BAE SYSTEMS

Half-yearly Report 2023

BAE Systems plc
Half-yearly Report 2023

Financial highlights

Financial performance measures as defined by the Group[1]

- Order intake of £21.1bn, resulting in a record order backlog of £66.2bn.
- Sales increased by 11%[2] to £12.0bn.
- Underlying EBIT up 10%[2] to £1.3bn.
- Underlying earnings per share increased by 17%[2] to 29.6p.
- Free cash flow of £1.1bn.

Financial performance measures as derived from IFRS[1]

- Revenue increased by 13%[3] to £11.0bn.
- Operating profit up 20%[3] to £1.2bn.
- Basic earnings per share up 62%[3] to 31.8p.
- Net cash flow from operating activities of £1.5bn.

Capital distributions

- The directors have declared an interim dividend of 11.5p per share in respect of the half year ended 30 June 2023. This represents an increase of 11% compared to the interim dividend declared in respect of the half year ended 30 June 2022. This will be paid on 30 November 2023 in line with our usual dividend timetable.
- Commenced third tranche of £1.5bn share buyback programme on 1 June 2023. As at 30 June 2023, the Company had repurchased 123.5m shares under this programme in aggregate at a total price, including transaction fees, of £1.0bn, with 40.5m shares repurchased since 1 January 2023 at a total price, including transaction fees, of £0.4bn.
- The directors have also approved a further share buyback programme of up to £1.5bn. This further programme is expected to roll-on after completion of the current buyback programme and complete within three years of its commencement.

Results in brief

Financial performance measures as defined by the Group[1]	**Six months ended 30 June 2023**	Six months ended 30 June 2022	Year ended 31 December 2022
Sales	**£12,018m**	£10,581m	£23,256m
Underlying EBIT	**£1,258m**	£1,112m	£2,479m
Underlying earnings per share	**29.6p**	24.5p	55.5p
Free cash flow	**£1,070m**	£123m	£1,950m
Net debt (excluding lease liabilities)	**£(1,833)m**	£(3,135)m	£(2,023)m
Order intake	**£21.1bn**	£18.0bn	£37.1bn
Order backlog	**£66.2bn**	£52.7bn	£58.9bn
Financial performance measures as derived from IFRS[1]	**Six months ended 30 June 2023**	Six months ended 30 June 2022	Year ended 31 December 2022
Revenue	**£10,997m**	£9,739m	£21,258m
Operating profit	**£1,233m**	£1,028m	£2,384m
Basic earnings per share	**31.8p**	19.6p	51.1p
Dividend per share	**11.5p**	10.4p	27.0p
Net cash flow from operating activities	**£1,484m**	£493m	£2,839m
Group's share of net post-employment benefits surplus	**£638m**	£940m	£646m
Order book	**£55.3bn**	£42.5bn	£48.9bn

1. We monitor the underlying financial performance of the Group using alternative performance measures. These measures are not defined in International Financial Reporting Standards (IFRS) and therefore are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. Accordingly, the relevant IFRS measures are also presented where appropriate. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.
2. Growth rate on a constant currency basis.
3. Growth rate on a reported currency basis.

Charles Woodburn, Chief Executive, said: *"We've delivered a strong financial performance in the first half of the year, thanks to the outstanding efforts of our employees.*

"Our global footprint, deep customer relationships and leading technologies enable us to effectively support the national security requirements and multi-domain ambitions of our government customers in an increasingly uncertain world.

"With a record order backlog and good operational performance, we're well positioned to continue delivering sustained growth in the coming years, giving us confidence to continue investing in new technologies, facilities, highly-skilled jobs and in our local communities."

Strategic progress

During the first half of the year, we have continued to deliver against our strategic priorities to: drive operational excellence; continuously improve competitiveness and efficiency; and advance and further leverage our technology. Examples of this in the period include:

- On 13 March, as part of the AUKUS trilateral programme between Australia, the United Kingdom and the United States, it was announced that BAE Systems will play a key role in helping Australia to acquire its first nuclear powered submarines. The three nations will deliver a trilaterally-developed submarine, based on the UK's next-generation design, incorporating technology from all three nations. Australia and the UK will operate SSN-AUKUS as their submarines of the future, with construction expected to begin this decade.
- BAE Systems has received new investment from the Ministry of Defence to boost technologies for the UK's future combat aircraft. The contract extension, worth £0.7bn, will build on the innovative science, research and engineering already completed under the first phase of the contract delivered by UK Tempest partners BAE Systems, Leonardo UK, MBDA UK and Rolls-Royce.
- BAE Systems and Heart Aerospace, a Swedish electric airplane maker, announced a collaboration to define the battery system for Heart's ES-30 regional electric airplane. The battery will be the first-of-its-kind to be integrated into an electric conventional take-off and landing (eCTOL) regional aircraft, allowing it to efficiently operate with zero emissions and low noise.
- BAE Systems and Microsoft have signed a strategic agreement aiming to support faster and easier development, deployment and management of digital defence capabilities for our customers.

Operational highlights

- On 24 May, the Czech Republic awarded BAE Systems Hägglunds a contract to produce 246 CV90 MkIV infantry fighting vehicles in seven different variants. The contract is valued at £1.8bn. The CV90s will be developed and delivered through an industrial partnership with Czech industry to meet the requirements of the Czech Ministry of Defence and the intention of maintaining national sovereignty for the Czech Republic.
- In Electronic Systems, our newest state-of-the-art facilities, which were recently opened in: Manchester, New Hampshire; Cedar Rapids, Iowa; and Austin, Texas, are now providing world-class work environments that support innovation, production and teamwork, which will help us to continue to deliver cutting-edge technology to our customers.
- Our Combat Mission Systems business, within our Platforms & Services sector, once again received the James S. Cogswell Outstanding Industrial Security Achievement Award from the Defense Counterintelligence and Security Agency (DCSA) for two of its facilities. This award has a rigorous selection process with only 19 facilities receiving the award from around 13,000 cleared facilities.
- In our Air sector, activity on our Qatar Typhoon and Hawk programmes continued. Four further Typhoon deliveries took place in the period, with a total of 12 aircraft now in service with the Qatar Emiri Air Force.
- MBDA has been contracted by the Polish Armament Agency to supply Launchers and Common Anti-Air Module Missiles (CAMM) for Poland's PILICA+ Air Defence upgrade programme. The contract is the largest European short-range Air Defence acquisition programme in NATO.
- In Maritime, the fifth Astute class submarine, HMS Anson, left our Submarines site in Barrow-in-Furness during February to begin sea trials with the Royal Navy. The steel cut ceremony for the fourth of eight Type 26 frigates, HMS Birmingham, took place in April.

Brad Greve, Group Finance Director said: *"This is a strong set of half-year results delivering good sales and earnings growth, and giving us confidence to increase our year-end guidance for sales, underlying EBIT, underlying earnings per share and free cash flow. The record order backlog and continued good operational performance gives us more visibility and confidence in our three financial priorities - sales growth, margin expansion and high sustained cash conversion, operating under a disciplined capital allocation policy."*

2023 Upgraded Group guidance

While the Group is subject to geopolitical and other uncertainties, the following upgraded 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 IFRS are provided in our financial review on pages 9 to 15.

Sales guidance is increased by 200 bps to 5% to 7%, reflecting the accelerated spend profile on the Dreadnought programme and good demand and operational performance across all sectors.

Underlying EBIT guidance is increased by 200 bps to 6% to 8%, reflecting the sales profile and good operational performance.

Underlying earnings per share guidance is increased by 500 bps to 10% to 12%, reflecting higher profit, higher interest income and a reduction in the expected tax rate to 19%.

Cash generation for the first half of the year was strong, driven by advance payments, and is expected to be maintained through the year and we are therefore increasing our in-year free cash guide by £600m to >£1.8bn.

Our three-year cumulative free cash flow guidance has been upgraded, as shown in the table below.

Group guidance

Guidance is provided on the basis of an exchange rate of $1.24:£1, which is in line with the actual 2022 exchange rate, and therefore guidance is the same for both reported and constant exchange rates.

Year ended 31 December 2023	**Updated Guidance**	**Previous Guidance**	**Year ended 31 December 2022 Results**
Sales	Increase by 5% to 7%	Increase by 3% to 5%	£23,256m
Underlying EBIT	Increase by 6% to 8%	Increase by 4% to 6%	£2,479m
Underlying earnings per share	Increase by 10% to 12%	Increase by 5% to 7%	55.5p
Free cash flow	>£1.8bn	>£1.2bn	£1,950m

Cumulative free cash flow guidance	**Updated Guidance**	**Previous Guidance**
Cumulative free cash flow 2023-2025	£4.5bn to £5.5bn	£4bn to £5bn
Cumulative free cash flow 2022-2024	In excess of £5.0bn	In excess of £4.5bn
Cumulative free cash flow 2021-2023	In excess of £5.5bn	In excess of £5.0bn

- Underlying finance costs c.£220m
- Effective tax rate c.19%
- Non-controlling interests c.£80m

Sensitivity to foreign exchange rates: the Group operates in a number of currencies, the most significant of which is the US dollar. As a guide, a 5 cent movement in the £/$ exchange rate will impact sales by c.£400m, underlying EBIT by c.£55m and underlying earnings per share by c.1p.

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Analyst and investor presentation

A presentation, for analysts and investors, of the Group's Half-yearly results for 2023 will be available at 7.15am today (2 August 2023) on the investor website, followed by a Q&A at 11.00am UK time.

Details can be found on **investors.baesystems.com**, together with presentation slides and a pdf copy of this report. A recording of the Q&A webcast 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 96,200 people[1] in around 40 countries. Working with customers and local partners, we develop, engineer, manufacture, and support products and systems to deliver military capability, protect national security, and keep critical information and infrastructure secure.

1. Including the Group's share of equity accounted investments.

Interim management report

Half-year overview

We have delivered a strong set of half-year results building on the operational and financial performance momentum of recent years. In the first half of 2023, we have:

- continued to assist our customers in delivering urgent mission critical capability;
- sustained good operational performance and cash flow generation;
- secured £21.1bn of orders to set a record order backlog of £66.2bn;
- delivered increased sales and profit, and effectively managed our supply chain;
- continued to invest in our people, R&D and capital expenditure to underpin our growth outlook;
- advanced our ESG agenda and engagement across our stakeholders;
- made strong progress against our three-year £1.5bn share buyback programme, and announced a further three-year share buyback programme of up to £1.5bn expected to commence after completion of the current programme;
- made significant long-term strategic progress with the AUKUS announcement and advanced discussions with our international partners on the Global Combat Air Programme (GCAP) in line with the trilateral government agreements made at the end of 2022; and
- further developed a number of industry collaborations across several domains.

Our markets - increasing exposure to structurally growing major defence markets

In the elevated global threat environment, our international presence and diverse portfolio of products and services provides us with positive differentiation and high visibility for top-line growth in the coming years, along with a significant opportunity pipeline.

The AUKUS announcement in March 2023 is significant for the Group. Together with the GCAP announcement in December 2022, with Japan and Italy, these multi-national endeavours further highlight our global reach and the scale and longevity of our business. As always, we are working closely with our customers to deliver on their critical long-term programmes, which are reflective of a structural upwards shift in defence spending in our addressable markets.

In the US, the President's 2024 Budget Request increased the defence budget by over 3% above FY 2023 base levels to \$842bn (£662bn) and we remain well aligned to US National Defense Strategy priorities.

In the UK, the Integrated Defence Review refresh provided a further increase to defence spending, with the uplifts particularly focused on submarines and munitions, and an expectation to reach 2.25% of GDP by 2025. The recently published refresh of the Defence Command Paper reaffirmed the new national aspiration to invest 2.5% of GDP on defence when economic circumstances allow and committed additional funding on munitions over the coming decade.

In Europe, Finland joined NATO on 4 April 2023 and many countries continue to increase their annual and long-term defence spending plans as they look to enhance, recapitalise and replenish their capabilities to meet NATO commitments. We are well placed to continue to benefit through our position on Eurofighter Typhoon, our shareholding in MBDA, our BAE Systems Hägglunds and Bofors businesses in Sweden, as well as through US Foreign Military sales.

