
Non-current liabilities			
Loans		**(4,512)**	(4,957)
Lease liabilities		**(960)**	(1,020)
Contract liabilities		**(606)**	(524)
Other payables		**(1,189)**	(1,164)
Post-employment benefit obligations	6	**(2,804)**	(4,893)
Other financial liabilities		**(370)**	(282)
Deferred tax liabilities		**(63)**	–
Provisions		**(320)**	(386)
		(10,824)	(13,226)
Current liabilities			
Loans and overdrafts		**(763)**	(467)
Lease liabilities		**(204)**	(236)
Contract liabilities		**(2,771)**	(3,238)
Trade and other payables		**(4,981)**	(4,898)
Other financial liabilities		**(198)**	(181)
Current tax		**(31)**	(72)
Provisions		**(289)**	(291)
		(9,237)	(9,383)
Total liabilities		**(20,061)**	(22,609)
Net assets		**7,148**	4,921
Capital and reserves			
Issued share capital		**87**	87
Share premium		**1,249**	1,249
Other reserves		**5,742**	5,923
Retained earnings - deficit		**(141)**	(2,616)
Total equity attributable to equity holders of BAE Systems plc		**6,937**	4,643
Non-controlling interests		**211**	278
Total equity		**7,148**	4,921

Condensed consolidated cash flow statement (unaudited)

	Notes	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m
Profit for the period		**1,102**	559
Taxation expense		**49**	130
Adjustment in respect of research and development expenditure credits		**(12)**	(12)
Share of results of equity accounted investments		**(36)**	(7)
Net finance costs		**152**	119
Depreciation, amortisation and impairment		**337**	312
Profit on disposal of property, plant and equipment, and investment property		**(181)**	(5)
Gain on investment revaluation		**–**	(5)
Gain on disposal of businesses		**(157)**	–
Cost of equity-settled employee share schemes		**43**	29
Movements in provisions		**(62)**	8
Difference between pension funding contributions paid and the pension charge		**7**	(1,086)
Increase in working capital:			
Inventories		**(26)**	(72)
Trade, other and contract receivables		**(192)**	(46)
Trade and other payables		**(285)**	(685)
Research and development expenditure credits – cash received		**–**	162
Taxation paid		**(116)**	(128)
Net cash flow from operating activities		**623**	(727)
Dividends received from equity accounted investments		**11**	24
Interest received		**12**	12
Principal element of finance lease receipts		**5**	4
Purchases of property, plant and equipment, and investment property		**(146)**	(159)
Purchases of intangible assets		**(38)**	(42)
Proceeds from sale of property, plant and equipment, and investment property		**251**	12
Acquisition of subsidiaries	11	**(15)**	(217)
Proceeds from sale of subsidiary undertakings and equity accounted investments	11	**202**	–
Net cash flow from investing activities		**282**	(366)
Interest paid		**(129)**	(114)
Equity dividends paid	7	**(461)**	–
Dividends paid to non-controlling interests		**(172)**	(3)
Partial disposal of shareholding in subsidiary undertaking		**27**	–
Principal element of lease payments		**(128)**	(120)
Cash flow from matured derivative financial instruments		**(81)**	72
Cash flow from cash collateral		**(4)**	14
Cash inflow from loans		**–**	1,136
Net cash flow from financing activities		**(948)**	985
Net decrease in cash and cash equivalents		**(43)**	(108)
Cash and cash equivalents at 1 January		**2,667**	2,587
Effect of foreign exchange rate changes on cash and cash equivalents		**(15)**	44
Cash and cash equivalents at end of period		**2,609**	2,523
Comprising:			
Cash and cash equivalents		**2,611**	2,523
Overdrafts		**(2)**	–
Cash and cash equivalents at end of period		**2,609**	2,523

Notes to the condensed half-yearly financial statements

1. Preparation

Basis of preparation and statement of compliance
These condensed consolidated half-yearly financial statements of BAE Systems plc (the Group) have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. The annual consolidated financial statements of the Group were prepared in accordance with EU-endorsed International Financial Reporting Standards (IFRSs). The interim financial statements have been prepared in accordance with UK-endorsed International Financial Reporting Standards (IFRSs) which have not differed from the previously EU-endorsed IFRS, and hence the previously reported accounting policies still apply. These condensed consolidated half-yearly financial statements do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006 and should be read in conjunction with the Annual Report 2020. The comparative figures for the year ended 31 December 2020 are not the Group's statutory accounts for that financial year. Those financial statements have been reported upon by the Group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006.

