BAE SYSTEMS

Preliminary Results Announcement 2023

Charles Woodburn, Chief Executive, said: *"We've delivered a strong operational and financial performance in 2023 and I'm extremely proud of the way our people have delivered cutting-edge equipment and services to our customers, working together with partners across our supply chain.*

"Our performance, combined with our global footprint and record order intake, means we're well-positioned for sustained growth in the coming years. We'll keep driving the business forward, investing in new technologies, facilities and our people. This will help us deliver on our order backlog and help ensure our government customers stay ahead in an uncertain world, whilst delivering increased value to our shareholders and the communities where we operate."

Financial highlights

Financial performance measures as defined by the Group[1]	**Year ended 31 December 2023**	Year ended 31 December 2022	Variance[2]
Sales	**£25,284m**	£23,256m	+9%
Underlying EBIT	**£2,682m**	£2,479m	+9%
Underlying earnings per share (EPS)	**63.2p**	55.5p	+14%
Free cash flow	**£2,593m**	£1,950m	+£643m
Order intake	**£37.7bn**	£37.1bn	+£0.6bn
Order backlog	**£69.8bn**	£58.9bn	+£10.9bn
Dividend per share[3]	**30.0p**	27.0p	+11%

Financial performance measures as defined by IFRS	**Year ended 31 December 2023**	Year ended 31 December 2022	Variance[2]
Revenue	**£23,078m**	£21,258m	+9%
Operating profit	**£2,573m**	£2,384m	+8%
Basic earnings per share	**61.3p**	51.1p	+20%
Net cash flow from operating activities	**£3,760m**	£2,839m	+£921m
Order book	**£58.0bn**	£48.9bn	+£9.1bn

- The growth in sales and revenue was driven by strong programme performance across all sectors.
- The increased profitability of the Group reflects strong programme execution and internal efficiency efforts.
- Earnings per share increased reflecting the profitability of the Group and further benefitting from the on-going share buyback programme.
- After generating free cash flow of £2.6bn, including net cash flow from operating activities of £3.8bn, the Group closed 2023 with cash of £4.1bn and net debt (excluding lease liabilities) of £1.0bn. This places the business in a strong position to manage the financing associated with the Ball Aerospace acquisition which completed in February 2024.
- Our order backlog has reached a record level of £69.8bn, driven by order intake of £37.7bn following a number of significant awards in the year including SSN-AUKUS, Dreadnought and multiple combat vehicles orders in our Hägglunds business.
- The Board has recommended a final dividend of 18.5p, taking the total dividend for 2023 to 30.0p - an increase of 11.1% on last year. Subject to shareholder approval at the 2024 Annual General Meeting, the dividend will be paid on 3 June 2024 to shareholders on the share register on 19 April 2024.

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 Alternative performance measures section on page 47.
2. Growth rates for sales, underlying EBIT and underlying EPS are on a constant currency basis (i.e. current year compared with prior year translated at current year exchange rates). The comparatives have not been restated. All other growth rates and year-on-year movements are on a reported currency basis.
3. Reflects 2023 interim dividend of 11.5p (2022 interim dividend 10.4p) and 2023 proposed final dividend of 18.5p (2022 final dividend 16.6p).

Capital deployment

- In February 2024, we completed the acquisition of the US-based Ball Aerospace business from Ball Corporation for $5.5bn (£4.4bn). Upon completion, the Group drew down $4.0bn (£3.2bn) under a bridge finance facility, and paid $1.5bn (£1.2bn) in cash from the Group's existing cash resources in settlement of the transaction.
- During the year, the Company repurchased 59m shares under the 2022 share buyback programme, at a cost of £561m. In total, 142m shares have been repurchased under the 2022 share buyback programme at a cost of £1.2bn, representing 4.4% of the called up share capital (excluding treasury shares) when the programme commenced.
- In August, the directors approved a further buyback programme of up to £1.5bn. The further programme is expected to commence after completion of the current buyback programme and complete within three years of its commencement.
- In February 2024, Air Astana completed an initial public offering (IPO) with a joint listing in London and Kazakhstan. Following the IPO, our shareholding has reduced from 49% to c.16% with proceeds on disposal of c.$0.2bn.

Strategic progress

During the year, three significant events have positively enhanced the business portfolio relevance for the long term:

- In March 2023, further announcements were made as part of the AUKUS trilateral agreement between Australia, the UK and the US, with funding of £3.95bn secured from the UK Ministry of Defence for the next phase of the UK's next-generation nuclear-powered attack submarine programme.
- In December 2023, Ministers from Italy, Japan and the UK signed an international treaty to develop an innovative next generation stealth fighter under the Global Combat Air Programme (GCAP) and confirmed that the joint GCAP government headquarters will be based in the UK. Following the industry collaboration agreement announced in September, as the UK's industry lead, we will continue to work closely with our partners Mitsubishi Heavy Industries in Japan and Leonardo in Italy to determine the future joint business construct, which will also be headquartered in the UK.
- We announced the acquisition of Ball Aerospace, a leading provider of spacecraft, mission payloads, and optical and antenna systems. The business is headquartered in Colorado, with more than 5,200 employees, adding additional capabilities to design, build and operate satellites and satellite systems to our multi-domain portfolio and increase our exposure to high priority areas of the US Department of Defense budget.