In the Middle East, we have long-standing relationships at Government and company level. Defence and security remains a priority in the region and we are well positioned through existing long-term contracts. We are progressing a number of opportunities with existing customers for new products and services.

2023 operational performance

Overall operational performance was good across all Sectors in the first half and we continued to effectively manage the macroeconomic impacts of supply chain and inflationary pressures. We expect to deliver year-on-year margin expansion at the Group level, through a combination of expected continued good programme performance, business mix and by driving our operational efficiency and simplification programmes.

A significant amount of BAE Systems equipment has been provided by our government customers to Ukraine and, as the war in Ukraine continues, we remain closely engaged with our customers around the world to provide effective ongoing support.

Advancing and further leveraging our technology

Our focus on technology continues to be aligned with the national defence strategies of our major markets as our customers address the evolving global threat environment. Across the domains of air, land, sea, space and cyber, BAE Systems is investing in transformational technologies that advance state-of-the-art capabilities in defence systems. Artificial Intelligence (AI) is also becoming more important in every area, from design and manufacturing through to certain aspects of vehicle control. The first half of the year has seen significant progress in these areas. Our efforts to expand our portfolio of uncrewed platforms includes the launch of the Strix™ Tactical UAS concept, alongside collaborations with strategic university partners to develop new AI engineering capabilities.

We are continuing to build our digital footprint by combining our own expertise, which includes previous acquisitions such as Pitch Technologies and Bohemia Interactive Simulations, with that of innovative start-ups, such as Hadean, to develop next-generation synthetic environments. These environments, underpinned by our understanding of the operational challenges our customers face in all domains, will enhance both our internal product development and the services, such as training, that we offer to our customers. As part of this approach, we have a signed strategic agreement to collaborate with Microsoft, aiming to support faster and easier development, deployment and management of digital defence capabilities in an increasingly data-centric world.

In the domestic security domain, in April we announced our partnership with the Home Office to develop data analysis technology designed to help protect the UK's border. This is part of our digital transformation work with UK Government to connect and secure civil networks.

2023 half-year financial performance and guidance

We have delivered a strong set of half-year financial results and have made progress against our three financial priorities of: sales growth, margin expansion and high sustained cash conversion.

On a constant currency basis, sales growth was 11%, with all sectors delivering sales growth in the first half. Acceleration of funding on the Dreadnought programme drove Maritime's growth, whilst our Platforms & Services sector posted growth in Hägglunds, Ship Repair, and higher activities at our Holston munitions location. The Air sector saw higher activity on Tempest along with MBDA and air support volumes. Electronic Systems growth was led by continued recovery in civil aviation, power and propulsion and electronic combat systems. The Cyber & Intelligence business grew as a result of increased classified, sustainment and systems integration work in the Intelligence & Security business, while, outside the US, we saw a sharp increase in National Security cyber sales.

Revenue growth in the first half of the year was up 13%, on a reported currency basis, reflective of the same drivers behind the increase in sales for the period.

Underlying EBIT was up 10%, to £1.3bn, and underlying earnings per share was up 17% to 29.6p, both on a constant currency basis. Operating profit increased 20% to £1.2bn, on a reported currency basis. The Air sector posted the highest margin expansion in the period, whilst Platforms & Services also saw an increase in its return on sales in the first half. Maritime's return on sales reflects the accelerated funding on the Dreadnought programme, which trades in a regulated profit environment. As expected, the margin reduction in the Cyber & Intelligence sector reflects the additional investments being made in the business around space and multi-domain networking.

The growth in underlying earnings per share has also been impacted by the ongoing share buyback programme, with an additional 40.5m shares repurchased and cancelled in the first half.

Order intake, at £21.1bn, was up 16% on a constant currency basis, leading to a record order backlog of £66.2bn. Details of awards in the period are included in the segmental reviews on pages 16 to 25, the three largest orders were:

- In our Platforms & Services business, BAE Systems Hägglunds received a contract award from the Czech Republic to produce 246 CV90 MkIV infantry fighting vehicles in seven different variants. The contract is valued at £1.8bn.
- In Air, we have agreed with the Saudi Arabian Government to continue to provide Salam Typhoon support services for a further five years through to the end of 2027, valued at £3.7bn.
- In Maritime, we received an order of £2.4bn in the period for the continued Delivery Phase 3 activity on the Dreadnought class submarine programme.

We expect continued strong order flow for the remainder of the year.

Free cash flow of £1,070m was driven by the good operational performance and order flow generating a number of advance customer payments.

Reflecting this strong performance in the first half of the year, we have upgraded the 2023 full-year Group Guidance for sales, underlying EBIT, underlying earnings per share and free cash flow, as reported in full on page 3 of this report.

Balance sheet and capital allocation

BAE Systems closed the half-year with a strong balance sheet, featuring a cash position of £3.2bn, net debt (excluding lease liabilities) of £1.8bn and a net pension position in an accounting surplus, by virtue of the Group’s funding commitments over the years and the higher interest rate environment.

We maintain a capital allocation policy that prioritises investing in people, equipment and facilities, and R&D and provides for returning value to shareholders through dividends. Investments in acquisitions will continue to be considered where market conditions are right, and where they deliver on the Group’s strategy and offer long-term value.

The Company can also return cash to shareholders in the form of share buybacks. In July 2022, the Company announced a three-year share buyback programme of up to £1.5bn. As at 30 June 2023, the Company had repurchased 123.5m shares under this programme in aggregate at a total price, including transaction fees, of £1.0bn, with 40.5m shares repurchased since 1 January 2023 at a total price, including transaction fees, of £0.4bn. The directors have also approved a further share buyback programme of up to £1.5bn. This further programme is expected to commence after completion of the current buyback programme and complete within three years of its commencement.

Our ESG agenda

In 2023, we are progressing our four key pillars of focus: addressing climate risks; ideas, innovation and technology; creating opportunity for people and communities; and success through partnering. We shall provide a progress update against these at our annual ESG investor event later in the year.

Global events have demonstrated the need for strong defence and security in the face of aggression by nation states. At BAE Systems, we provide critical capabilities and support to our government customers and their allies to fulfil their primary obligations to keep citizens safe, as well as providing important economic and social contributions through the provision of sustainable high-quality jobs.

A recent independent report from Oxford Economics showed that, in 2022, we contributed £11.1bn to UK Gross Domestic Product (GDP) and supported 132,000 full-time equivalent jobs across the UK. The report also showed that we spent £4.1bn with around 6,000 suppliers in the UK. We also exported £3.7bn of goods and services, almost 0.5% of all UK exports.

Sustainability is one of our five focus areas for technology innovation in the Group. Our ambition is to deliver more sustainable products without compromising performance, even enhancing performance where possible.

Additionally, our capability development and investment in furthering our sustainable technologies continues to make good progress and in the first half we announced a collaboration with Heart Aerospace, a Swedish electric airplane maker, to define the battery system for Heart’s ES-30 regional electric airplane. The battery will be the first-of-its-kind to be integrated into an electric conventional take-off and landing regional aircraft.

Board changes

As previously announced, Sir Roger Carr stood down as Chairman of the Board and Non-executive director at the AGM on 4 May 2023, having served his full allowable term. He was succeeded by Cressida Hogg, who has served as a Non-executive director of the Company and Chair designate since 1 November 2022.

Summary investment points

As we stated at the start of the year, and have reinforced in the year to date, we see significant potential in the years ahead due to:

- our continued focus on operational excellence underpinned by a robust operating model;
- continued investment in the business to support future growth;
- a large order backlog providing the foundation for growth over the medium term;
- leading technology solutions for our customers;
- the strength of our diversity across geographies and technology;
- our global opportunity pipeline to further enhance growth;
- scope to drive further margin expansion; and
- our strong balance sheet with good cash generation, supporting value-enhancing capital allocation.

Group financial review

Income statement summary

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Financial performance measures as defined by the Group[1]		
Sales	**12,018**	10,581
Underlying EBIT	**1,258**	1,112
Return on sales	**10.5%**	10.5%
Financial performance measures derived from IFRS	**£m**	£m
Revenue	**10,997**	9,739
Operating profit	**1,233**	1,028
Return on revenue	**11.2%**	10.6%
Reconciliation of sales to revenue	**£m**	£m
Sales	**12,018**	10,581
Deduct Group's share of revenue of equity accounted investments	**(1,807)**	(1,459)
Add Subsidiaries' revenue from equity accounted investments	**786**	617
Revenue	**10,997**	9,739
Reconciliation of underlying EBIT to operating profit	**£m**	£m
Underlying EBIT	**1,258**	1,112
Adjusting items	**48**	(8)
Amortisation of programme, customer-related and other intangible assets	**(56)**	(51)
Financial income/(expense) of equity accounted investments	**2**	(9)
Taxation expense of equity accounted investments	**(19)**	(16)
Operating profit	**1,233**	1,028
Net finance costs	**(35)**	(249)
Taxation expense	**(193)**	(132)
Profit for the period	**1,005**	647

1. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.

Segmental analysis

Financial performance measures as defined by the Group[1]

	Sales		Underlying EBIT	
	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m
Electronic Systems	**2,583**	2,276	**391**	359
Platforms & Services	**1,891**	1,638	**172**	146
Air	**3,786**	3,497	**454**	362
Maritime	**2,603**	2,155	**193**	182
Cyber & Intelligence	**1,157**	1,050	**96**	123
HQ	**214**	157	**(48)**	(60)
Deduct Intra-group	**(216)**	(192)	**–**	–
	12,018	10,581	**1,258**	1,112

Financial performance measures derived from IFRS

	Revenue		Operating profit/(loss)	
	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m
Electronic Systems	**2,583**	2,276	**386**	316
Platforms & Services	**1,864**	1,616	**172**	143
Air	**3,054**	2,863	**456**	345
Maritime	**2,541**	2,100	**192**	180
Cyber & Intelligence	**1,157**	1,050	**88**	108
HQ	**5**	5	**(61)**	(64)
Deduct Intra-group	**(207)**	(171)	**–**	–
	10,997	9,739	**1,233**	1,028

Exchange rates

Average	**Six months ended 30 June 2023**	Six months ended 30 June 2022
£/$	**1.233**	1.298
£/€	**1.141**	1.188
£/A$	**1.826**	1.804
Period end	**30 June 2023**	30 June 2022
£/$	**1.271**	1.215
£/€	**1.165**	1.163
£/A$	**1.910**	1.764
Year end		31 December 2022
£/$		1.203
£/€		1.127
£/A$		1.773

Sensitivity analysis	**£m**
Estimated impact on annual sales of a five cent movement in the average exchange rate:	
$	**400**
€	**65**
A$	**25**

Sales[1] in the first half increased by £1.4bn to £12.0bn (2022 £10.6bn), an 11% increase on a constant currency[2] basis.

Revenue increased to £11.0bn (2022 £9.7bn), an increase of 13%.

Underlying EBIT[1] increased to £1,258m (2022 £1,112m), giving a steady return on sales of 10.5% (2022 10.5%).

Operating profit increased to £1,233m (2022 £1,028m) and includes a gain from adjusting items of £48m (2022 charge of £8m).

Adjusting items[1] in 2023 reflects a gain of £48m, comprising a settlement gain on a US pension annuity buy-out of £51m, offset by charges relating to historical acquisitions and disposals of £3m. 2022 comprised a charge of £8m related to historical business transactions.

Amortisation of programme, customer-related and other intangible assets was £56m (2022 £51m), the increase being driven by amortisation charges from businesses acquired during 2022.

Net finance costs for the Group amounted to £35m (2022 £249m). The underlying interest charge[1] for the Group was £116m (2022 £117m), offset by a net fair value gain of £62m (2022 charge of £113m) in respect of foreign exchange and financial derivatives.

Taxation expense of £193m (2022 £132m) reflects the Group's underlying effective tax rate for the period of 18%, adjusted for the impact of tax on adjusting items and of the UK tax rate adjustment.

The calculation of the underlying effective tax rate is shown in note 4 on page 39.

1. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.
2. Current period compared with prior period translated at current period exchange rates.

Earnings per share

	Six months ended 30 June 2023	Six months ended 30 June 2022
Financial performance measures as defined by the Group[1]		
Underlying earnings	**£901m**	£768m
Underlying earnings per share	**29.6p**	24.5p
Financial performance measures derived from IFRS		
Profit for the period attributable to equity shareholders	**£965m**	£615m
Basic earnings per share	**31.8p**	19.6p

Reconciliation of underlying earnings to profit for the period attributable to equity shareholders	**£m**	£m
Underlying earnings	**901**	768
Adjustments:		
Adjusting items attributable to shareholders	**48**	(8)
Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles	**(56)**	(51)
Net interest income/(expense) on post-employment benefit obligations	**20**	(20)
Fair value and foreign exchange adjustments on financial instruments and investments	**58**	(116)
Tax impact of adjustments[2]	**(6)**	42
Profit for the period attributable to equity shareholders	**965**	615
Non-controlling interests	**40**	32
Profit for the period	**1,005**	647

Underlying earnings per share[1] for the period increased by 17%, excluding the impact of exchange translation, to 29.6p (2022 24.5p).

Basic earnings per share increased to 31.8p (2022 19.6p). The increase was driven by the improved underlying performance, gains on adjusting items, fair value movements on financial instruments and the ongoing impact of share buybacks under the 2022 buyback programme.

1. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.
2. The tax impact is calculated using the underlying effective tax rate of 18% (2022 19%), with the exception of adjusting items which has been determined using the actual tax due on those items. The calculation of the underlying effective tax rate is shown in note 4.

Cash flow summary

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Financial performance measures as defined by the Group[1]		
Free cash flow	**1,070**	123
Operating business cash flow	**1,307**	410
Financial performance measures derived from IFRS	**£m**	£m
Net cash flow from operating activities	**1,484**	493
Reconciliation from free cash flow to net cash flow from operating activities	**£m**	£m
Free cash flow	**1,070**	123
Add back Interest paid, net of interest received	**110**	119
Add back Taxation paid	**127**	168
Operating business cash flow	**1,307**	410
Add back Net capital expenditure and financial investment	**303**	201
Add back Principal element of lease payments and receipts	**124**	137
Deduct Dividends received from equity accounted investments	**(123)**	(87)
Deduct Taxation paid	**(127)**	(168)
Net cash flow from operating activities	**1,484**	493
Net capital expenditure and financial investment	**(303)**	(201)
Principal element of finance lease receipts	**5**	5
Dividends received from equity accounted investments	**123**	87
Interest received	**49**	9
Acquisitions and disposals	**(3)**	(161)
Net cash flow from investing activities	**(129)**	(261)
Interest paid	**(159)**	(128)
Equity dividends paid	**(508)**	(480)
Purchase of own shares	**(376)**	(130)
Dividends paid to non-controlling interests	**(12)**	(75)
Principal element of lease payments	**(129)**	(142)
Cash inflow from derivative financial instruments (excluding cash flow hedges)	**60**	160
Cash outflow from derivative financial instruments (excluding cash flow hedges)	**(242)**	(53)
Net cash flow from loans	**166**	(400)
Net cash flow from financing activities	**(1,200)**	(1,248)
Net increase/(decrease) in cash and cash equivalents	**155**	(1,016)
Add back Net cash flow from loans	**(166)**	400
Foreign exchange translation	**229**	(477)
Other non-cash movements	**(28)**	118
Decrease/(increase) in net debt (excluding lease liabilities)	**190**	(975)
Opening net debt (excluding lease liabilities)	**(2,023)**	(2,160)
Net debt (excluding lease liabilities)	**(1,833)**	(3,135)

1. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.

Segmental analysis

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Financial performance measures as defined by the Group[1]		
Electronic Systems	**157**	93
Platforms & Services	**21**	(59)
Air	**1,330**	380
Maritime	**(79)**	(22)
Cyber & Intelligence	**51**	69
HQ	**(173)**	(51)
Operating business cash flow	**1,307**	410
Taxation paid[2]	**(127)**	(168)
Interest paid, net of interest received	**(110)**	(119)
Free cash flow	**1,070**	123
Financial performance measures derived from IFRS		
Electronic Systems	**225**	187
Platforms & Services	**95**	(20)
Air	**1,307**	378
Maritime	**37**	46
Cyber & Intelligence	**86**	85
HQ	**(139)**	(15)
Deduct Taxation paid[2]	**(127)**	(168)
Net cash flow from operating activities	**1,484**	493

Free cash flow[1] was an inflow of £1,070m (2022 £123m), reflecting strong operational performance and order flow generating a number of advance customer payments. **Operating business cash flow[1]** was an inflow of £1,307m (2022 £410m).

Net cash inflow from operating activities was £1,484m (2022 £493m).

Net capital expenditure and financial investment was a net outflow of £303m (2022 £201m)**,** reflecting additional investment in new facilities across our Platforms & Services, Maritime and Cyber & Intelligence sectors.

Cash flows in respect of acquisitions, disposals and held for sale assets amounted to an outflow of £3m in relation to a historical business disposal. The outflow of £161m for the comparative period comprised cash paid for the acquisition of Bohemia Interactive Simulations, deferred consideration for historical acquisitions, plus cash classified as held for sale for the divestment of the Financial Services business which completed in October 2022.

Share buybacks amounted to £376m (2022 £130m) in the first half, reflecting repurchases under the £1.5bn share buyback programme that commenced in July 2022. The 2021 share buyback programme for £500m was completed in February 2022, of which £130m was spent in the comparative period to 30 June 2022. In total, £884m (2022 £610m) has been returned to shareholders through share buybacks and dividends in the period.

There was a **net cash outflow from derivative financial instruments** of £182m (2022 £107m net inflow) arising from rolling hedges on balances with the Group's subsidiaries and equity accounted investments.

Net cash inflow from loans of £166m (2022 outflow of £400m) represented funds raised from a US private placement to fund the modern shiplift and land-level repair complex at our Jacksonville, Florida shipyard in the Platforms & Services sector. The outflow of £400m in the comparative period reflects repayment of a £400m bond in June 2022.

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

1. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.
2. Taxation is managed on a Group basis.

Net debt

Components of net debt (excluding lease liabilities)[1]	30 June 2023 £m	31 December 2022 £m
Cash and cash equivalents	**3,204**	3,107
Debt-related derivative financial instrument assets – non-current	**117**	147
Loans – non-current	**(5,070)**	(5,189)
Loans and overdrafts – current	**(51)**	(53)
Debt-related derivative financial instrument liabilities – non-current	**(33)**	(35)
Net debt (excluding lease liabilities)[1]	**(1,833)**	(2,023)

The Group's **net debt (excluding lease liabilities)[1]** at 30 June 2023 was £1,833m, a decrease of £190m on the position at the beginning of the period. This is primarily as a result of strong free cash flow performance, partially offset by increased shareholder returns through dividends and share buybacks which amounted to £884m (2022 £610m) in the period.

Cash and cash equivalents of £3,204m (2022 £3,107m) are held primarily for the repayment of debt securities, committed shareholder returns 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. 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 and solvency has remained strong. 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 Group's Condensed Consolidated Interim Financial Statements.

Principal risks and uncertainties

Having considered recent geopolitical and macroeconomic events, the Group believes the principal risks and uncertainties facing the Group for the remainder of the year are included in, and are therefore unchanged from, those reported in the Annual Report 2022.

The Group's principal risks and uncertainties at 31 December 2022 were detailed on pages 119 to 125 of the Annual Report 2022, and related to the following areas: government customers, defence spending and terms of trade; international markets; contract risk, execution and supply chain; cyber security; competition in international markets; people; outbreak of contagious diseases; pension funding; climate change and the environment; laws and regulations; and acquisitions.

Accounting policies

On the 19 July 2023, the UK endorsed the amendments to IAS 12 Income Taxes, issued by the International Accounting Standards Board on 23 May 2023, which grants companies a temporary exemption from applying IAS 12 to the International Tax Reform: Pillar Two Model Rules. For the Half-yearly Report 2023, the Group has adopted the amendments to IAS 12.

No other new or amended standards which became applicable for the period ending 30 June 2023 had a material impact on the Group or required the Group to change its accounting policies.

Segmental review

The Group has five sectors which, together with HQ, make its six reporting segments as defined by IFRS 8 Operating Segments.

1. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.

Segmental performance: Electronic Systems

Electronic Systems, with 17,300 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 2023	Six months ended 30 June 2022	Year ended 31 December 2022
Sales	**£2,583m**	£2,276m	£5,057m
Underlying EBIT	**£391m**	£359m	£838m
Return on sales	**15.1%**	15.8%	16.6%
Operating business cash flow	**£157m**	£93m	£650m
Order intake	**£3.1bn**	£2.3bn	£5.4bn
Order backlog	**£8.1bn**	£7.7bn	£8.1bn

Financial performance measures derived from IFRS

	Six months ended 30 June 2023	Six months ended 30 June 2022	Year ended 31 December 2022
Revenue	**£2,583m**	£2,276m	£5,057m
Operating profit	**£386m**	£316m	£747m
Return on revenue	**14.9%**	13.9%	14.8%
Cash flow from operating activities	**£225m**	£187m	£860m
Order book	**£6.9bn**	£6.4bn	£6.7bn

– Sales of £2.6bn increased 8% on a constant currency basis[3], due to improvements in supply chain constraints in the period and stronger demand in our commercial aviation operations.

– Return on sales was 15.1%, reflecting an expected lower profit weighting in the first half.

– Operating business cash flow was £157m and reflects a more usual second half weighted business cycle.

– Order backlog is at £8.1bn, after accounting for FX variances. Order intake in the period of £3.1bn reflects key awards such as a further five-year F-22 support contract from Lockheed Martin and multiple awards across the commercial aviation business.

1. Including the Group's share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.
3. Current period compared with prior period translated at current period exchange rates.

Operational performance

We continued to experience strong demand amongst our customer base for Electronic Systems in the first half of 2023 as evidenced by our order generation. Operational initiatives, which the team developed during the pandemic to address challenges caused by the global shortage of microelectronics and labour shortages, are helping to mitigate the impacts of the supply chain constraints and we are seeing increased stability and an easing in some areas. We supported existing customers on key electronic warfare and precision guided munition production programmes, while pursuing and maturing new opportunities aligned to defence budgets and a growing global defence market.

In our commercial businesses, airline traffic and business travel is increasing, resulting in stronger demand for Original Equipment Manufacturer (OEM) deliveries and aftermarket services. Clean air regulations continue to drive the transportation industry toward alternative energy sources, such as our propulsion solutions, and we are seeing enhanced demand for our products.

Operational highlights

- The F-35 Lightning II programme is delivering on Lot 15 electronic warfare (EW) systems and has delivered a cumulative total of over 1,250 EW systems. We are also supporting the Block 4 modernisation efforts under multiple contracts, including a recent contract for future Lot 17/18 production worth $491m (£398m).
- We completed the development, integration, and first flight of the EC-37B Compass Call Cross Deck aircraft, targeted to enter formal developmental and operational testing by the end of the financial year.

- In January, we conducted an Advanced Precision Kill Weapon System (APKWS®) test event and demonstrated new capabilities for critical mission sets in support of US and allied forces.
- Our newest state-of-the-art facilities which opened last year in: Manchester, New Hampshire; Cedar Rapids, Iowa; and Austin, Texas are now providing world-class work environments that support innovation, production, and teamwork, which will help us to continue to deliver cutting-edge technology to our customers.

Strategic and order highlights

- We received a five-year follow-on Agile Sustainment for Raptor contract from Lockheed Martin to provide repair, technical, spares, and depot lay-in material support of the F-22. This long-term contracting approach provides continued cost-effective support of the subsystem to meet the aircraft availability.
- The APKWS® guidance kit programme continues to execute production under an Indefinite Delivery, Indefinite Quantity contract, with awards worth $158m (£128m) in the first half.
- We are taking a leadership position in energy and power management for all-electric and hybrid-electric aircraft. In March, we announced a collaboration with Heart Aerospace to define the battery system for Heart's ES-30 regional electric airplane and are in discussions with other leading OEMs in the emerging Air Mobility segment.
- Our Power & Propulsion Solutions business was selected for North America's largest battery electric bus award as our Gen3 system will power up to 1,229 Nova Bus battery electric buses for L'Association du transport urbain du Québec (ATUQ) transportation organisations in Quebec, Canada.

