

23 February 2023

BAE SYSTEMS ANNOUNCES 2022 FULL YEAR RESULTS

BAE Systems plc

Preliminary Announcement 2022

Charles Woodburn, Chief Executive, said: *"We've delivered another year of strong results across the Group. Our employees have done an outstanding job to effectively manage supply chain and inflationary pressures whilst delivering critical capabilities and driving efficiencies for our customers."*

"Our diverse geographic footprint, deep customer relationships and highly relevant, leading defence technologies mean we're well positioned to support national security requirements in an elevated threat environment."

"Our record orders and financial performance give us confidence in delivering long-term growth and to continue investing in new technologies, facilities and thousands of highly skilled jobs, whilst increasing shareholder returns."

Results in brief

Financial performance measures as defined by the Group²

| | Year ended 31 December 2022 | Year ended 31 December 2021 | Variance ³ |
|--|-----------------------------------|--------------------------------|-----------------------|
| Sales | £23,256m | £21,310m | +4.4% |
| Underlying EBIT | £2,479m | £2,205m | +5.5% |
| Underlying earnings per share | | | |
| excluding one-off tax benefit (2021 only) ⁴ | 55.5p | 47.8p | +9.5% |
| including one-off tax benefit (2021 only) ⁴ | 55.5p | 50.7p | |
| Free cash flow | £1,950m | £1,864m | +£86m |
| Net debt (excluding lease liabilities) | £(2,023)m | £(2,160)m | +£137m |
| Order intake ⁵ | £37,093m | £21,458m | +£15,635m |
| Order backlog ⁵ | £58.9bn | £44.0bn | +£14.9bn |

Financial performance measures as derived from IFRS²

| | Year ended 31 December 2022 | Year ended 31 December 2021 | Variance ³ |
|------------------|-----------------------------------|--------------------------------|-----------------------|
| Revenue | £21,258m | £19,521m | +8.9% |
| Operating profit | £2,384m | £2,389m | - |

| | | | |
|---|----------------|----------|----------|
| Basic earnings per share | 51.1p | 55.2p | -7.4% |
| Dividend per share | 27.0p | 25.1p | +7.6% |
| Net cash flow from operating activities | £2,839m | £2,447m | +£392m |
| Group's share of net post-employment benefits surplus/(deficit) | £0.6bn | £(2.1)bn | +£2.7bn |
| Order book | £48.9bn | £35.5bn | +£13.4bn |

1. Growth rate on a constant currency basis.
2. We monitor the underlying financial performance of the Group using alternative performance measures. These measures are not defined in International Financial Reporting Standards (IFRS) and therefore are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. Accordingly, the relevant IFRS measures are also presented where appropriate. The purposes and definitions of non-GAAP measures are provided in the Financial performance metrics on page 8.
3. Growth rates for sales, Underlying EBIT and Underlying EPS are on a constant currency basis (i.e. current year compared with prior year translated at current year exchange rates). All other growth rates and year-on-year movements are on a reported currency basis.
4. A one-off tax benefit of £94m was recognised in the prior year, in respect of agreements reached regarding the exposure arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company regime.
5. Including share of equity accounted investments.

Financial highlights

- Record Order intake of £37.1bn propelled Order backlog to £58.9bn.
- Sales increased by 4.4%¹ to £23.3bn.
- Expanded Return on sales by 20bps¹, to 10.7%.
- Underlying earnings per share increased by 9.5%¹ to 55.5p.
- Free cash flow of £2.0bn exceeded expectations.
- Increased investment in capital expenditure and R&D.
- Share repurchases totalling £0.8bn in the year.
- Dividend increased by 7.6%.

Strategic progress

- Shaped portfolio with acquisition and integration of Bohemia Interactive Simulations (BISim) into the US-based Intelligence & Security business and divested our non-strategic financial crime detection business in Digital Intelligence.
- Group pension schemes are in a net accounting surplus, resulting in a stronger balance sheet and improved financial flexibility for capital allocation priorities such as dividend growth, M&A and share repurchases.
- Evolved our ESG agenda, supporting our employees and our communities, maintaining high standards of corporate governance, and progressing towards our Net Zero 2030 target.
- Increased self-funded R&D and capital expenditure, as well as apprentice and graduate intake in the year to support our growth outlook.

Operational highlights

Electronic Systems

- Opened state-of-the-art facilities in Manchester, New Hampshire; Cedar Rapids, Iowa; and Austin, Texas.
- Maintained electronic warfare system deliveries across F-35, F-15E and F-15EX and other aircraft platforms.
- Selected to design energy management components for GE Aviation's megawatt class hybrid electric propulsion system, supporting NASA's Electrified Powertrain Flight Demonstration project.

Platforms & Services

- Maintained high production tempo on combat vehicles.
- Major new orders and production increases for CV90 and BvS10 vehicles at Hägglunds.
- Ship Repair business activity continues to rebound from COVID-19 related headwinds.

Air

- UK, Japanese and Italian governments reached agreement to merge Tempest sixth generation fighter with Japanese F-X programme to form the Global Combat Air Programme (GCAP).
- Delivered first eight of 24 Eurofighter Typhoons to Qatar.
- F-35 rear fuselage production at full rate levels, with 150 assemblies completed in the year.

Maritime

- Astute Boat five, HMS Anson, exited our Barrow shipyard to commence sea trials in February 2023.
- First Type 26 frigate entered the water and is being outfitted at Scotstoun shipyard in Glasgow.
- Continued progress on UK's Dreadnought submarine programme and Australia's Hunter Class frigates programme.

Cyber & Intelligence

- Established Digital Intelligence by combining cyber, space, data analysis, digital transformation, and other advanced capabilities into one unit.
- Strong order intake, revenue growth and programme execution in both Intelligence & Security and Digital Intelligence.
- Completed the acquisition of BISim, which provides cutting-edge virtual training for allied militaries.

Brad Greve, Group Finance Director said, *"We've delivered sales, underlying EPS and free cash flow all above guidance which is a testament to our people and their continued, long-term focus on operational excellence."*

"Our backlog is at £59bn, we're accelerating our investment in the business and making excellent progress on our share buyback programme, which complements the proposed increase in the dividend."

"For 2023, we're forecasting further top-line growth, continued margin expansion, higher EPS and we're also increasing our rolling three-year cash targets, all of which demonstrate that the business has growing momentum for the future."

Guidance for 2023

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

The guidance is based on the measures used to monitor the underlying financial performance of the Group. Reconciliations from these measures to the financial performance measures defined in International Financial Reporting Standards for 2022 are provided in our financial review on pages 11 to 16.

With a strong year behind us, we look forward to continued top-line growth with increased return on sales and good free cash delivery against our rolling targets. Our guidance uses the same exchange rate we averaged in 2022 of \$1.24:£1.

| | Year ended | |
|-------------------------------------|--|--|
| | 31 December 2023 Guidance | Year ended 31 December 2022 Results |
| Sales | Increase by 3% to 5% | £23,256m |
| Underlying EBIT | Increase by 4% to 6% | £2,479m |
| Underlying EPS | Increase by 5% to 7% | 55.5p |
| Free cash flow | >£1.2bn | £1,950m |
| Cumulative free cash flow 2023-2025 | £4bn - £5bn | |

For more information about this news release, please visit: baesystems.com/results