Other operational highlights

- We received a contract award from the Czech Republic for 246 CV90 MkIV infantry fighting vehicles.
- The AMPV combat vehicle moved into full rate production following contract awards.
- We secured a ten-year contract to continue operating the US Army Ammunition Plant in Holston, Tennessee.
- F-35 aft fuselage manufacturing continued at full-rate production through 2023, with 162 aft fuselages completed during the year.
- Ten Typhoons were delivered to Qatar Emiri Air Force, with 18 now in service.
- We reached an agreement with the Kingdom of Saudi Arabia for a further five years of Salam Typhoon support.
- MBDA secured significant orders, including Poland's PILICA+ Air Defence upgrade defence programme.
- We continued work on developing the UK future flying combat air demonstrator to fly within four years.
- We secured £2.4bn of order intake for Dreadnought, with three boats now in construction.
- Construction of new ship assembly hall and Applied Shipbuilding Academy in Glasgow is well underway.
- We secured additional UK munitions orders, worth over £400m, to increase production of vital defence stocks.
- In Cyber & Intelligence, we continued investing in new products for space, multi-domain capabilities and synthetic training.

Brad Greve, Chief Financial Officer said: *"Our 2023 financial results further confirmed our value-compounding model, with strong top line growth, increased profits, strong cash flow generation and earnings progression. Combined with disciplined capital deployment in the form of a growing dividend, continued share repurchases and strategic M&A, this resulted in excellent returns for our shareholders. We also see our model continuing to advance in 2024, with the Ball Aerospace acquisition enhancing our growth and consolidating our presence at scale in the fast growing space and tactical solutions domains."*

Group guidance[1] for 2024

The Group guidance for 2024 incorporates the acquisition of Ball Aerospace[2] and the reduction in the Group's shareholding in Air Astana following its initial public offering, both of which completed in February 2024.

Guidance is provided on the basis of an exchange rate of $1.24:£1, which is in line with the actual 2023 exchange rate.

Year ended 31 December 2024	**Guidance**	**Year ended 31 December 2023 Results**
Sales	**Increase by 10% to 12%**	£25,284m
Underlying EBIT	**Increase by 11% to 13%**	£2,682m
Underlying EPS	**Increase by 6% to 8%**	63.2p
Free cash flow	**>£1.3bn**	£2,593m

Cumulative free cash flow guidance[3]	**Guidance**
Cumulative free cash flow 2024-2026	In excess of £5.0bn
Cumulative free cash flow 2023-2025 (Previously £4.5bn to £5.5bn)	In excess of £5.0bn
Cumulative free cash flow 2022-2024 (Previously in excess of £5.0bn)	In excess of £5.5bn

- Underlying net finance costs £350m to £375m
- Effective tax rate c.21%
- 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.£500m, underlying EBIT by c.£70m and underlying earnings per share by c.1.3p.

1. While the Group is subject to geopolitical and other uncertainties, the Group 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 the Alternative performance measures section on page 47.
2. Guidance incorporates the acquisition of Ball Aerospace from 16 February 2024.
3. In addition to the free cash flow above, the Group received proceeds of c.£0.2bn from the reduction in the Group's shareholding in Air Astana. The cash flow impact of business acquisitions and disposals is excluded from the Group's definition of free cash flow.

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Analyst and investor presentation

A presentation, for analysts and investors, of the Group's Results for 2023 will be available via webcast at 9.00am today (21 February 2024).

Details can be found on **investors.baesystems.com**, together with presentation slides and a pdf copy of this report. A recording of the 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 are a workforce of 99,800[1] highly skilled people in more than 40 countries. Working with our customers and local partners, we develop, engineer, manufacture and support products and systems that deliver military capability, protect national security, and keep critical information and infrastructure secure.

1. As at 31 December 2023 and including share of equity accounted investments.

Preliminary results statement

Overview

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

- continued to assist our customers in delivering urgent mission critical capability;
- shown strong operational and financial performance and cash flow generation;
- secured £37.7bn of orders to set a record order backlog of £69.8bn;
- delivered increased sales and profit;
- continued to invest in our people, research and development (R&D) and facilities to underpin our growth outlook;
- advanced our Environmental, Social and Governance (ESG) agenda and engagement across our stakeholders;
- made progress against the three-year £1.5bn share buyback programme announced in July 2022 with £0.6bn of share repurchases in the year;
- advanced discussions with our international partners on GCAP; and
- announced the acquisition of Ball Aerospace for $5.5bn, a leading provider of spacecraft, mission payloads, and optical and antenna systems. The acquisition completed in February 2024.

2023 operational performance

Overall, we have made strong operational progress and advanced the strategic objectives we have been pursuing for the past several years.