Looking forward

- Our Electronic Systems sector is well positioned for growth in the medium term as the team continues to address current and evolving priority programmes from its strong franchise positions and long-standing commitment to research and development.
- The team maintains a diverse portfolio of defence and commercial products and capabilities for US and international customers, and it expects to benefit by applying innovative technology solutions to meet defence customers' existing and changing requirements, building on its significant roles on F-35 Lightning II, F-15 upgrades, M-Code GPS upgrades and classified programmes, as well as a number of precision weapon products.
- Over the longer term, we are poised to leverage our technology strengths in emerging areas of demand such as precision weaponry, space resilience, hyper-velocity projectiles and autonomous platforms, and the development of multi-domain capabilities.
- In our commercial portfolio, we will continue to leverage our leading electric drive propulsion capabilities to address the growing global demand for low and zero emission technology across an increasing number of civil platforms, with opportunities to migrate these technologies to the defence arena. We hold leading positions in our commercial aviation business lines and their outlook remains positive in the near term, as pandemic impacts continue to ease and demand returns to near pre-pandemic levels.
- We continue to invest in our people, R&D and in our facilities, a number of which opened in 2022, in order to ensure capacity is in place to capitalise on the positive outlook across our defence and commercial markets for electronics.

Segmental performance: Platforms & Services

Platforms & Services, with 12,300 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 2023	Six months ended 30 June 2022	Year ended 31 December 2022
Sales	**£1,891m**	£1,638m	£3,688m
Underlying EBIT	**£172m**	£146m	£326m
Return on sales	**9.1%**	8.9%	8.8%
Operating business cash flow	**£21m**	£(59)m	£525m
Order intake	**£4.1bn**	£1.5bn	£5.7bn
Order backlog	**£9.6bn**	£5.9bn	£8.1bn

Financial performance measures derived from IFRS

	Six months ended 30 June 2023	Six months ended 30 June 2022	Year ended 31 December 2022
Revenue	**£1,864m**	£1,616m	£3,598m
Operating profit	**£172m**	£143m	£322m
Return on revenue	**9.2%**	8.8%	8.9%
Cash flow from operating activities	**£95m**	£(20)m	£633m
Order book	**£9.3bn**	£5.6bn	£7.7bn

- Sales were £1.9bn, an increase of 11% on a constant currency basis[3], driven by increased volumes across Ship Repair, Combat Vehicles and Munitions.
- Return on sales was 9.1%, an increase of 20bps, driven by improved operational performance.
- Operating business cash inflow was £21m, reflecting the usual second half business weighting. Additional capex spend has also been incurred in the period, which is offset by working capital management.
- Order backlog reached £9.6bn, after accounting for FX variances. Order intake of £4.1bn reflects a number of awards in the period but primarily relates to the Czech Republic award for 246 CV90 MkIV infantry fighting vehicles worth $2.2bn (£1.8bn).

1. Including the Group's share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.
3. Current period compared with prior period translated at current period exchange rates.

Operational performance

With the war in Ukraine and a changing global landscape that is prioritising defence spending to enhance and replenish capabilities, we remain focused on meeting increased customer demand for our products and services, including munitions, tracked combat vehicles, artillery systems and support services. Our BAE Systems Hägglunds team continued to build its order book with the Czech Republic contract valued at $2.2bn (£1.8bn) for 246 CV90 MkIV infantry fighting vehicles. The Sweden business has also seen a renewed interest in arctic operations, leading to additional sales of our BvS10 all-terrain family of combat vehicles.

In the US, our Combat Mission Systems team is achieving consistent production throughput at heightened volumes across multiple programmes, drawing upon our extensive manufacturing network and engineering capability spanning the US, to include expanded operations at our York, Pennsylvania site to enable increased production of Armored Multi-Purpose Vehicles (AMPVs) and Amphibious Combat Vehicles (ACVs) to match customer requirements.

In our support services operations, modernisation and maintenance activities continue in our US shipyards for the US Navy's non-nuclear fleet, and we continue to operate and modernise the US Army's Radford and Holston ammunition plants under modernisation contracts.

Operational highlights

- Hägglunds announced a strategic partnership with Norway's Ritek AS to produce two new CV90 variants for the Swedish Armed Forces. This new programme creates opportunities for international industrial co-operation with local industry, and represents just one element of the team's ongoing efforts to expand its workforce and facilities to address recent significant orders.

- The UK Government selected the ARCHER for its interim mobile artillery solution requirement through a Government-to-Government agreement with Sweden.
- Our US shipyards were recognised for Safety Leadership, and the Holston Army Ammunition Plant received the US Army Materiel Command's Excellence in Explosive Safety Award.
- In April, construction began on a modern shiplift and land-level repair complex at our Jacksonville, Florida shipyard.
- In response to lower demand for ship repair services over the remainder of the year, our San Diego shipyard is expected to scale back its workforce by approximately 325 positions by the end of August.

Strategic and order highlights

- On 24 May, the Czech Republic awarded BAE Systems Hägglunds a contract to produce 246 CV90 MkIV infantry fighting vehicles in seven different variants. The contract is valued at $2.2bn (£1.8bn).
- Building on past awards, Combat Mission Systems received a $256m (£208m) full-rate production contract from the US Marine Corps for additional ACVs and a $246m (£199m) undefinitized contract action for the purchase of early order materials in support of a full-rate AMPV production award, expected in the second half of 2023.
- In our Naval Guns business, we received a $219m (£178m) contract to equip the Royal Navy's Type 26 frigates with five Mk45 Maritime Indirect Fire Systems.
- Following the joint procurement agreement among Sweden, Germany and the UK, Germany purchased an additional 227 ultra-mobile, protected, all-terrain BvS10s valued at c.$400m (£324m). This investment from Germany, under the three-nation framework agreement, will extend deliveries which are set to begin in 2024 and continue until 2030.
- The US Ship Repair business continues to conduct modernisation and maintenance activities for the US Navy and was awarded a $145m (£118m) contract for USS Nitze modernisation.
- Following from the previous 10-year programme, our Weapon Systems UK team was awarded a five-year contract for the delivery of M777 support services for the US, Australia, and Canada M777 fleets with the initial year funded at $17m (£14m).
- We were not selected to participate in the follow-on phases of the US Army's Optionally Manned Fighting Vehicle programme. We remain a critical provider of Army combat vehicles with our current franchises of AMPV, M109A7, M88 and Bradley vehicles.

Looking forward

- We continue to focus on long-term planning to address the increased demand from the US and international customers. The uplift in European and allied countries' defence spending is in addition to our strong order backlog on key franchise programmes, including the US Army's AMPV, M109A7 self-propelled howitzer, Bradley upgrades, M88 HERCULES recovery vehicle, and the US Marine Corps' ACV.
- Our US vehicle portfolio is augmented by the CV90 and BvS10 domestic and export programmes from BAE Systems Hägglunds and artillery systems from BAE Systems Bofors, as well as our FNSS joint venture.
- We continue to manage and operate the US Army's Radford and Holston munitions facilities, and focus on key modernisation activities.
- We have maintained a strong position on naval guns, missile launch programmes, and submarine programmes, as well as US Navy ship repair activities where the business has invested in capitalised infrastructure and our facilities in key home ports. The business remains well aligned to the US Navy's operational strategy and fleet projections, scaling our operations to match the timing of Navy requirements.

Segmental performance: Air

Air, with 24,900 employees[1], comprises the Group's UK-based air activities for European and International markets, US Programmes, development of Future Combat Air Systems and FalconWorks®, alongside its business in the Kingdom of Saudi Arabia, 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 2023	Six months ended 30 June 2022	Year ended 31 December 2022
Sales	**£3,786m**	£3,497m	£7,698m
Underlying EBIT	**£454m**	£362m	£849m
Return on sales	**12.0%**	10.4%	11.0%
Operating business cash flow	**£1,330m**	£380m	£1,140m
Order intake	**£8.4bn**	£8.9bn	£14.0bn
Order backlog	**£28.7bn**	£23.3bn	£24.4bn

Financial performance measures derived from IFRS

	Six months ended 30 June 2023	Six months ended 30 June 2022	Year ended 31 December 2022
Revenue	**£3,054m**	£2,863m	£6,286m
Operating profit	**£456m**	£345m	£809m
Return on revenue	**14.9%**	12.1%	12.9%
Cash flow from operating activities	**£1,307m**	£378m	£1,202m
Order book	**£20.9bn**	£16.3bn	£17.4bn

- Sales were £3.8bn, an increase of 7% on a constant currency basis[3], driven by increased activities in Tempest and MBDA, and higher air support volumes.
- Return on sales of 12.0% reflects good operational performance and risk retirement.
- Operating business cash flow of £1.3bn reflects the timing of customer advances and down payments from recent awards.
- Order backlog of £28.7bn has been driven up by the order intake of £8.4bn in the period. Significant orders include agreement of a further five-year Salam Typhoon support contract, valued at £3.7bn, as well as multiple awards in MBDA across both the import and export markets.

1. Including the Group's share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.
3. Current period compared with prior period translated at current period exchange rates.

Operational performance

We continue to work with our customers in both supporting their existing platforms and in providing new enhanced capabilities. Deliveries of Typhoon to Qatar continue, alongside support to the in-service fleet. In the Kingdom of Saudi Arabia, our rolling five-year support for Typhoon has been extended. In our US Programmes division, we are focused on delivery execution across all production lines with 150 F-35 aft fuselages planned to be completed in 2023. The formation of our new FalconWorks® organisation and ongoing progress on the future combat air activities are of importance to future growth as we invest in our people, facilities and cutting-edge technologies.

Operational highlights

- Activity on our Qatar Typhoon and Hawk programmes continued. Four further Typhoon deliveries took place in the period, with a total of 12 aircraft now in service with the Qatar Emiri Air Force. We are working with the Qatari customer on timescales for delivering the contracted capabilities of the Typhoon platform.
- F-35 rear fuselage manufacturing continues at full rate production through 2023, with 74 rear fuselages completed during the first half and a further 76 planned for the second half.
- Work continues on development of the UK flying demonstrator, Tempest, set to fly within four years. The programme is focused on key technology areas of flight simulation, aerodynamic engine testing, and crew escape.
- Our FalconWorks® organisation, formed during the period to lead on developing and bringing to market new products and technologies in our Air Sector, is leading the development and testing of the BAE Systems PHASA-35® platform, with successful flight trials taking place in June 2023.

- Delivery of services under the five-year Saudi British Defence Co-operation Programme (SBDCP) continues, with mobilisation of the Tornado Support Service providing an enhanced and modernised solution for the Royal Saudi Air Force.

Strategic and order highlights

- Further UK Ministry of Defence funding of £656m was awarded to progress the concepting and technology of the next generation combat aircraft (known as Tempest in the UK), providing continuity of contractual cover on conception and assessment work to 2025. Progress on the programme continues and, in the second half of 2023, we will progress discussions with Leonardo SpA and Mitsubishi Heavy Industries to establish an International Arrangement to lead the Global Combat Air Programme (GCAP).
- Across the Typhoon platform further funding of £535m was secured for European Common Radar System (ECRS) Mk2 Radar development for the Typhoon weapon system, and we continue to support the Royal Air Force of Oman's Typhoon fleet as negotiations for a long-term follow-on support contract continue.
- The Lightning Air System National Availability Equipment Capability Enterprise (LANCE) contract was awarded in March 2023, which extends BAE Systems' leadership of UK F-35 support at RAF Marham until the end of 2027.
- Following the completion of the previous five-year Salam Typhoon support contract on 31 December 2022, we have reached an agreement with the Saudi Arabian Government to continue to provide these services for a further five years through to the end of 2027, valued at £3.7bn.
- We continue to evaluate opportunities for unmanned aircraft systems and how they will integrate into future multi-domain operational environments, and are working in collaboration with a number of industrial partners on electric aviation technology programmes through our FalconWorks® organisation.
- MBDA has won significant orders, including an order for the production of medium-range ASTER B1 & B1NT missiles for use across the Italian and French armed forces and a contract from the Polish Armament Agency to supply Launchers and Common Anti-Air Module Missiles (CAMM) for Poland's PILICA+ Air Defence upgrade programme. The contract is the largest European short-range Air Defence acquisition programme in NATO.