The accounting policies adopted in the preparation of these condensed consolidated half-yearly financial statements to 30 June 2021 are consistent with the accounting policies applied by the Group in its consolidated financial statements as at, and for the year ended, 31 December 2020 as required by the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority.

New and amended standards adopted by the Group
No new or amended standards which became applicable for the current reporting period had a material impact on the Group or required the Group to change its accounting policies.

Sources of estimation uncertainty
The application of the Group's accounting policies requires the use of estimates. The impact of the COVID-19 pandemic on economic activity has been, and is expected to continue to be, significant. While the Group has addressed the impact on its business effectively to date, it continues to conduct ongoing risk assessments and scenario planning in order that it can respond to potential rapid changes in circumstances, given the continuing uncertainty relating to the impact of the pandemic. While this uncertainty continues, the Group will need to consider a range of estimates and assumptions in the application of its accounting policies and management's assessment of the carrying values of assets and liabilities. In the event that these estimates or assumptions prove to be incorrect, there may be an adjustment to the carrying values of assets and liabilities within the next year. Potential areas of the Group's financial statements which could be materially impacted may include, but are not limited to:

- revenue and margin recognition on contracts, which is based on constraints on variable consideration, estimates of future costs and an assessment of technical and other risks. The long-term nature of many of the Group's contracts means that judgements are made in estimating future costs on a contract as well as when risks will be mitigated or retired. The impact of the COVID-19 pandemic has increased uncertainty in relation to these judgements and estimates. The Group continues to work closely and collaboratively with its key customers to continue to deliver effectively on its contracts and commitments. However, the volume, scale, complexity and long-term nature of its programmes mean that a range of calculated potential sensitivities would be wide-ranging and not practicable to calculate. Owing to the ongoing uncertainty regarding the future impact of the COVID-19 pandemic, the Group's estimates and assumptions relating to revenue could be impacted by issues such as reduced productivity as a result of altered working practices to comply with safety and social distancing requirements, production delays and increased costs as a result of disruption to the supply chain or where there is uncertainty as to the recovery from customers of programme costs incurred. In the 2020 Annual Report, note 1 provided a sensitivity indicator regarding revenue in respect of performance obligations satisfied or partially satisfied in previous periods. This continues to provide an approximation of the potential revenue sensitivity arising as a result of management's estimates and assumptions for variable consideration, future costs, and technical and other risks, although given its inherent uncertainty, it may not reflect the full potential impact of the pandemic;
- the valuation of post-retirement benefit obligations and related deferred tax balances, if estimates relating to actuarial assumptions (including discount rate, inflation rate and mortality assumptions) are no longer valid or change significantly as the impact of the pandemic develops. Discount and inflation rates could change significantly as a result of an economic downturn, monetary policy decisions and interventions or other macro-economic issues resulting from the pandemic. The impact of estimates made with regard to mortality projections may also change significantly, given the uncertainty in this area resulting from the

pandemic. Note 6 provides information on the key assumptions and analysis of their sensitivities. Pension asset values could also be impacted by the economic uncertainty, for example if there is a longer term impact on equity market returns, or in relation to the valuation of assets for which there is no observable market value.

Judgements made in applying accounting policies

As noted in the 2020 Annual Report, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the financial statements.

Separate from accounting policy judgements, assessments continue to be made by each business sector to consider how to effectively manage and ensure continued delivery of their commitments to customers amid the ongoing impact of the COVID-19 pandemic. While the Group's actions and decisions to date in 2020 and 2021 have effectively addressed many of these issues, the ongoing nature of the pandemic and its continuing future uncertainty mean that these assessments remain under constant review and adaptation where necessary.