Our focus on operational excellence continues to benefit our customers and shareholders, especially as we execute on complex, long-duration programmes like Dreadnought, Type 26 and Hunter Class frigates, Typhoon and F-35 jets, electronic warfare systems, combat vehicles, and many other programmes. This relentless focus on delivering for our customers has positioned the Group as a trusted supplier of advanced technology solutions and industrial capabilities to help customers achieve their critical national and global security missions.

2023 financial performance

Our key financial measures of order intake, sales, underlying EBIT, underlying EPS and free cash flow all increased, amidst a high inflation environment. This was only possible because of the excellent work of our employees on programme execution, our discipline on contracting, and meaningful internal efficiency efforts.

On a constant currency basis, we grew order backlog by 21%, sales by 9% and underlying EPS by 14%. We delivered a record free cash flow of £2.6bn for the year and, as a result, exceeded our stated three-year free cash flow target for 2021 to 2023.

This strong set of results was enhanced by our ongoing share buyback programme. In 2023, we repurchased £561m worth of our shares, or 1.9% of our outstanding share capital.

Building an operational and financial track record

In 2021, we laid out how we would build on a period of transition and our good performance from 2018 to 2020. It centred around building a track record of good quality operational and financial performance on which customers and shareholders could consistently rely. We delivered against all the operational areas in the scorecard, which has led to strong financial performance over the three years from 2021 to 2023 with sales growth of 20%, margin expansion of 80bps, cash conversion of 100% and total shareholder returns of £4.2bn.

With strong momentum behind us from our last three years of delivery, a record order backlog and our largest ever acquisition completed, we look forward to the next three years with confidence. In many aspects, our ambitions for the coming years are a continuation of the strategy we have been executing, with the foundations for delivery built on:

- strong operational performance and contracting discipline;
- investing appropriately to support growth and our customers' priorities; and
- looking to deepen partnerships and collaborations.

Delivery against these ambitions, coupled with the acquisition of Ball Aerospace which is set to be additive to our top line growth, margin expansion and cash conversion outlook, means we are well positioned to deliver a compelling and predictable value-compounding model for our stakeholders.

Balance sheet strength

We ended 2023 with a strong balance sheet, featuring a cash position of £4.1bn, net debt (excluding lease liabilities) of £1.0bn, and a net pension position that remains in an accounting surplus. Our capital allocation remains consistent and is focused on underpinning the Group's long-term strength and expected growth. We prioritise investing in the business for the long term through R&D, as well as acquisitions in high-growth and high-return parts of the business.

Our capital expenditure (capex) is targeted to ensure our systems and facilities are modern, deliver an effective working environment and provide the capacity needed to support our growth outlook.

We are also committed to returning value to shareholders in accordance with our capital allocation policy through a dividend, which has increased for 20 years in a row, and share buybacks. Reflecting this, in August, we announced a further three-year share buyback programme of up to £1.5bn to commence after the completion of the current programme.

Highly relevant capabilities

As one of the world's largest defence companies, our technologies, capabilities and global footprint position BAE Systems as a leader in helping customers meet the elevated threat environment of today and tomorrow. Executing on our ambitious product and technology strategy, the Group continues to design, develop and manufacture cutting-edge products – across the domains of air, sea, land, cyber and space – that our customers count on. Our exceptional portfolio is enhanced by enabling technologies including artificial intelligence, autonomy, synthetic environments and cyber defence, ensuring we remain at the forefront of national security-related innovation. In addition to our defence portfolio, our commercial aviation product lines are recovering as more passengers return to flying. Demand for our low and zero emission propulsion systems also grew, with opportunities to take these applications into the defence arena, as well as maritime and air.

Our market differentiation

Our diverse product and services portfolio, combined with our global footprint and engagement in many of the world's largest national defence markets, are key and differentiating strengths. We see good long-term growth and significant opportunities in our US, UK, European, Middle Eastern, Australian and Asia Pacific businesses.

Most of the countries where we operate have either announced budget increases or are planning increased spending to address the elevated threat environment. While governments continue to face global economic and fiscal pressures, commitment to defence spending in our major markets remains robust.

Our long-term visibility

With our record order backlog and programme positions, we have a high level of visibility of our revenues for many years to come. The order backlog is, in many cases, just a subset of the true programme length and value, with many of our key programmes running well into the next decade. The current visibility has the potential to be even further enhanced as we have a growing global opportunity pipeline, driven by our capabilities and market differentiation.

Portfolio evolution to support the long term

During the year, three significant events have positively enhanced the business portfolio relevance for the long term.

- Firstly, further detail on the AUKUS trilateral agreement between Australia, the UK and US was announced in March 2023 and has significant future potential for BAE Systems. We have already secured £3.95bn of funding in the year for the next phase of the UK's next-generation attack submarine programme.
- Secondly, GCAP, formed in 2022, saw ministers from Japan, the UK and Italy sign an important treaty in December 2023 in the shared design and development of next-generation fighter aircraft, reinforcing momentum and the strong trilateral co-operation between the partners.
- Thirdly, in August 2023, we announced the acquisition of Ball Aerospace, a leading space, defence technology and tactical missiles company, which we believe has highly relevant mission-critical capabilities for our customers' future needs. The acquisition completed in February 2024.