Looking forward

- Defence and security remains a priority for governments across the globe. The UK Future Combat Air System is a key element of the UK Combat Air Strategy which enables long-term planning and investment in a key strategic part of the business, ensuring we have a sustainable long-term combat aircraft design, development and manufacturing capability.
- We will continue to focus on ensuring that deliveries of Typhoon aircraft and support are made in line with agreed customer milestones. Future Typhoon production and support sales are underpinned by existing contracts and discussions continue in relation to potential further contract awards for Typhoon.
- In the Kingdom of Saudi Arabia, the In-Kingdom Industrial Participation programme continues to make good progress consistent with our long-term strategy, as well as the Kingdom of Saudi Arabia 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, while we also continue the development of our footprint across the Kingdom.
- MBDA has a strong order backlog supporting future years' revenues. Development programmes continue to improve the long-term capabilities of the business in Air, Land and Sea domains and MBDA continues to be well placed to benefit from increased defence spending in Europe and internationally.

Segmental performance: Maritime

Maritime, with 25,200 employees[1], comprises the Group's UK-based maritime and land activities, as well as the Group's Australian business.

Financial performance

Financial performance measures as defined by the Group[2]

	Six months ended 30 June 2023	Six months ended 30 June 2022	Year ended 31 December 2022
Sales	**£2,603m**	£2,155m	£4,598m
Underlying EBIT	**£193m**	£182m	£356m
Return on sales	**7.4%**	8.4%	7.7%
Operating business cash flow	**£(79)m**	£(22)m	£235m
Order intake	**£4.2bn**	£4.1bn	£9.7bn
Order backlog	**£18.5bn**	£14.2bn	£17.2bn

Financial performance measures derived from IFRS

	Six months ended 30 June 2023	Six months ended 30 June 2022	Year ended 31 December 2022
Revenue	**£2,541m**	£2,100m	£4,484m
Operating profit	**£192m**	£180m	£352m
Return on revenue	**7.6%**	8.6%	7.9%
Cash flow from operating activities	**£37m**	£46m	£418m
Order book	**£17.6bn**	£13.3bn	£16.6bn

– Sales of £2.6bn were up 21% on a constant currency basis[3], due to accelerated funding on the Dreadnought programme.

– Return on sales of 7.4% reflects the high volume of Dreadnought sales in a regulated profit environment.

– Operating business cash outflow of £79m reflects additional capex investment in Shipbuilding facilities in Glasgow and the Munitions business in Glascoed.

– Order intake of £4.2bn in the period has pushed order backlog to £18.5bn, primarily driven by the award of additional funding of £2.4bn for the continued Delivery Phase 3 activity on the Dreadnought class submarine programme.

1. Including the Group's share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.
3. Current period compared with prior period translated at current period exchange rates.

Operational performance

Our major platform programmes continue to perform well, with sea trials commencing for HMS Anson, the fifth Astute class submarine, as well as the start of construction of both the third Dreadnought class submarine, HMS Warspite, and the fourth Type 26 frigate, HMS Birmingham. The Hunter Class Frigate Programme (HCFP) in Australia has achieved key production milestones and we continue to meet customer delivery and support requirements in both Munitions and Maritime Services. Ongoing investments in our facilities and our people support this delivery and, with the AUKUS trilateral programme announcing a key role for BAE Systems Submarines, position the sector for future growth.

Operational highlights

- The fifth Astute class submarine, HMS Anson, left our Submarines site in Barrow-in-Furness, during February to begin sea trials with the Royal Navy. She joins HMS Astute, HMS Ambush, HMS Artful and HMS Audacious at their operational base, His Majesty's Naval Base, Clyde. The remaining submarines in the Astute class, Agamemnon and Agincourt, are at an advanced stage of construction in Barrow-in-Furness.
- The steel cut ceremony for the fourth Type 26 frigate, HMS Birmingham, took place in April. HMS Glasgow is docked at Scotstoun where outfitting continues and remains on track for delivery in the mid-2020s, while construction of HMS Cardiff, HMS Belfast and HMS Birmingham progresses at our facilities in Govan.
- In Australia, the HCFP continues to make strong progress towards a production contract for Batch 1. During May, construction commenced on the first schedule protection block at Osborne Naval Shipyard in South Australia. This block, along with three others, will be capable of being used in the first Hunter frigate. Alongside this, upgrade and sustainment of Australia's Anzac class frigates continues at pace with the sixth ship, HMAS Stuart, delivered to the Royal Australia Navy for sea trials.

- The new £2.4bn 15-year contract with the UK Ministry of Defence, the Next Generation Munitions Solution (NGMS), commenced on 1 January 2023. Building on this, the business has also received additional orders for the supply of munitions to the UK Ministry of Defence. The orders, worth £280m, with the option to increase to more than £400m, will significantly increase the production of vital defence stocks such as 155mm artillery shells, 30mm medium calibre rounds and 5.56mm ammunition. These are core products which the British Army relies on to deliver maximum effectiveness on the battlefield. To deliver these contracts, investment activity across the business continues at pace and now totals £150m. This includes two new semi-finish machining lines in Washington and an explosive filling facility at Glascoed.
- In RBSL, we commenced manufacture of the Mechanised Infantry Vehicle (Boxer) for the British Army in March as planned, while the Challenger 3 programme achieved its Critical Design Review and is progressing towards delivery of prototype platforms.

Strategic and order highlights

- We received an order intake of £2.4bn in the period for the continued Delivery Phase 3 activity on the Dreadnought class submarine programme. Construction of the first three boats in the Dreadnought class is underway at Barrow-in-Furness, with a ceremony to mark the official steel cut on the third submarine, HMS Warspite, held in February.
- In March, Australia, the UK, and the US announced the pathway for Australia to acquire nuclear powered submarines as part of the AUKUS programme. The three nations will deliver a trilaterally-developed submarine, based on the UK's next-generation Astute replacement design. Australia and the UK will operate SSN-AUKUS, as it will be known, incorporating technology from all three nations to ensure commonality across the fleets.
- Investment in our people and facilities to better enable us to deliver on our customer commitments and secure the long-term future for complex shipbuilding in Glasgow progresses, with groundworks underway in preparation for a new ship assembly hall in Govan and planning permission submitted for a new Applied Shipbuilding Academy in Scotstoun.
- At the Avalon Airshow in March, we unveiled Strix™, a vertical take-off and landing (VTOL) uncrewed aerial system and RAZER, a low cost precision guided munition. Both are being designed in Australia and are intended for domestic and export markets.
- In June, we were awarded a 10-year contract worth £270m to support the Royal Navy's three main radar systems. Under the contract, BAE Systems engineers will provide maintenance support and upgrades to existing radars, including a roll-out of technology upgrades to systems already in use as well as those being installed on the new Type 26 frigates, currently under construction in Glasgow.

Looking forward

- The sector outlook remains positive based on long-term contracted positions, with a number of UK, Australian and international opportunities.
- Our Submarines business is executing across three long-term programmes; Astute, Dreadnought and SSN-AUKUS. Investment continues in the facilities at our Barrow-in-Furness shipyard in order to provide the capabilities to deliver these long-term programmes.
- In Shipbuilding, sales are underpinned by the manufacture of Type 26 frigates. In Warship Support, the Fleet Time Support, Upkeeps and Capability Insertions across a number of vessel classes provide a sustainable business in technical services and upgrades.
- The Australian Defence Strategic Review confirmed the acquisition of conventionally-armed, nuclear-powered submarines as part of AUKUS Pillar 1 and also the Australian Government's commitment to continuous naval shipbuilding. Our Australian business is well positioned to respond to future opportunities this creates.
- As the UK Ministry of Defence's long-term strategic partner for munitions supply, we are actively mobilising our operations in support of our NATO allies. This includes investment across our facilities and infrastructure and recruitment activity to support the increased demand.

Segmental performance: Cyber & Intelligence

Cyber & Intelligence, with 10,700 employees[1], comprises the US-based Intelligence & Security and UK-headquartered Digital Intelligence businesses, covering the Group's cyber security and secure government activities.

Financial performance

Financial performance measures as defined by the Group[2]

	Six months ended 30 June 2023	Six months ended 30 June 2022	Year ended 31 December 2022
Sales	**£1,157m**	£1,050m	£2,205m
Underlying EBIT	**£96m**	£123m	£232m
Return on sales	**8.3%**	11.7%	10.5%
Operating business cash flow	**£51m**	£69m	£154m
Order intake	**£1.4bn**	£1.3bn	£2.4bn
Order backlog	**£2.2bn**	£2.3bn	£2.1bn

Financial performance measures derived from IFRS

	Six months ended 30 June 2023	Six months ended 30 June 2022	Year ended 31 December 2022
Revenue	**£1,157m**	£1,050m	£2,205m
Operating profit	**£88m**	£108m	£291m
Return on revenue	**7.6%**	10.3%	13.2%
Cash flow from operating activities	**£86m**	£85m	£191m
Order book	**£1.5bn**	£1.6bn	£1.4bn

– Sales increased by 7% on a constant currency basis[3], to £1.2bn, with both the UK and US businesses seeing increased operations in the period.

– Return on sales was down by 340bps, in line with expectations, following additional investment in the period in space and multi-domain networking.

– Operating business cash flow in the first half was £51m, which included additional capex investment in the Digital Intelligence business.

– Order backlog has remained steady against year end, with a book-to-bill ratio of 1.2.

1. Including the Group's share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.
3. Current period compared with prior period translated at current period exchange rates.

Operational performance

Our Intelligence & Security business has performed well in the first half, supporting government customers across the US Department of Defense, federal agencies and civilian organisations with innovative, mission-enabling solutions. We continue to focus on cultivating a strong pipeline of qualified business opportunities across our US-based business units – Air & Space Force Solutions, Integrated Defense Solutions and Intelligence Solutions.

In Digital Intelligence, we have had a good operational first half and, as planned, stepped up our investment in the business for future growth. Our services, solutions and products span customers in law enforcement, national security, central government and government enterprises, critical national infrastructure, telecommunications, military and space, and we continue to provide cyber, intelligence and security expertise to help protect nations, businesses and citizens.

Operational highlights

- To continue to address the growing modelling & simulation and synthetic training markets, Pitch Technologies transitioned from Platforms & Services to our Intelligence & Security business, effective 1 April 2023. The addition of Pitch Technologies builds on the acquisition of Bohemia Interactive Simulations (BISim) as we address the increased demand for innovative, cost-effective, and sustainable training and simulation software products.
- BISim recently announced its strategic partnership with blackshark.ai, a developer of AI-based geospatial technologies, to deliver unprecedented realism in whole-Earth terrain generation, marking a major step towards meeting the industry-wide demand for a military metaverse.
- Our businesses continue to deliver strong performance on existing contracts with US Navy, US Army, US Air Force, and federal/civilian agencies – including the $699m (£567m), five-year contract for operations, maintenance, and management services for the US Army's Defense Supercomputing Resource Center and the $478m (£388m), five-year sole-source contract to support weapon systems on US and UK submarine classes.

- In Digital Intelligence, investments in new products for space and international markets continue to progress well, and all major external projects are delivering against schedules.