2. Segmental analysis

Sales and revenue by reporting segment

	Sales[1]		Deduct: Share of revenue of equity accounted investments		Add: Subsidiaries' revenue from equity accounted investments		Revenue	
	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m
Electronic Systems	**2,142**	2,203	**(26)**	(18)	**26**	18	**2,142**	2,203
Platforms & Services (US)	**1,595**	1,718	**(32)**	(33)	**2**	3	**1,565**	1,688
Air	**3,827**	3,610	**(1,039)**	(1,056)	**491**	475	**3,279**	3,029
Maritime	**1,656**	1,505	**(29)**	(28)	**1**	1	**1,628**	1,478
Cyber & Intelligence	**861**	913	**–**	–	**–**	–	**861**	913
HQ	**129**	102	**(110)**	(76)	**–**	–	**19**	26
	10,210	10,051	**(1,236)**	(1,211)	**520**	497	**9,494**	9,337
Intra-group sales/revenue	**(175)**	(180)	**3**	3	**17**	20	**(155)**	(157)
	10,035	9,871	**(1,233)**	(1,208)	**537**	517	**9,339**	9,180

	Intra-group revenue		Revenue from external customers	
	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m
Electronic Systems	**46**	45	**2,096**	2,158
Platforms & Services (US)	**18**	16	**1,547**	1,672
Air	**7**	7	**3,272**	3,022
Maritime	**44**	42	**1,584**	1,436
Cyber & Intelligence	**35**	41	**826**	872
HQ	**5**	6	**14**	20
	155	157	**9,339**	9,180

Sales and revenue by customer location

	Sales		Revenue	
	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m
UK	**2,388**	2,240	**1,927**	1,772
Rest of Europe	**644**	550	**635**	683
US	**4,332**	4,516	**4,330**	4,512
Canada	**70**	58	**70**	58
Saudi Arabia	**1,225**	1,190	**1,204**	1,161
Qatar	**527**	550	**484**	438
Rest of Middle East	**185**	142	**142**	73
Australia	**367**	303	**366**	305
Rest of Asia and Pacific	**220**	305	**172**	170
Africa, and Central and South America	**77**	17	**9**	8
	10,035	9,871	**9,339**	9,180

Revenue from external customers by domain

	Six months ended 30 June 2021					Six months ended 30 June 2020				
	Air £m	**Maritime £m**	**Land £m**	**Cyber £m**	**Total £m**	Air £m	Maritime £m	Land £m	Cyber £m	Total £m
Electronic Systems	**1,818**	**59**	**219**	**–**	**2,096**	1,826	54	278	–	2,158
Platforms & Services (US)	**17**	**494**	**1,035**	**–**	**1,546**	24	592	1,056	–	1,672
Air	**2,951**	**229**	**93**	**–**	**3,273**	2,750	182	90	–	3,022
Maritime	**–**	**1,492**	**92**	**–**	**1,584**	–	1,343	93	–	1,436
Cyber & Intelligence	**108**	**202**	**29**	**487**	**826**	123	211	40	498	872
HQ	**14**	**–**	**–**	**–**	**14**	20	–	–	–	20
	4,908	**2,476**	**1,468**	**487**	**9,339**	4,743	2,382	1,557	498	9,180

Underlying EBIT and operating profit/(loss) by reporting segment

	Underlying EBIT[1,2]		Non-recurring items[3]		Amortisation of programme, customer-related and other intangible assets[2]		Financial and taxation expense of equity accounted investments		Operating profit/(loss)	
	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m
Electronic Systems	**335**	286	**33**	(3)	**(41)**	(2)	**–**	–	**327**	281
Platforms & Services (US)	**109**	118	**–**	(14)	**–**	–	**(2)**	1	**107**	105
Air	**407**	340	**131**	–	**(1)**	–	**(15)**	(16)	**522**	324
Maritime	**149**	109	**–**	–	**(1)**	–	**(2)**	(1)	**146**	108
Cyber & Intelligence	**84**	59	**–**	(2)	**–**	(1)	**–**	–	**84**	56
HQ	**(56)**	(63)	**182**	(2)	**–**	–	**(9)**	(1)	**117**	(66)
	1,028	849	**346**	(21)	**(43)**	(3)	**(28)**	(17)	**1,303**	808
Net finance costs									**(152)**	(119)
Profit before taxation									**1,151**	689
Taxation expense									**(49)**	(130)
Profit for the period									**1,102**	559