Investing for growth

To meet the business's growth outlook, we are increasing our investments in people, technologies and facilities. We boosted our global workforce by 6,700 employees compared to 2022. Given the long duration of many of our programmes, we put a special emphasis on early careers and community outreach to ensure we hire, develop and retain the best talent. In 2023, we increased recruitment of UK apprentices and graduates by 37% compared to 2022.

We also continue to develop and modernise our facilities, making progress in building capacity for the future in munitions, shipbuilding, submarines, combat vehicles and electronics.

Technology and innovation are central to our strategy and we increased Group R&D expenditure by 14% compared to 2022.

Our investments in core franchises and our next-generation priorities such as: space; autonomy; sustainability; advanced manufacturing; and multi-domain and digital integration, are driven by the evolving threat landscape. At a tactical level, the conflict in Ukraine is highlighting the importance of a number of these key technologies, especially autonomy, synthetic training, digital and multi-domain capabilities, while also reinforcing the critical need for munitions and maintaining legacy capabilities.

We are driving innovation through the research labs embedded in our business sectors, including FASTLabs™ in the US, Red Ochre Labs in Australia, and now via the FalconWorks® organisation in our Air sector. These hubs are agile innovation engines aimed at delivering bold breakthrough technologies to keep our customers ahead of the challenges they face. They also foster collaborative partnerships with academia and other organisations to bring even greater levels of creative and diverse thinking into BAE Systems.

Our sustainability agenda

Recent global events continue to demonstrate 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 enabling important economic and social contributions through the provision of sustainable high-quality jobs.

In line with our Group strategic business priorities, we put a significant focus on recruitment, skills and education to ensure the future talent pipeline. A key enabler to this is a positive and inclusive workplace and we continued employee engagement through our employee resource groups and introduced new wellbeing programmes.

Sustainability is one of our focus areas for technology innovation in the Group. Our ambition is to improve the sustainability of our products without compromising performance, even enhancing it where possible.

Board changes

Cressida Hogg, who has served as a non-executive director of the Company since November 2022, was appointed as Chair at the AGM on 4 May 2023, succeeding Sir Roger Carr who retired from the Board on that date. Angus Cockburn joined the Board as a non-executive director on 6 November 2023. Chris Grigg stepped down from the Board as a non-executive director and Senior Independent Director on 31 December 2023. Nicole Piasecki has succeeded him as Senior Independent Director.

Executive Committee changes

After long and successful careers with the Company, two Executive Committee members retired at the end of the year. Our Air Sector Managing Director, Cliff Robson, has been succeeded by Simon Barnes, who previously led our business in the Kingdom of Saudi Arabia. In our Digital Intelligence business, Managing Director David Armstrong has been succeeded by Andrea Thompson, who previously led our Air Sector's Europe and International business.

Summary

2023 has been a year of real progress for the Group. We delivered a strong operational and financial performance, moved forward on highly significant long-term strategic programmes with GCAP and AUKUS, increased self-funded R&D spend and capital expenditure, grew our workforce by a net 6,700 employees and announced the $5.5bn acquisition of Ball Aerospace to enhance our space portfolio, which completed in February 2024.

We are well positioned to help our national government customers keep their citizens safe and secure in an uncertain world. For shareholders, our record order backlog, position on major programmes and our continued focus on operational excellence and financial discipline, provide a high level of visibility for sales growth, margin expansion, cash generation and capital returns in the years to come.

Dividends

The Board has recommended a final dividend of 18.5p, bringing the total dividend in respect of 2023 to 30.0p. Subject to shareholder approval at the 2024 Annual General Meeting, the dividend will be paid on 3 June 2024 to shareholders on the share register on 19 April 2024.

Summary investment case

We have a strong track record of delivering financial returns for investors and, through the careful long-term sustainable management and governance of our business, we are well placed to continue to generate good returns. This is supported by our seven key advantages:

1. We provide customers with world-class defence capabilities across multiple domains.
2. We undertake multi-decade programmes with long-term embedded value. Our contract order backlog provides a high level of sales visibility, driven by multi-year programmes.
3. We have a growing global opportunity pipeline. Our diverse geographic footprint supports us in pursuing excellent opportunities across all sectors as countries around the world face up to the multi-faceted threat environment.
4. We foster a high-performance, innovative culture and consistently invest in R&D to build on existing world-leading capabilities and generate new innovative and disruptive technologies.
5. We have an intense focus on operational excellence, with strong, consistent programme performance. We are focused on operational efficiencies to expand margins and create value for our investors and customers.
6. Sustainability is fundamental to our business performance and we have a strong, progressive ESG agenda. It is embedded into our strategic framework and underpins our purpose.
7. We operate a value-enhancing operating model, undertaking our core business activities with a clear, consistent and careful capital allocation.