Strategic and order highlights

- In March, we were awarded task orders valued at $457m (£371m) to support critical mission operations for a government customer.
- In June 2022, the US Air Force awarded the Integration Support Contract (ISC) 2.0 re-compete to BAE Systems with an 18-year period of performance and $12bn (£10bn) total contract ceiling. The ISC 2.0 contract award was protested, and the Government Accountability Office (GAO) sustained the protest in October 2022. The Air Force is taking corrective action to address the GAO issues, and we continue to support the ISC programme under a $652m (£529m) contract extension, received in January 2023.
- In Digital Intelligence, we are making positive progress in expanding our multi-domain communications footprint in the UK defence sector and we have secured a number of multi-year deals with Central Government and National Security customers.

Looking forward

- The outlook for our US Government Services Sector is robust with the opportunity for mid-term growth, though market conditions remain highly competitive and continue to shift in response to government priorities.
- The Intelligence & Security team maintains a strong pipeline of qualified business opportunities and is seeing an increase in demand driven by global security threats, even with some delays in Department of Defense procurements.
- The modelling, simulation and synthetic training environment markets both in the US and internationally, support a positive outlook for our BISim and Pitch Technologies teams.
- In the space domain, we are focusing on delivering our Azalea milestones, a programme investing in developing and building Low Earth Orbit satellites for the defence market.
- In Digital Intelligence, where our capabilities are well aligned to growing UK security and digital budgets, we continue to recruit talent into the business and invest in our people through our training academies and the opening of a new facility in the North West of England.

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 United Kingdom adopted International Accounting Standard 34 Interim Financial Reporting.
- The interim management report on pages 1 to 25 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:

Cressida Hogg

Chair
1 August 2023

Directors

Cressida Hogg	Chair
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
Crystal E. Ashby	Non-executive director
Dame Elizabeth Corley	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
Lord Mark Sedwill	Non-executive director

Independent review report to BAE Systems plc

Conclusion

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 2023 which comprises the Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, Condensed consolidated statement of changes in equity, the Condensed consolidated balance sheet, Condensed consolidated cash flow statement and related notes 1 to 11.

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 2023 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.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 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 (ISRE (UK) 2410). 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.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with United Kingdom adopted international accounting 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".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of 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.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the Company a Conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusion, including our Conclusion relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with ISRE (UK) 2410. 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

1 August 2023

Condensed consolidated income statement (unaudited)

	Notes	**Six months ended 30 June 2023** £m	**Six months ended 30 June 2023** £m	Six months ended 30 June 2022 £m	Six months ended 30 June 2022 £m
Continuing operations					
Revenue	2		**10,997**		9,739
Operating costs			**(9,926)**		(8,816)
Other income			**102**		58
Share of results of equity accounted investments			**60**		47
Operating profit	2		**1,233**		1,028
Financial income		**69**		13	
Financial expense		**(104)**		(262)	
Net finance costs	3		**(35)**		(249)
Profit before taxation			**1,198**		779
Taxation expense	4		**(193)**		(132)
Profit for the period			**1,005**		647
Attributable to:					
Equity shareholders			**965**		615
Non-controlling interests			**40**		32
			1,005		647
Earnings per share	5				
Basic earnings per share			**31.8p**		19.6p
Diluted earnings per share			**31.4p**		19.4p

Condensed consolidated statement of comprehensive income (unaudited)

	Six months ended 30 June 2023			Six months ended 30 June 2022		
	Other reserves £m	**Retained earnings £m**	**Total £m**	Other reserves £m	Retained earnings £m	Total £m
Profit for the period	**–**	**1,005**	**1,005**	–	647	647
Other comprehensive income						
Items that will not be reclassified to the income statement:						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**–**	**(157)**	**(157)**	–	3,142	3,142
Tax on items that will not be reclassified to the income statement	**–**	**(6)**	**(6)**	–	(351)	(351)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (net of tax)	**–**	**(9)**	**(9)**	–	100	100
Items that may be reclassified to the income statement:						
Consolidated:						
Currency translation on foreign currency net investments	**(589)**	**–**	**(589)**	1,008	–	1,008
Fair value gain/(loss) arising on hedging instruments during the period	**23**	**–**	**23**	(95)	–	(95)
Cumulative fair value (gain)/loss on hedging instruments reclassified to the income statement	**(20)**	**–**	**(20)**	1	–	1
Tax on items that may be reclassified to the income statement	**–**	**–**	**–**	24	–	24
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (net of tax)	**6**	**–**	**6**	20	–	20
Total other comprehensive (expense)/income for the period (net of tax)	**(580)**	**(172)**	**(752)**	958	2,891	3,849
Total comprehensive (expense)/income for the period	**(580)**	**833**	**253**	958	3,538	4,496
Attributable to:						
Equity shareholders	**(570)**	**793**	**223**	937	3,493	4,430
Non-controlling interests	**(10)**	**40**	**30**	21	45	66
	(580)	**833**	**253**	958	3,538	4,496

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 2023	82	1,252	6,951	2,930	11,215	185	11,400
Profit for the period	–	–	–	965	965	40	1,005
Total other comprehensive expense for the period	–	–	(570)	(172)	(742)	(10)	(752)
Total comprehensive (expense)/income for the period	–	–	(570)	793	223	30	253
Share-based payments (inclusive of tax)	–	–	–	50	50	–	50
Cumulative fair value loss on hedging instruments transferred to the balance sheet (net of tax)	–	–	9	–	9	–	9
Ordinary share dividends	–	–	–	(508)	(508)	(12)	(520)
Purchase of own shares	(1)	–	1	(371)	(371)	–	(371)
At 30 June 2023	**81**	**1,252**	**6,391**	**2,894**	**10,618**	**203**	**10,821**

Balance at 1 January 2022	85	1,252	5,887	212	7,436	232	7,668
Profit for the period	–	–	–	615	615	32	647
Total other comprehensive income for the period	–	–	937	2,878	3,815	34	3,849
Total comprehensive income for the period	–	–	937	3,493	4,430	66	4,496
Share-based payments (inclusive of tax)	–	–	–	66	66	–	66
Cumulative fair value loss on hedging instruments transferred to the balance sheet (net of tax)	–	–	5	–	5	–	5
Ordinary share dividends	–	–	–	(480)	(480)	(75)	(555)
Purchase of own shares	(1)	–	1	(130)	(130)	–	(130)
At 30 June 2022	**84**	**1,252**	**6,830**	**3,161**	**11,327**	**223**	**11,550**

Condensed consolidated balance sheet (unaudited)

	Notes	30 June 2023 £m	31 December 2022 £m
Non-current assets			
Intangible assets		**12,132**	12,644
Property, plant and equipment		**3,318**	3,235
Right-of-use assets		**1,324**	1,425
Investment property		**61**	63
Equity accounted investments		**696**	787
Other investments		**109**	99
Other receivables		**612**	618
Post-employment benefit surpluses	6	**1,171**	1,297
Other financial assets		**269**	322
Deferred tax assets		**326**	338
		20,018	20,828
Current assets			
Inventories		**1,047**	976
Trade, other and contract receivables		**6,380**	6,166
Current tax		**111**	133
Other financial assets		**203**	252
Cash and cash equivalents		**3,204**	3,107
		10,945	10,634
Total assets		**30,963**	31,462
Non-current liabilities			
Loans		**(5,070)**	(5,189)
Lease liabilities		**(1,291)**	(1,375)
Contract liabilities		**(958)**	(945)
Other payables		**(1,504)**	(1,441)
Post-employment benefit obligations	6	**(533)**	(651)
Other financial liabilities		**(211)**	(272)
Deferred tax liabilities		**(5)**	(5)
Provisions		**(324)**	(338)
		(9,896)	(10,216)
Current liabilities			
Loans and overdrafts		**(51)**	(53)
Lease liabilities		**(198)**	(241)
Contract liabilities		**(4,388)**	(3,882)
Trade and other payables		**(4,955)**	(4,990)
Other financial liabilities		**(315)**	(328)
Current tax		**(109)**	(103)
Provisions		**(230)**	(249)
		(10,246)	(9,846)
Total liabilities		**(20,142)**	(20,062)
Net assets		**10,821**	11,400
Capital and reserves			
Issued share capital		**81**	82
Share premium		**1,252**	1,252
Other reserves		**6,391**	6,951
Retained earnings		**2,894**	2,930
Total equity attributable to equity holders of BAE Systems plc		**10,618**	11,215
Non-controlling interests		**203**	185
Total equity		**10,821**	11,400

Condensed consolidated cash flow statement (unaudited)

	Notes	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m
Profit for the period		**1,005**	647
Taxation expense	4	**193**	132
Adjustment in respect of research and development expenditure credits		**(19)**	(19)
Share of results of equity accounted investments		**(60)**	(47)
Net finance costs	3	**35**	249
Depreciation, amortisation and impairment		**386**	361
Gain on disposal of property, plant and equipment, and investment property		**–**	(2)
Gain on disposal of businesses and non-current other investments		**–**	(7)
Cost of equity-settled employee share schemes		**52**	47
Movements in provisions		**(15)**	(28)
Difference between pension funding contributions paid and the pension charge		**(117)**	25
(Increase)/decrease in working capital:			
Inventories		**(114)**	(74)
Trade, other and contract receivables		**(468)**	(692)
Trade and other payables, and contract liabilities		**733**	69
Taxation paid net of research and development expenditure credits received		**(127)**	(168)
Net cash flow from operating activities		**1,484**	493
Dividends received from equity accounted investments		**123**	87
Interest received		**49**	9
Principal element of finance lease receipts		**5**	5
Purchase of property, plant and equipment, and investment property[1]		**(332)**	(247)
Purchase of intangible assets		**(49)**	(28)
Purchase of non-current other investments		**–**	(8)
Proceeds from funding related to assets[1]		**73**	71
Proceeds from sale of property, plant and equipment, and investment property		**4**	4
Proceeds from sale of intangible assets		**1**	–
Proceeds from sale of non-current other investments		**–**	7
Purchase of subsidiary undertakings, net of cash and cash equivalents acquired		**–**	(162)
Cash flow in respect of held for sale assets and business disposals, net of cash and cash equivalents disposed		**(3)**	1
Net cash flow from investing activities		**(129)**	(261)
Interest paid		**(159)**	(128)
Equity dividends paid	7	**(508)**	(480)
Purchase of own shares	7	**(376)**	(130)
Dividends paid to non-controlling interests		**(12)**	(75)
Principal element of lease payments		**(129)**	(142)
Cash inflow from derivative financial instruments (excluding cash flow hedges)		**60**	160
Cash outflow from derivative financial instruments (excluding cash flow hedges)		**(242)**	(53)
Cash inflow from loans		**166**	–
Cash outflow from repayment of loans		**–**	(400)
Net cash flow from financing activities		**(1,200)**	(1,248)
Net increase/(decrease) in cash and cash equivalents		**155**	(1,016)
Cash and cash equivalents at 1 January		**3,107**	2,917
Effect of foreign exchange rate changes on cash and cash equivalents		**(58)**	55
Cash and cash equivalents at 30 June		**3,204**	1,956

1. To align with further detail provided in the current period cash flow statement, funding received from the UK Government for the construction of assets for the period ended 30 June 2022 has been presented in equivalent detail with the cash inflow now shown separately as 'Proceeds from funding related to assets' to cash outflows on the 'Purchase of property, plant and equipment, and investment property'.

Notes to the condensed half-yearly accounts

1. Preparation of the consolidated financial statements

Basis of preparation and statement of compliance

The annual financial statements of the Group will be prepared in accordance with UK-adopted International Accounting Standards (IAS), in conformity with the requirements of the Companies Act 2006. The condensed consolidated set of financial statements included in this Half-yearly Report have been prepared in accordance with UK-adopted IAS 34 Interim Financial Reporting and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority. These condensed consolidated 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 2022. The comparative figures for the year ended 31 December 2022 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 2023 are consistent with the accounting policies applied by the Group in its consolidated financial statements as at, and for the year ended, 31 December 2022 as required by the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority.

New and amended standards adopted by the Group

On the 19 July 2023, the UK endorsed the amendments to IAS 12 Income Taxes, issued by the International Accounting Standards Board on 23 May 2023, which grants companies a temporary exemption from applying IAS 12 to the International Tax Reform: Pillar Two Model Rules. For the Half-yearly Report 2023, the Group has adopted the amendments to IAS 12.