1. The totals of these measures are not defined in International Financial Reporting Standards (IFRS) and, therefore, are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. For alternative performance measure definitions see glossary on page 9.
2. 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 previously reported underlying EBITA measure, as 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. The underlying performance for 2020 of segments and the Group has been re-presented on this new basis.
3. Non-recurring items in 2021 comprises a £182m gain on disposal of investment property in HQ, a £7m gain in Electronic Systems in relation to a historical acquisition, and £157m from gains on disposal of subsidiaries and equity accounted investments recognised in Electronic Systems (£26m) and Air (£131m). £63m of the gain on disposal of AEC recognised in 2021 is attributable to non-controlling interest, details of which are available in note 11. (2020 comprises a £14m impairment charge relating to Platform & Services' legacy Commercial Shipbuilding business which the business exited in 2018, and advisory fees of £7m relating to the Group's acquisition and disposal activities).

Underlying EBIT is the Group's measure of profit/(loss) for each reportable segment. The table above is provided to reconcile the total of the reportable segments' underlying EBIT to the Group's profit for the period.

Performance obligations

The Group's order book[1], reconciled to order backlog as defined by the Group, is shown below.

	30 June 2021 £bn	31 December 2020 £bn
Order backlog as defined by the Group	**44.6**	45.2
Deduct: Unfunded order backlog	**(2.2)**	(2.2)
Deduct: Share of order backlog of equity accounted investments	**(10.9)**	(10.9)
Add: Order backlog in respect of orders from equity accounted investments	**4.0**	4.2
Order book[1]	**35.5**	36.3

1. Order book represents the transaction price allocated to unsatisfied and partially satisfied performance obligations as defined by IFRS 15 Revenue from Contracts with Customers.

3. Net finance costs

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m
Net finance costs:		
Group	**(152)**	(119)
Share of equity accounted investments	**(15)**	(15)
Total of Group and equity accounted investments finance costs	**(167)**	(134)
Analysed as:		
Underlying interest expense:		
Group	**(110)**	(118)
Share of equity accounted investments	**(12)**	(9)
	(122)	(127)
Other:		
Group:		
Net interest expense on post-employment benefit obligations	**(33)**	(43)
Fair value and foreign exchange adjustments on financial instruments and investments	**(9)**	42
Share of equity accounted investments:		
Net interest expense on post-employment benefit obligations	**(1)**	(1)
Fair value and foreign exchange adjustments on financial instruments and investments	**(2)**	(5)
Total of Group and equity accounted investments finance costs	**(167)**	(134)

4. Taxation

Taxation expense

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m
Taxation expense	**(49)**	(130)

Calculation of the underlying effective tax rate

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m
Profit before taxation	**1,151**	689
Add back: Taxation expense of equity accounted investments	**13**	2
(Deduct) / add back: Taxable non-recurring items	**(339)**	–
(Deduct) / add back: Non-taxable non-recurring items	**(7)**	7
Adjusted profit before tax	**818**	698
Taxation expense	**(49)**	(130)
Taxation expense of equity accounted investments	**(13)**	(2)
Exclude: one-off tax benefit	**(94)**	–
Exclude: taxation adjustments in respect of non-recurring items	**6**	–
Adjusted taxation expense (including equity accounted investments)	**(150)**	(132)
Underlying effective tax rate	**18%**	19%

The taxation expense has been determined by calculating an estimated annual tax rate for each country or entity, and then applying those rates to half year profits or losses.

As at 30 June 2021, an increase in the UK current tax rate has been substantively enacted, from 19% to 25% with effect from 1 April 2023. An adjustment has been made to reflect the fact that a portion of UK deferred tax balances are expected to unwind at 25%. This adjustment has been recorded as a non-recurring gain of £9m in the condensed consolidated income statement and as a gain of £101m in the condensed consolidated statement of comprehensive income. US deferred tax balances have not yet been adjusted for a potential increase in the US current tax rate, as an increase has not yet been passed into law.