Group financial review

Group income statement

As defined by Group[1]		2023 £m	2022 £m	As defined by IFRS[2]	2023 £m	2022 £m
Sales	KPI	**25,284**	23,256	**Revenue**	**23,078**	21,258
Return on sales		**10.6%**	10.7%	Return on revenue	**11.1%**	11.2%
Underlying EBIT	KPI	**2,682**	2,479	**Operating profit**	**2,573**	2,384
Underlying net finance costs		**(211)**	(246)	Net finance costs	**(247)**	(395)
Underlying tax expense		**(472)**	(422)	Tax expense	**(386)**	(315)
Underlying profit for the year		**1,999**	1,811	Profit for the year	**1,940**	1,674
Attributable to:				Attributable to:		
Equity shareholders		**1,916**	1,728	Equity shareholders	**1,857**	1,591
Non-controlling interests		**83**	83	Non-controlling interests	**83**	83

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 47.
2. International Financial Reporting Standards.
3. Current year compared with prior year translated at current year exchange rates.

Sales for the year were £25.3bn (2022 £23.3bn) representing growth, on a constant currency basis[3], of 9% with all sectors delivering growth in the year. Maritime recorded sales of £5.5bn (2022 £4.6bn) which was an increase of 22%, on a constant currency basis, and accounted for nearly 47% of the overall Group's sales growth; submarines activity accounted for around 25%.

Electronic Systems recorded sales of £5.5bn (2022 £5.1bn) equating to growth of 9%, on a constant currency basis. This was led by continued recovery in the commercial business across both civil aviation and power and propulsion, along with gains in electronic combat systems.

Our Platforms & Services sector posted sales of £3.9bn (2022 £3.7bn), with growth of 8% on a constant currency basis. Our Hägglunds business accounted for almost two thirds of the sector's growth. Across the Platforms & Services portfolio, nearly 600 vehicles were delivered in the year.

The Air sector recorded sales of £8.1bn (2022 £7.7bn), representing growth of 4% on a constant currency basis. The sector saw increased activity in MBDA and higher air support volumes, while the future combat air programme continues to gain pace with activity more than doubling in 2023.

Sales in the Cyber & Intelligence sector grew to £2.3bn (2022 £2.2bn), an increase of 6% on a constant currency basis. Growth was 9%, on a constant currency basis, normalising for the impact of the disposal of the financial crime detection business. The US Intelligence & Security business grew 10%, primarily as a result of increased classified, sustainment and systems integration work, while outside the US we saw a sharp increase in National Security cyber sales.

Revenue was £23.1bn (2022 £21.3bn), with growth during the year of 9%, on a reported currency basis, reflective of the same drivers behind the increase in sales for the year excluding the impact of MBDA in Air.

Underlying EBIT was up 9% to £2,682m (2022 £2,479m), on a constant currency basis. The Maritime sector reported underlying EBIT of £425m (2022 £356m) following a year of strong sales growth, with margins reflecting the regulated profit environment on the Dreadnought programme.

Our Electronic Systems sector grew underlying EBIT to £878m (2022 £838m), an increase of 5% on a constant currency basis. Margin of 16.1% was within the guidance range and reflected lower pension recoveries in the US, marginally offset by an increase in higher margin commercial activity.

Platforms & Services reported underlying EBIT of £354m (2022 £326m), with margins increasing to 9.0%. The growth reflects the strong operational performance in our Hägglunds and Ship Repair businesses in the year.

Our Air sector reported underlying EBIT of £949m (2022 £849m), increasing margin to 11.8%. The growth in the year reflects the higher sales and risk retirement.

Finally, Cyber & Intelligence reported underlying EBIT of £199m (2022 £232m), a decrease of 14% on a constant currency basis. Margin of 8.6% was in the guided range and represented additional investment in the business in space and multi-domain networking.

Operating profit increased 8%, to £2,573m (2022 £2,384m), on a reported currency basis. On an operating sector basis this reflects the same drivers as underlying EBIT. Other differences are discussed below (also see the reconciliation of underlying EBIT to operating profit on page 47).

Underlying net finance costs were £211m (2022 £246m), a decrease of £35m. Of this, costs of £231m (2022 £230m) related to the Group and income of £20m (2022 costs of £16m) related to the Group's share of equity accounted investments. The improvement in underlying net finance costs largely reflects the increase in interest rates applied to surplus cash during the year.

Net finance costs were £247m (2022 £395m), a decrease of £148m. Excluding the £35m improvement in underlying net finance costs, all other net finance costs recorded a gain of £113m. This was largely the result of the £41m interest income on the Group's pension surplus (2022 cost of £37m on pension deficit). The balance of the improvement was the result of foreign exchange gains on its US dollar-denominated borrowings, largely being offset by losses on the remeasurement of financial instruments principally held to manage the Group's exposure to interest rate fluctuations.

Underlying tax expense of £472m (2022 £422m), was an increase of £50m reflecting the higher underlying pre-tax profits. The underlying effective tax rate was 19% (2022 19%).

Tax expense of £386m (2022 £315m), was an increase of £71m reflective of the increase in the UK's corporation tax rate in the year and the Group's pre-tax profits.