No other new or amended standards which became applicable for the period ending 30 June 2023 had a material impact on the Group or required the Group to change its accounting policies.

Key Sources of estimation uncertainty

The application of the Group's accounting policies requires the use of estimates. In response to the potential impact of risks and uncertainties, the Group undertakes risk assessments and scenario planning in order to be able to respond to potential rapid changes in circumstances. The Group therefore considers 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. Potential areas of the Group's financial statements which could be materially impacted may include, but are not limited to:

Revenue and profit recognition

The Group accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Group's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired.

The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks which are reliant on the knowledge and experience of the Group's project managers, engineers and finance and commercial professionals. Material changes in these estimates could affect the profitability of individual contracts. Revenue and cost estimates are reviewed and updated at least quarterly, and more frequently as determined by events or circumstances.

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 global supply chain issues, volatility in global gas and energy prices, and the ongoing response to climate change, have 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 potential future impact of the current uncertainties, the Group's estimates and assumptions related to revenue recognition could be impacted by issues such as reduced productivity as a result of operation disruption, production delays and increased costs as a result of disruption to the supply chain, changing working practices to move towards net zero, or where there is uncertainty as to the recovery from customers of programme costs incurred.

In 2022, the Group recognised £0.3bn of revenue in respect of performance obligations satisfied or partially satisfied in previous years (2021 £0.3bn). 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, however may not reflect the full potential impact on the contract receivables and contract liabilities balances.

Post-employment benefit obligations

A number of actuarial assumptions are made in assessing the value of post-employment benefit obligations, including discount rate, inflation rate, and mortality assumptions. For each of the actuarial assumptions used there is a wide range of possible values and management estimates a point within that range which most appropriately reflects the Group's circumstances.

If estimates relating to these actuarial assumptions are no longer valid or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly.

Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macroeconomic issues. The impact of estimates made with regard to mortality projections may also change.

Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions including the impact of climate change on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months.

Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgement is then required to determine the presentation of any tax payable in recovering a surplus.

Note 6 provides information on the key assumptions and analysis of their sensitivities.

Critical Judgements made in applying accounting policies

No critical 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.

2. Segmental analysis and revenue recognition

Sales[1] 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 2023 £m	Six months ended 30 June 2022 £m	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m
Electronic Systems	**2,583**	2,276	**(115)**	(27)	**115**	27	**2,583**	2,276
Platforms & Services	**1,891**	1,638	**(27)**	(22)	**–**	–	**1,864**	1,616
Air	**3,786**	3,497	**(1,391)**	(1,207)	**659**	573	**3,054**	2,863
Maritime	**2,603**	2,155	**(65)**	(58)	**3**	3	**2,541**	2,100
Cyber & Intelligence	**1,157**	1,050	**–**	–	**–**	–	**1,157**	1,050
HQ	**214**	157	**(209)**	(152)	**–**	–	**5**	5
	12,234	10,773	**(1,807)**	(1,466)	**777**	603	**11,204**	9,910
Intra-group sales/revenue	**(216)**	(192)	**–**	7	**9**	14	**(207)**	(171)
	12,018	10,581	**(1,807)**	(1,459)	**786**	617	**10,997**	9,739

	Intra-group revenue		Revenue from external customers	
	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m
Electronic Systems	**73**	54	**2,510**	2,222
Platforms & Services	**26**	17	**1,838**	1,599
Air	**17**	12	**3,037**	2,851
Maritime	**27**	27	**2,514**	2,073
Cyber & Intelligence	**59**	56	**1,098**	994
HQ	**5**	5	**–**	–
	207	171	**10,997**	9,739

Sales[1] and revenue by customer location

	Sales[1]		Revenue	
	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m
UK	**3,226**	2,603	**2,545**	2,036
Rest of Europe	**1,118**	839	**1,017**	840
US	**5,191**	4,653	**5,189**	4,648
Canada	**81**	57	**81**	57
Kingdom of Saudi Arabia	**1,223**	1,061	**1,220**	1,069
Qatar	**305**	531	**225**	429
Rest of Middle East	**133**	156	**113**	114
Australia	**469**	416	**468**	416
Rest of Asia and Pacific	**207**	209	**113**	112
Africa, and Central and South America	**65**	56	**26**	18
	12,018	10,581	**10,997**	9,739

Revenue from external customers by domain

	Six months ended 30 June 2023					Six months ended 30 June 2022				
	Air £m	**Maritime £m**	**Land £m**	**Cyber £m**	**Total £m**	Air £m	Maritime £m	Land £m	Cyber £m	Total £m
Electronic Systems	**2,122**	**95**	**293**	**–**	**2,510**	1,993	76	153	–	2,222
Platforms & Services	**19**	**550**	**1,269**	**–**	**1,838**	18	474	1,107	–	1,599
Air	**3,015**	**22**	**–**	**–**	**3,037**	2,835	16	–	–	2,851
Maritime	**165**	**2,219**	**130**	**–**	**2,514**	113	1,792	168	–	2,073
Cyber & Intelligence	**131**	**159**	**49**	**759**	**1,098**	131	209	74	580	994
	5,452	**3,045**	**1,741**	**759**	**10,997**	5,090	2,567	1,502	580	9,739

Underlying EBIT[1] and Operating profit/(loss) by reporting segment

	Underlying EBIT[1]		Adjusting items[2]		Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles		Financial and taxation expense of equity accounted investments		Operating profit/(loss)	
	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m	**Six months ended 30 June 2023 £m**	Six months ended 30 June 2022 £m
Electronic Systems	**391**	359	**40**	–	**(45)**	(43)	**–**	–	**386**	316
Platforms & Services	**172**	146	**5**	–	**–**	–	**(5)**	(3)	**172**	143
Air	**454**	362	**–**	(1)	**–**	–	**2**	(16)	**456**	345
Maritime	**193**	182	**–**	–	**–**	–	**(1)**	(2)	**192**	180
Cyber & Intelligence	**96**	123	**3**	(7)	**(11)**	(8)	**–**	–	**88**	108
HQ	**(48)**	(60)	**–**	–	**–**	–	**(13)**	(4)	**(61)**	(64)
	1,258	1,112	**48**	(8)	**(56)**	(51)	**(17)**	(25)	**1,233**	1,028
Net finance costs									**(35)**	(249)
Profit before taxation									**1,198**	779
Taxation expense									**(193)**	(132)
Profit for the period									**1,005**	647

Performance obligations

The Group's order book[3], reconciled to order backlog[1] as defined by the Group, is shown below.

	30 June 2023 £bn	31 December 2022 £bn
Order backlog[1] as defined by the Group	**66.2**	58.9
Deduct: Unfunded order backlog	**(2.1)**	(2.3)
Deduct: Share of order backlog[1] of equity accounted investments	**(13.2)**	(12.0)
Add: Order book[3] in respect of orders from equity accounted investments	**4.4**	4.3
Order book[3]	**55.3**	48.9

1. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 46.
2. Adjusting items were referred to as non-recurring items in the comparative period. No change has been made to the definition of these items, but the name has been changed to reflect that some items could be considered recurring in nature. Adjusting items in 2023 reflects a gain of £48m, comprising a settlement gain on a US pension annuity buy-out of £51m, offset by charges relating to historical acquisitions and disposals of £3m. 2022 comprised a charge of £8m related to historical business transactions.
3. 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 2023 £m	Six months ended 30 June 2022 £m
Financial income	**69**	13
Financial expense	**(104)**	(262)
Group net finance costs	**(35)**	(249)
Net finance costs:		
Group	**(35)**	(249)
Share of equity accounted investments	**2**	(9)
Total of Group and equity accounted investments' finance costs	**(33)**	(258)
Analysed as:		
Underlying net interest expense[1]:		
Group	**(116)**	(117)
Share of equity accounted investments	**5**	(5)
	(111)	(122)
Other:		
Group:		
Net interest income/(expense) on post-employment benefit obligations	**19**	(19)
Fair value and foreign exchange adjustments on financial instruments and investments	**62**	(113)
Share of equity accounted investments:		
Net interest income/(expense) on post-employment benefit obligations	**1**	(1)
Fair value and foreign exchange adjustments on financial instruments and investments	**(4)**	(3)
Total of Group and equity accounted investments finance costs	**(33)**	(258)

1. Underlying net interest expense is an alternative performance measure defined in the Financial glossary on page 46, it is presented here to provide additional information on performance to the user, and to reconcile to the equivalent IFRS measure.

4. Taxation expense

Taxation expense

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Taxation expense	**(193)**	(132)

Calculation of the underlying effective tax rate

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Profit before taxation	**1,198**	779
Add back: Taxation expense of equity accounted investments	**19**	16
(Deduct)/add back: Taxable adjusting items	**(50)**	1
Deduct: Non-taxable adjusting items	**2**	7
Adjusted profit before taxation	**1,169**	803
Taxation expense	**(193)**	(132)
Taxation expense of equity accounted investments	**(19)**	(16)
Exclude: Tax rate adjustment and adjustments in respect of taxable adjusting items	**2**	(6)
Adjusted taxation expense (including equity accounted investments)	**(210)**	(154)
Underlying effective tax rate[1]	**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 the half year profits or losses.

The Group's underlying effective tax rate is sensitive to the geographic mix of profits and may be impacted, from 2024 onwards, by the UK's substantive enactment of the Organisation for Economic Co-operation and Development's Global Anti-Base Erosion Model Rules (Pillar Two). For the Half-yearly Report 2023 the Group has adopted the International Accounting Standards Board's temporary exemption from applying IAS 12 to Pillar Two. At this stage the Group does not have sufficient information to determine the potential quantitative impact of Pillar Two.

1. Underlying effective tax rate is an alternative performance measure defined in the Financial glossary on page 46.

5. Earnings per share

	Six months ended 30 June 2023			Six months ended 30 June 2022		
	£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	**965**	**31.8**	**31.4**	615	19.6	19.4
Adjustments:						
Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles	**56**			51		
Net interest (income)/expense on post-employment benefit obligations	**(20)**			20		
Fair value and foreign exchange adjustments on financial instruments and investments	**(58)**			116		
Adjusting items attributable to shareholders	**(48)**			8		
Tax impact of adjustments[1]	**6**			(42)		
Underlying earnings[2], post tax	**901**	**29.6**	**29.3**	768	24.5	24.3

	Millions	**Millions**	Millions	Millions
Ordinary shares in issue as at 1 January		**3,297**		3,404
Less:				
Treasury shares as at 1 January		**(220)**		(237)
Shares held in trust which were contingently returnable as at 1 January		**(22)**		(23)
Number of ordinary shares outstanding as at 1 January		**3,055**		3,144
Net weighted average number of ordinary shares repurchased in period		**(16)**		(13)
Weighted average number of ordinary shares used in calculating basic earnings per share	**3,039**	**3,039**	3,131	3,131
Incremental ordinary shares in respect of employee share schemes		**37**		32
Weighted average number of ordinary shares used in calculating diluted earnings per share		**3,076**		3,163

1. The tax impact is calculated using the underlying effective tax rate of 18% (2022 19%), with the exception of adjusting items which has been determined using the actual tax due on those items. The calculation of the underlying effective tax rate is shown in note 4.
2. Underlying earnings per share is an alternative performance measure defined in the Financial glossary on page 46, it is presented here to provide additional information on performance to the user, and to reconcile to the equivalent IFRS measure.