The one-off tax benefit of £94m is in respect of agreements reached regarding the exposure arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company regime.

The Group has recognised a deferred tax asset of £481m in respect of the deficits in its UK post-employment benefit schemes. It is management's judgement that the Group will generate sufficient taxable profits to recover the deferred tax asset recognised.

5. Earnings per share

	Six months ended 30 June 2021			Six months ended 30 June 2020		
	£m	**Basic pence per share**	**Diluted pence per share**	£m	Basic pence per share	Diluted pence per share
Profit for the period attributable to equity shareholders	**1,000**	**31.3**	**31.1**	532	16.7	16.6
Add back/(deduct):						
Non-recurring items attributable to shareholders, post tax[1]	**(277)**			18		
Amortisation of programme, customer-related and other intangible assets, post tax[2]	**35**			3		
Net interest expense on post-employment benefit obligations, post tax[2]	**27**			35		
Fair value and foreign exchange adjustments on financial instruments and investments, post tax[2]	**10**			(30)		
Underlying earnings attributable to shareholders, post tax[3]	**795**	**24.8**	**24.7**	558	17.5	17.3
One-off tax benefit	**(94)**			–		
Underlying earnings attributable to shareholders, excluding one-off tax benefit	**701**	**21.9**	**21.8**	558	17.5	17.3

		Millions	**Millions**		Millions	Millions
Weighted average number of shares used in calculating basic earnings per share		**3,200**	**3,200**		3,189	3,189
Incremental shares in respect of employee share schemes			**19**			19
Weighted average number of shares used in calculating diluted earnings per share			**3,219**			3,208

1. In 2021, £63m of the gain on disposal of AEC was attributable to non-controlling interest. Therefore, only the gain attributable to shareholders has been removed in calculating the underlying earnings attributable to shareholders. See note 11 for more details. The tax on non-recurring items has been determined using the actual tax due on those items, see note 4 for details.
2. The tax impact, where applicable, is calculated using the underlying effective tax rate of 18% (2020 19%).
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 previously reported underlying EBITA measure, as 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.

6. Post-employment benefits

	UK £m	US and other £m	Total £m
Total net IAS 19 deficit at 1 January 2021	(4,362)	(483)	(4,845)
Actual return on assets excluding amounts included in net interest expense	681	12	693
Decrease in liabilities due to changes in assumptions and experience	1,425	203	1,628
Contributions in excess of / (below) service cost	23	(6)	17
Past service cost – plan amendments	(2)	–	(2)
Net interest expense	(29)	(5)	(34)
Foreign exchange adjustments	–	8	8
Movement in other schemes	–	(7)	(7)
Total net IAS 19 deficit at 30 June 2021	**(2,264)**	**(278)**	**(2,542)**
Allocated to equity accounted investments	185	–	185
Group's share of net IAS 19 deficit excluding Group's share of amounts allocated to equity accounted investments at 30 June 2021	**(2,079)**	**(278)**	**(2,357)**
Represented by:			
Post-employment benefit surpluses	326	121	447
Post-employment benefit obligations	(2,405)	(399)	(2,804)
	(2,079)	**(278)**	**(2,357)**

Deficit allocation

MBDA participates in the Group's defined benefit schemes and, as these are multi-employer schemes, the Group has allocated a share of the IAS 19 pension surpluses and deficits to MBDA based on the relative payroll contributions of active members or actual obligations where known. Whilst this methodology is intended to reflect a reasonable estimate of the share of the deficit, it may not accurately reflect the obligations of the participating employers.

In the event that an employer who participates in the Group's pension schemes fails or cannot be compelled to fulfil its obligations as a participating employer, the remaining participating employers are obliged to collectively take on its obligations. The Group considers the likelihood of this event arising as remote.

Principal actuarial assumptions

The assumptions used are estimates chosen from a range of possible actuarial assumptions which, due to the long-term nature of the obligation covered, may not necessarily occur in practice.