Reconciliation of underlying EBIT to operating profit		**2023 £m**	2022 £m
Underlying EBIT	KPI	**2,682**	2,479
Adjusting items		**40**	91
Amortisation of programme, customer-related and other intangible assets		**(111)**	(110)
Impairment of intangible assets		**(5)**	(1)
Net finance income/(costs) and tax expense of equity accounted investments		**(33)**	(75)
Operating profit		**2,573**	2,384

Adjusting items in 2023 totalled a net gain of £40m (2022 £91m) mainly comprising a final settlement gain on a US pension annuity buy-out of £60m. 2022 was mainly comprised of a £94m gain on the disposal of the financial crime detection business in Digital Intelligence.

Adjusting items	**2023 £m**	2022 £m
Profit on business disposals	**–**	94
Acquisition-related costs	**(20)**	(16)
Gain related to settlements and past service cost on the pension schemes	**60**	13
Adjusting items	**40**	91

Earnings per share (EPS)

As defined by the Group[1]		2023	2022
Underlying profit for the year attributable to equity shareholders		**£1,916m**	£1,728m
Underlying EPS	KPI	**63.2p**	55.5p

As defined by IFRS	2023	2022
Profit for the year attributable to equity shareholders	**£1,857m**	£1,591m
Basic EPS	**61.3p**	51.1p

Movement in underlying EPS

	2023 pence	2022 pence
As at 1 January	**55.5**	47.8
Foreign exchange	**(0.2)**	2.9
Tax	**(0.2)**	(0.8)
Share repurchases	**1.5**	1.3
Underlying EBIT	**5.8**	4.0
Underlying net finance costs	**0.8**	0.3
As at 31 December	**63.2**	55.5

Underlying EPS increased to 63.2p (2022 55.5p), or 14% on a constant currency basis. This is largely driven by the improved underlying profit for the year, as set out above, as well as the benefit from the ongoing share buyback programme which accounted for 1.5p of the increase.

Basic EPS increased 20% to 61.3p (2022 51.1p) also reflective of the increased profitability of the Group for the year and the benefit of the ongoing share buyback programme.

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 47.

Orders

As defined by the Group[1]		2023 £bn	2022 £bn
Order intake[2]	KPI	**37.7**	37.1
Order backlog[2]		**69.8**	58.9

As defined by IFRS	2023 £bn	2022 £bn
Order book[3]	**58.0**	48.9

Order intake, at £37.7bn, was up £0.6bn on the prior year, leading to a record order backlog of £69.8bn. Air recorded the highest order backlog at 31 December 2023, reflecting significant orders in MBDA and the Kingdom of Saudi Arabia during the year. The order backlog in Maritime also remains high reflecting the submarine and ship build programmes.

Details of awards in the year are included in the segmental reviews on pages 16 to 26, but the three largest orders driving the order intake in the year were:

- In Maritime, funding of £3.95bn was awarded by the UK Ministry of Defence for the next phase of the UK's next-generation nuclear-powered attack submarine programme, SSN-AUKUS.
- In Maritime, we also secured an order intake of £2.4bn for the continued Delivery Phase 3 activity on the Dreadnought Class submarine programme.
- In Air, we renewed the Government-to-Government Typhoon support services in the Kingdom of Saudi Arabia for a further five years through to the end of 2027, valued at £3.7bn.

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 47.
2. Including share of equity accounted investments.
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.

Cash flow

As defined by the Group[1]		**2023 £m**	2022 £m
Free cash flow	KPI	**2,593**	1,950
Operating business cash flow		**3,218**	2,552

As defined by IFRS		
Net cash flow from operating activities	**3,760**	2,839
Net cash flow from investing activities	**(541)**	(422)
Net cash flow from financing activities	**(2,188)**	(2,333)
Net increase in cash and cash equivalents	**1,031**	84
Cash and cash equivalents at 1 January	**3,107**	2,917
Effect of foreign exchange rate changes on cash and cash equivalents	**(71)**	106
Cash and cash equivalents at 31 December	**4,067**	3,107

Free cash flow of £2,593m (2022 £1,950m) was an increase of £643m on the prior year.

Operating business cash flow of £3,218m (2022 £2,552m) was an increase of £666m.

Net cash flow from operating activities was £3,760m (2022 £2,839m), an increase of £921m. In addition to the increased profitability of the Group, there was a net inflow of c.£1bn from customer advances.

Net cash flow from investing activities was an outflow of £541m (2022 £422m). Although the Group received additional cash in the year of £134m from dividends received from equity accounted investments, this was offset by an increased cash outflow of £272m in relation to capex investment in property, plant and equipment and intangible assets. This is reflective of the additional investments within our sites to support future programme delivery, such as the shipbuilding facilities in Glasgow to support Type 26 construction, munitions sites in both the UK and US and construction of the modern shiplift and land-level repair complex at our Jacksonville, Florida shipyard.

Net cash flow from financing activities was an outflow of £2,188m (2022 £2,333m), a decrease of £145m. Cash returns to shareholders, through dividend and share repurchases, decreased £172m to £1,418m. Although dividends increased, the value of share repurchases was lower. This year also saw a cash inflow from draw-down of loans of £162m, from the private placement to fund the shiplift at our Jacksonville, Florida shipyard. 2022 saw a £400m cash outflow in respect of bond repayments which were due.