6. Post-employment benefits

Summary of movements in post-employment benefit obligations

	UK £m	US and other £m	Total £m
Total net IAS 19 surplus/(deficit) at 1 January 2023 (net of withholding tax)	1,236	(483)	753
Add back: withholding tax on surpluses	722	–	722
Total net IAS 19 surplus/(deficit) at 1 January 2023	1,958	(483)	1,475
Actual return on assets excluding amounts included in net interest income	(1,001)	107	(894)
Decrease/(increase) in liabilities due to changes in financial assumptions	945	(24)	921
Experience losses	(282)	(19)	(301)
Contributions in excess of service cost	90	(6)	84
Settlements	–	51	51
Net interest income/(expense)	51	(10)	41
Foreign exchange adjustments	–	19	19
Movement in other schemes	–	(9)	(9)
Total IAS 19 surplus/(deficit) at 30 June 2023	**1,761**	**(374)**	**1,387**
Withholding tax on surpluses	(649)	–	(649)
Total net IAS 19 surplus/(deficit) at 30 June 2023 (net of withholding tax)	**1,112**	**(374)**	**738**
Allocated to equity accounted investments	(100)	–	(100)
Group's share of net IAS 19 surplus/(deficit) excluding Group's share of amounts allocated to equity accounted investments at 30 June 2023	**1,012**	**(374)**	**638**
Represented by:			
Post-employment benefit surpluses	1,100	71	1,171
Post-employment benefit obligations	(88)	(445)	(533)
	1,012	**(374)**	**638**

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 2023	31 December 2022	**30 June 2023**	31 December 2022
Financial assumptions				
Discount rate – past service (%)	**5.2**	4.8	**5.0**	5.0
Discount rate – future service (%)	**5.1**	4.8	**5.0**	5.0
Retail Prices Index (RPI) inflation (%)	**3.0**	3.0	**n/a**	n/a
Rate of increase in salaries (%)	**3.0**	3.0	**n/a**	n/a
Rate of increase in deferred pensions (%)	**2.3/3.0**	2.3/3.0	**n/a**	n/a
Rate of increase in pensions in payment (%)	**1.7-3.7**	1.7-3.6	**n/a**	n/a
Demographic assumptions				
Life expectancy of a male currently aged 65 (years)	**86-89**	86-89	**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)	**87-90**	87-90	**87**	87
Life expectancy of a female currently aged 45 (years)	**89-91**	89-91	**89**	89

For its UK pension schemes, the Group has used the Self-Administered Pension Schemes S3 mortality tables based on year of birth (as published by the Institute of Actuaries) for both pensioner and non-pensioner members, in conjunction with the results of an investigation into the actual mortality experience of scheme members and information on the demographic profile of the scheme's membership.

To allow for future improvements in longevity, the Continuous Mortality Investigation 2021 tables (published by the Institute of Actuaries) have been used (in 2022, the same tables were used), with an assumed long-term rate of future annual mortality improvements of 1.0% per annum (2022 1.0%), an initial rate adjustment parameter ('A') of 0.25% (2022 0.25%) in conjunction with a smoothing parameter ('S_k') of 7 for all members (2022 7). The Group has chosen to apply a weighting to the 2020 and 2021 data in recognition of the abnormal excess deaths as a result of COVID-19. No further adjustments have been made to improvements expected in future years.
The impacts of COVID-19 will continue to be monitored and assessed at future reporting dates.

For the majority of the US schemes, the mortality tables used are a blend of the fully generational PRI-2012 White Collar table and the PRI-2012 Blue Collar table, both projected using Scale MP-2021.

Settlement gain
In May 2023 $1.2bn (£1.0bn) of the US defined benefit obligation liabilities were settled via a transfer to an insurance company. The premium of $1.1bn (£0.9bn) was approximately 95% of the IAS 19 liability carrying value, creating a one-off accounting gain of $63m (£51m). This gain has been recognised as an Adjusting item in the income statement.

Surplus recognition
A number of schemes are in an accounting surplus position. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. These have been recognised after deducting a 35% withholding tax which would be levied prior to the future refunding of any surplus and have been presented on a net basis as this is not deemed to be an income tax of the Group.

Sensitivity analysis
The sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 30 June 2023 and keeping all other assumptions as set out above.

Financial assumptions
The estimated impact of changes in the discount rate and inflation assumptions on the defined benefit pension obligations, 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.

	Decrease/(increase) in pension obligation[1] £bn	(Decrease)/increase in scheme assets[1] £bn
Discount rate:		
0.5 percentage point increase / decrease	1.2/(1.4)	(1.2)/1.3
1.0 percentage point increase / decrease	2.3/(2.9)	(2.2)/2.7
2.0 percentage point increase / decrease	4.3/(6.5)	(4.1)/6.1
3.0 percentage point increase / decrease	5.9/(11.1)	(5.6)/10.5

1. Before allocation to equity accounted investments and deduction of withholding tax.

	(Increase)/decrease in pension obligation[1] £bn	Increase/(decrease) in scheme assets[1] £bn
Inflation:		
0.1 percentage point increase / decrease	(0.1)/0.1	0.1/(0.1)
0.5 percentage point increase / decrease	(0.7)/0.7	0.6/(0.5)
1.0 percentage point increase / decrease	(1.3)/1.3	1.2/(1.0)

1. Before allocation to equity accounted investments and deduction of withholding tax.

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 surplus:

	(Decrease)/increase in net surplus[1] £bn
Life expectancy:	
One-year increase/decrease	(0.7)/0.7

1. Before allocation to equity accounted investments and deduction of withholding tax.

7. Equity dividends

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Prior year final 16.6p dividend per ordinary share paid in the period (2022 15.2p)	**508**	480

The directors have declared an interim dividend of 11.5p per ordinary share in respect of the period ended 30 June 2023, totalling approximately £382m. This will be paid on 30 November 2023 to shareholders registered on 20 October 2023. The ex-dividend date is 19 October 2023. 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 interim 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 3 November 2023.

Purchase of own shares

2022 buyback

In July 2022, the Company announced a three-year share buyback programme of up to £1.5bn (the '2022 buyback programme'). In the period to 31 December 2022, 82,997,065 ordinary shares were repurchased for a total price, including transaction costs, of £664m.

During 2023, the 2022 share buyback programme has continued, and on 1 June 2023 the Company commenced the third tranche of the 2022 share buyback programme. During the period to 30 June 2023, 40,460,554 ordinary shares were repurchased for a total price, including transaction costs, of £371m. These ordinary shares were subsequently cancelled, with the nominal value of ordinary shares cancelled deducted from share capital against the capital redemption reserve. This brings the total number of ordinary shares repurchased under the 2022 buyback programme to 123,457,619 for a total price, including transaction costs, of £1.0bn.

2021 buyback

In July 2021, the Company announced the details of a 12-month £500m share buyback programme (the '2021 buyback programme').

The 2021 share buyback programme was completed on 2 February 2022. During the period to 30 June 2022, 24,253,065 ordinary shares were repurchased for a total price, including transaction costs, of £132m. In total 87,525,938 ordinary shares were repurchased under the 2021 buyback programme for a total price, including transaction costs, of £503m.

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 will realise in the future.

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 2023		31 December 2022	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial instruments measured at fair value:				
Non-current				
Other investments at fair value through other comprehensive income	**109**	**109**	99	99
Other financial assets	**269**	**269**	322	322
Other financial liabilities	**(211)**	**(211)**	(272)	(272)
Current				
Other financial assets	**203**	**203**	252	252
Money market funds	**828**	**828**	1,149	1,149
Other financial liabilities	**(315)**	**(315)**	(328)	(328)
Financial instruments not measured at fair value:				
Non-current				
Loans	**(5,070)**	**(4,361)**	(5,189)	(4,588)
Current				
Loans and overdrafts	**(51)**	**(51)**	(53)	(53)

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, and other investments which are at a combination of level 1, level 2 and level 3. The total value of investments classified as level 2 and level 3 are immaterial. 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 amortised cost. With the exception of loans, the carrying value of financial instruments measured at amortised cost approximates their fair value. 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. Related party transactions

The Group has a related party relationship with its equity accounted investments, other investments and pension schemes. 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 more significant transactions are disclosed below:

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Sales to related parties	**786**	617
Purchases from related parties	**287**	223
Management recharges	**4**	4

	30 June 2023 £m	31 December 2022 £m
Amounts owed by related parties	**24**	77
Amounts owed to related parties	**1,469**	1,262

10. Contingent liabilities

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business. 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.

11. Events after the reporting period

There were no events after the reporting period which would materially impact the balances reported in this Report.

Financial 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 period-on-period business performance and cash generation comparisons, and to enhance 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 does not consider them to be more important than, or superior to, their equivalent IFRS measures.

Financial performance measures defined by the Group

Measure	Purpose	Definition	Closest IFRS measure and reconciliation
Sales	Enables management to monitor the revenue of both the Group's own subsidiaries as well as its strategically important equity accounted investments, to ensure programme performance is understood and in line with expectations.	Revenue plus the Group's share of revenue of equity accounted investments, excluding subsidiaries' revenue from equity accounted investments.	Revenue Page 36
Underlying EBIT	Provides a measure of operating profitability, excluding one-off events or adjusting items that are not considered to be part of the ongoing operational transactions of the business, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group.	Operating profit excluding amortisation of programme, customer-related and other intangible assets[1], impairment of intangible assets, finance costs and taxation expense of equity accounted investments, and adjusting items[2]. The exclusion of amortisation of acquisition-related intangible assets is to allow consistent comparability internally and externally between our businesses, regardless of whether they have been grown organically or via acquisition.	Operating profit Page 37
Return on sales	Provides a measure of operating profitability, excluding one-off events, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group.	Underlying EBIT as a percentage of sales. Also referred to as margin.	Return on revenue Page 9
Underlying earnings per share	Provides a measure of the Group's underlying performance, which enables management to compare the profitability of the Group's recurring operations over time.	Profit for the period attributable to shareholders, excluding post-tax impact of amortisation of programme, customer-related and other intangible assets, impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and adjusting items[1] attributable to shareholders, being underlying earnings, divided by number of shares as defined for Basic EPS in accordance with IAS 33 Earnings per Share.	Basic earnings per share Page 40

Measure	Purpose	Definition	Closest IFRS measure and reconciliation
Underlying interest expense	Provides a measure of finance costs associated with the operational borrowings of the Group that is comparable over time.	Net finance costs for the Group and its share of equity accounted investments, excluding net interest expense on post-employment benefit obligations and fair value and foreign exchange adjustments on financial instruments and investments.	Net finance costs Page 38
Underlying effective tax rate	Provides a measure of taxation for the Group, excluding one-off items, that is comparable over time.	Taxation expense for the Group and its share of equity accounted investments, excluding any one-off tax benefit/expense, as a percentage of adjusted profit before taxation, being profit before taxation plus taxation expense of equity accounted investments, adjusted for adjusting items[2].	Taxation expense Page 39
Operating business cash flow	Provides a measure of cash generated by the Group's operations, to service debt and meet tax obligations, and in turn available for use in line with the Group's capital allocation policy.	Net cash flow from operating activities excluding taxation and including net capital expenditure (net of proceeds from funding of assets) and lease principal amounts, financial investment and dividends from equity accounted investments.	Net cash flow from operating activities Page 13
Free cash flow	Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy.	Operating business cash flow less interest paid (net) and taxation.	Net cash flow from operating activities Page 13
Net debt (excluding lease liabilities)	Allows management to monitor indebtedness of the Group, to ensure the Group's capital structure is appropriate and capital allocation policy decisions are suitably informed.	Cash and cash equivalents, less loans and overdrafts (including debt-related derivative financial instruments). Net debt does not include lease liabilities.	n/a
Order intake	Allows management to monitor the order intake of the Group's own subsidiaries as well as its strategically important equity accounted investments, providing insight into future years' sales performance.	Funded orders received from customers including the Group's share of order intake of equity accounted investments.	n/a
Order backlog	Supports future years' sales performance of subsidiaries and equity accounted investments.	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.	Order book Page 37

Financial performance measures derived from IFRS

Measure	Definition
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.
Net post-employment benefits surplus/deficit	Net International Accounting Standard 19 Employee Benefits surplus or deficit, excluding amounts allocated to equity accounted investments.

1. Other intangible assets consists of patents, trademarks and licenses.
2. Adjusting 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. Adjusting items were referred to as non-recurring items in the comparative period. No change has been made to the definition of these items, but the name has been changed to reflect that some items could be considered recurring in nature. The Group's definition of adjusting 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 items which management has determined as not being relevant to an understanding of the Group's underlying business performance. Note 2 Segmental analysis and revenue recognition includes more information on those items reported as adjusting in the period.

Shareholder information

The Annual General Meeting of BAE Systems plc will be held on 9 May 2024.

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