	UK		US	
	30 June 2021	31 December 2020	**30 June 2021**	31 December 2020
Financial assumptions				
Discount rate – past service (%)	**1.9**	1.4	**2.8**	2.4
Discount rate – future service (%)	**2.0**	1.6	**2.8**	2.4
Retail Prices Index (RPI) inflation (%)	**2.9**	2.7	**n/a**	n/a
Rate of increase in salaries (%)	**2.9**	2.7	**n/a**	n/a
Rate of increase in deferred pensions (%)	**2.2/2.9**	2.0/2.7	**n/a**	n/a
Rate of increase in pensions in payment (%)	**1.7-3.6**	1.6-3.6	**n/a**	n/a
Demographic assumptions				
Life expectancy of a male currently aged 65 (years)	**86-88**	86-88	**87**	87
Life expectancy of a female currently aged 65 (years)	**88-90**	88-90	**89**	89
Life expectancy of a male currently aged 45 (years)	**87-89**	87-89	**87**	87
Life expectancy of a female currently aged 45 (years)	**89-91**	89-91	**88**	88

The Group has used the Continuous Mortality Investigation (CMI) 2020 data for the UK demographic assumptions at 30 June 2021, reflecting the Group's best estimate of mortality at this time. In line with the CMI guidance, the Group has chosen to apply a weighting to the 2020 data, in recognition of the abnormal excess deaths as a result of COVID-19. No further adjustments have been made to the improvements expected in future years. The impacts of COVID-19 will continue to be monitored and assessed at future reporting dates.

Sensitivity analysis
The sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 30 June 2021 and keeping all other assumptions the same.

Financial assumptions
The estimated impact of changes in the discount rate and inflation assumptions on the defined benefit pension obligation, together with the estimated impact on scheme assets, is shown in the table below. The estimated impact on scheme assets takes into account the Group's risk management activities in respect of interest rate and inflation risk. The sensitivity analysis on the defined benefit obligation is measured on an IAS 19 accounting basis and, therefore, does not reflect the natural hedging in the discount rate used for funding valuation purposes.

	(Increase)/ decrease in pension obligation[1] £bn	Increase/ (decrease) in scheme assets[1] £bn
Discount rate:		
0.1 percentage point increase	0.5	(0.3)
0.1 percentage point decrease	(0.5)	0.3
Inflation:		
0.1 percentage point increase	(0.5)	0.2
0.1 percentage point decrease	0.5	(0.2)

1. Before allocation to equity accounted investments.

The sensitivity of the valuation of the liabilities to changes in the inflation assumption presented above assumes that a 0.1 percentage point change to expectations of future inflation results in a 0.1 percentage point change to all inflation-related assumptions (rate of increase in salaries, rate of increase in deferred pensions and rate of increase in pensions in payment) used to value the liabilities. However, upper and lower limits exist on the majority of inflation-related benefits such that a change in expectations of future inflation may not have the same impact on the inflation-related benefits, and hence will result in a smaller change to the valuation of the liabilities. Accordingly, extrapolation of the above results beyond the specific sensitivity figures shown may not be appropriate. To illustrate this, the (increase) / decrease in the defined benefit pension obligation before allocation to equity accounted investments resulting from larger changes in the inflation assumption would be as follows:

	(Increase)/ decrease in pension obligation[1] £bn
Inflation:	
0.5 percentage point increase	(1.4)
0.5 percentage point decrease	1.4
1.0 percentage point increase	(2.8)
1.0 percentage point decrease	2.7

1. Before allocation to equity accounted investments.

Demographic assumptions
Changes in the life expectancy assumption, including the benefit of longevity swap arrangements, would have the following effect on the total net IAS 19 deficit:

	(Increase)/ decrease in net deficit[1] £bn
Life expectancy:	
One-year increase	(1.4)
One-year decrease	1.3

1. Before allocation to equity accounted investments.

7. Equity dividends

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m
Prior year final 14.3p dividend per ordinary share paid in the period (2020 nil)	**461**	–

The directors have declared an interim dividend of 9.9p per ordinary share in respect of the period ended 30 June 2021, totalling approximately £320m. This will be paid on 30 November 2021 to shareholders registered on 22 October 2021. The ex-dividend date is 21 October 2021. This is in line with our usual dividend timetable.