The net cash outflow in respect of derivative financial instruments was £196m (2022 cash inflow of £328m) reflective of hedging against foreign exchange movements on the US dollar-denominated borrowings.

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

Cash and cash equivalents of £4,067m (2022 £3,107m) are held primarily for the repayment of debt securities, pension funding when required, payment of the 2023 final dividend, funding of further share repurchases under the up to £1.5bn share buyback programme announced in July 2022 and management of working capital. Following the $5.5bn (£4.4bn) acquisition of Ball Aerospace on 16 February 2024, the Group paid $1.5bn (£1.2bn) in cash and drew down $4.0bn (£3.2bn) of debt funding in settlement of the transaction.

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 47.

Net debt (excluding lease liabilities)

Components of net debt		2023 £m	2022 £m
Cash and cash equivalents		**4,067**	3,107
Debt-related derivative financial instruments (net)		**22**	112
Loans – non-current		**(4,432)**	(5,189)
Loans and overdrafts – current		**(679)**	(53)
Net debt (excluding lease liabilities)[1]	KPI	**(1,022)**	(2,023)

The Group's net debt (excluding lease liabilities) at 31 December 2023 was £(1,022)m, a net decrease of £1,001m from the position at the start of the year. This is primarily as a result of strong free cash flow performance, partially offset by shareholder returns through dividends and share repurchases.

Non-current loans have decreased by £757m during the year as the $800m 3.8% bond due for repayment in 2024 is now classified as a current loan; this movement was partially offset by draw-down of the $200m private placement to fund the Jacksonville, Florida, shiplift which is repayable in 2050.

Current loans have increased by £626m during the year reflecting the $800m 3.8% bond maturing in October 2024.

Movement in net debt (excluding lease liabilities)[1]	2023 £m	2022 £m
As at 1 January	**(2,023)**	(2,160)
Operating business cash flow	**3,218**	2,552
Interest and Tax	**(625)**	(602)
M&A	**–**	(38)
Shareholder returns	**(1,418)**	(1,590)
Other	**(174)**	(185)
As at 31 December	**(1,022)**	(2,023)

Shareholder returns of £1,418m (2022 £1,590m) comprised both dividends of £857m (2022 £802m) and share repurchases of £561m (2022 £788m). Dividends paid represent the 2022 final dividend and the 2023 interim dividend. During 2023, we repurchased 59m shares under the up to £1.5bn share buyback programme announced in July 2022 (2022 107m shares under the 2022 and 2021 share buyback programmes).

Other movements includes foreign exchange on the Group's US dollar-denominated cash and borrowings, offset by their associated derivatives, and dividends paid to non-controlling interests.

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 47.

Balance Sheet

		2023 £m	2022 £m
Intangible assets		**12,099**	12,644
Property, plant and equipment, right-of-use assets and investment property		**5,003**	4,723
Equity accounted investments and other investments		**916**	886
Working capital		**(5,468)**	(4,119)
Lease liabilities net of finance lease receivables		**(1,396)**	(1,582)
Group's share of IAS 19 post-employment benefits surplus		**229**	646
Net tax assets and liabilities		**474**	363
Net other financial assets and liabilities		**(112)**	(138)
Net debt (excluding lease liabilities)	KPI	**(1,022)**	(2,023)
Net assets		**10,723**	11,400

Intangible assets of £12.1bn (2022 £12.6bn) was a decrease of £0.5bn on the prior year, driven by the foreign exchange impact of the Group's US dollar-denominated goodwill.

Property, plant and equipment, right-of-use assets and investment property was £5.0bn (2022 £4.7bn), an increase of £0.3bn. Property, plant and equipment increased by a net £0.4bn reflecting capex spend across the business of £0.8bn, offset by depreciation and foreign exchange adjustments.

Equity accounted investments and other investments was £916m (2022 £886m). The Group's share of profits of equity accounted investments during the year, which was offset by dividends paid, resulted in a net gain of £45m on equity accounted investments at the end of the year.

Working capital saw a £1.4bn decrease, in aggregate, mainly reflecting an increase in advanced funding from customers on a number of contracts.

Lease liabilities net of finance lease receivables was £1.4bn (2022 £1.6bn) with no new significant lease agreements entered into during the year.

The Group's share of the net IAS 19 post-employment benefits was £0.2bn (2022 £0.6bn), net of a 35% withholding tax of £0.4bn. The decrease in the net surplus of £0.4bn largely reflects a fall in the discount rate applied to the UK schemes at 31 December 2023. Details of the Group's post-employment benefit schemes are provided in note 6, on page 38.

Exchange rates

	2023	2022
Average		
£/$	**1.244**	1.236
£/€	**1.150**	1.173
£/A$	**1.874**	1.778
Year end		
£/$	**1.275**	1.203
£/€	**1.154**	1.127
£/A$	**1.868**	1.773

Segmental review

The Group reports its performance through six reporting segments.