Shareholders who do not at present participate in the Company's Dividend Reinvestment Plan and wish to receive the final dividend in shares rather than cash should complete a mandate form for the Dividend Reinvestment Plan and return it to the registrars for receipt no later than 5 November 2021.

8. Fair value measurement

Fair value of financial instruments

Certain of the Group's financial instruments are held at fair value.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date.

The fair values of financial instruments held at fair value have been determined based on available market information at the balance sheet date, and the valuation methodologies listed below:

– the fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate balance sheet rates;

– the fair values of both interest rate and cross-currency swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate balance sheet rates; and

– the fair values of money market funds are calculated by multiplying the net asset value per share by the investment held at the balance sheet date.

Due to the variability of the valuation factors, the fair values presented at 30 June may not be indicative of the amounts the Group would expect to realise in the current market environment.

Fair value hierarchy

The fair value measurement hierarchy is as follows:

– Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

– Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Carrying amounts and fair values of certain financial instruments

	30 June 2021		31 December 2020	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial instruments measured at fair value:				
Non-current				
Other financial assets	**300**	**300**	248	248
Other financial liabilities	**(370)**	**(370)**	(282)	(282)
Current				
Other financial assets	**195**	**195**	189	189
Money market funds	**807**	**807**	966	966
Other financial liabilities	**(198)**	**(198)**	(181)	(181)
Financial instruments not measured at fair value:				
Non-current				
Loans	**(4,512)**	**(5,033)**	(4,957)	(5,737)
Current				
Cash and cash equivalents (excluding money market funds)	**1,804**	**1,804**	1,802	1,802
Loans and overdrafts	**(763)**	**(780)**	(467)	(479)

All of the financial assets and liabilities measured at fair value are classified as level 2 using the fair value hierarchy, except for money market funds, which are classified as level 1. There were no transfers between levels during the period.

Financial assets and liabilities in the Group's consolidated balance sheet are either held at fair value or their carrying value approximates to fair value, with the exception of loans, which are held at amortised cost. The fair value of loans presented in the table above is derived from market prices, classified as level 1 using the fair value hierarchy.

9. Financial risk management

Currency risk
The Group's objective is to reduce its exposure to transactional volatility in earnings and cash flows from movements in foreign currency exchange rates, mainly the US dollar, euro, Saudi riyal and Australian dollar.

The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. All material firm transactional exposures are hedged and the Group aims, where possible, to apply hedge accounting to these transactions.

The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. The Group does not hedge the translation effect of exchange rate movements on the income statements or balance sheets of foreign subsidiaries and equity accounted investments it regards as long-term investments.

Credit risk
For trade receivables, contract receivables, amounts due from equity accounted investments and finance lease receivables, the Group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Group's assessment is that credit risk in relation to defence-related sales to government customers or subcontractors to governments is extremely low as the probability of default is insignificant; therefore the provision for expected credit losses is immaterial in respect of receivables from these customers. For all non-government commercial customers, the Group assesses expected credit losses, including risks arising as a result of the COVID-19 pandemic; however this is not considered material to the financial statements. The Group considers that default has occurred when a non-government commercial receivable is past 180 days overdue, because historical experience indicates that these receivables are generally not recoverable. The Group recognises a provision of 100% against all such receivables over 180 days past due unless there is evidence that individual receivables in this category are recoverable.

For contract receivables, amounts due from equity accounted investments and finance lease receivables the expected credit loss provision is immaterial as the probability of default is insignificant.

Cash management and borrowing facilities
Cash flow forecasting is performed by the businesses on a monthly basis. The Group monitors a rolling forecast of its liquidity requirements to ensure that there is sufficient cash to meet operational needs and maintain adequate headroom.

The Group aims to maintain adequate undrawn committed borrowing facilities. At 30 June 2021, the Group had a committed Revolving Credit Facility (RCF) of £2bn (31 December 2020 £2bn). The RCF was undrawn throughout the period. The RCF also acts as a backstop to Commercial Paper issued by the Group. At 30 June 2021, the Group had £nil of Commercial Paper in issue (31 December 2020 £nil).

10. Related party transactions

Transactions with related parties occur in the normal course of business, are priced on an arm's-length basis and settled on normal trade terms. The transactions with related parties include sales and purchases to entities in which BAE Systems hold an equity accounted investment.

Transactions with related parties are shown on page 249 of the Annual Report 2020.

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m
Sales to related parties	**530**	517
Purchases from related parties	**186**	423

	30 June 2021 £m	31 December 2020 £m
Amounts owed by related parties	**102**	69
Amounts owed to related parties	**1,263**	1,379

11. Acquisitions and disposals

Acquisitions

On 4 March 2021, BAE Systems acquired Pulse Power and Measurement Ltd for a consideration of £21m. The provisional net assets acquired, including intangible assets identified, have been valued at £11m, resulting in a provisional goodwill of £10m.

In 2020, the Group acquired the assets and liabilities of Raytheon Technologies Corporation's Airborne Tactical Radios business (Airborne Tactical Radios business) along with Collins Aerospace Military Global Positioning System business (Military GPS business) from Raytheon Technologies Corporation, as well as the entire share capital of Techmodal Limited (Techmodal). The evaluation of the fair values of the assets and liabilities acquired have been finalised, and there have been no changes to the fair values disclosed in the 2020 Annual Report.

Disposals

In December 2020, the Group's Overhaul and Maintenance Company (OMC) entered into a heads of terms for the sale of its 50% shareholding in Advanced Electronics Company Limited (AEC) to Saudi Arabian Military Industries, and was reported in the financial statements for the year ending 31 December 2020 as assets held for sale. The sale was completed on 23 February 2021. AEC was included in the Air segment.

The gain recognised on disposal was as follows:

	£m
Cash received or receivable:	
Cash	180
Deferred consideration	32
Total disposal consideration	**212**
Carrying amount of net assets sold (see below)	(90)
Gain on sale before tax and reclassification of foreign currency translation reserve	**122**
Reclassification of foreign currency translation reserve	9
Gain on sale before tax	**131**

Attributable to:	
Equity shareholders	68
Non-controlling interest	63

Net cash inflow arising on disposal:	
Cash consideration received	180
Less: cash and cash equivalents disposed	–
	180

Of the total consideration receivable, £32m is deferred and will be received over the 18 months following disposal. The gain on disposal has been included in the profit for the period from continuing operations as a component of Other income, and recognised as a non-recurring item.

The Group's share of the net assets of AEC as at the date of disposal was as follows:

	£m
Intangible assets including goodwill	16
Property, plant and equipment	8
Equity accounted investments	66
Net assets disposed	90

On 1 April 2021 BAE Systems agreed the sale of BAE Systems Rokar International Limited (Rokar) for $31m (£22m) net of cash held by Rokar. This resulted in consideration received of $47m (£34m), a disposal of net assets of $12m (£8m), including $16m (£12m) of cash, and a gain before tax on disposal of $35m (£26m) which has been included in the profit for the period from continuing operations as a component of Other income, and recognised as a non-recurring item. Rokar was within the Electronic Systems segment.

There were no disposals of subsidiaries made in the six months to 30 June 2020.

12. Contingent liabilities

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business and regards these as insurance contracts. From time to time various Group undertakings are parties to legal actions, investigations and claims which arise in the normal course of business. Provision is made for any amounts that the directors consider may become payable. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation.

13. Events after the reporting period

There have been no material events after the balance sheet date requiring disclosure.

14. Shareholder information

The Annual General Meeting of BAE Systems plc will be held on 5 May 2022.

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Registered in England and Wales, No 01470151

Cautionary statement:

All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of BAE Systems and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of BAE Systems or the markets and economies in which BAE Systems operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. BAE Systems plc and its directors accept no liability to third parties in respect of this report save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Schedule 10A of the Financial Services and Markets Act 2000. It should be noted that Schedule 10A contains limits on the liability of the directors of BAE Systems plc so that their liability is solely to BAE Systems plc.