Year ended 31 December 2023	Sales £m	Underlying EBIT £m	Return on sales %	Operating business cash flow £m	Order intake £bn	Order backlog £bn
	As defined by Group[1]					
Electronic Systems	5,458	878	16.1	811	6.7	8.9
Platforms & Services	3,922	354	9.0	426	7.7	11.5
Air	8,058	949	11.8	1,669	11.0	27.2
Maritime	5,536	425	7.7	291	10.1	21.3
Cyber & Intelligence	2,321	199	8.6	204	2.5	2.0
HQ[2]	471	(123)		(183)	0.4	–
Deduct Intra-group	(482)				(0.7)	(1.1)
Total	**25,284**	**2,682**	**10.6**	**3,218**[3]	**37.7**	**69.8**

Year ended 31 December 2023	Revenue £m	Operating profit £m	Return on revenue %	Net cash flow from operating activities £m	Order book £bn
	As defined by IFRS				
Electronic Systems	5,456	806	14.8	961	7.6
Platforms & Services	3,842	373	9.7	624	11.1
Air	6,517	948	14.5	1,808	18.5
Maritime	5,391	423	7.8	629	20.4
Cyber & Intelligence	2,321	179	7.7	261	1.4
HQ[2]	10	(156)		(128)	–
Deduct Intra-group	(459)				(1.0)
Deduct Tax[4]				(395)	
Total	**23,078**	**2,573**	**11.1**	**3,760**	**58.0**

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 47.
2. HQ comprises the Group's head office activities, together with a 49% interest in Air Astana as at 31 December 2023.
3. At a Group level, the key cash flow metric is free cash flow (see Alternative performance measures section on page 47). In 2023, free cash flow was £2,593m (2022 £1,950m).
4. Tax is managed on a Group-wide basis.

Segmental performance: Electronic Systems

Electronic Systems, with 17,500[1] employees, comprises the Group's US- and UK-based electronic solutions, 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]

	2023	2022
Sales	**£5,458m**	£5,057m
Underlying EBIT	**£878m**	£838m
Return on sales	**16.1%**	16.6%
Operating business cash flow	**£811m**	£650m
Order intake	**£6.7bn**	£5.4bn
Order backlog	**£8.9bn**	£8.1bn

Financial performance measures derived from IFRS

	2023	2022
Revenue	**£5,456m**	£5,057m
Operating profit	**£806m**	£747m
Return on revenue	**14.8%**	14.8%
Cash flow from operating activities	**£961m**	£860m
Order book	**£7.6bn**	£6.7bn

– Sales of £5.5bn increased 9%[3], led by continued recovery in the commercial aviation business across both civil aviation and power and propulsion, along with gains in electronic combat systems.

– Underlying EBIT grew 5%[3], generating a return on sales of 16.1%, within the guided range. This reflected the absorption of lower pension recoveries partially offset by higher commercial activity.

– Operating business cash flow was £811m and reflects improved working capital management.

1. Including share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 47.
3. Constant currency basis.

Operational performance

We continued to experience strong demand across our customer base for electronic systems, as evidenced by our 2023 order generation. We continued to manage supply chain constraints effectively in 2023 and saw stability and easing in some areas. We supported existing customers on key electronic warfare and precision guided munition programmes, while pursuing and maturing new opportunities.

In our commercial businesses, with airline traffic and business travel increasing, there is stronger demand for Original Equipment Manufacturer (OEM) deliveries and aftermarket services. Clean air regulations continue to drive the transportation industry towards alternative energy sources, like our propulsion solutions.

Operational highlights

- The F-35 Lightning II programme completed deliveries on Lot 15 electronic warfare (EW) systems and has delivered a cumulative total of over 1,400 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 (£395m), and continue to demonstrate high performance under a five-year Performance Based Logistics contract for F-35 sustainment.
- The Compass Call programme is executing contracts valued at more than $1bn (£0.8bn) focused on the cross-decking of prime mission equipment to the new EA-37B aircraft while sustaining and upgrading the existing EC-130H fleet. We successfully delivered the first of ten EA-37B aircraft to the US Air Force for formal combined developmental and operational testing. The next-generation system evolves the Air Force's electromagnetic attack capabilities and is targeted to initially field in 2024
- Our Eagle Passive Active Warning Survivability System (EPAWSS) programme completed Design Verification and Qualification Testing enabling Initial Operational Test and Evaluation by the US Air Force.
- Our Advanced GEOINT Systems team was selected by a customer in the Asia Pacific region to provide our Geospatial eXploitation Products™ (GXP®) software as a key component of its large-scale Geospatial Intelligence implementation. The delivery of this software, comprised of advanced imagery exploitation, analytics, and data fusion software tools, further solidifies our industry-leading position and enables future expansion to allies around the globe.

- The Navigation & Sensor Systems team continues to execute a contract with Space Systems Command to develop an M-Code Increment II Miniature Serial Interface GPS receiver for ground embedded applications with next-generation Application Specific Integrated Circuit technology valued at more than $278m (£224m).

Strategic and order highlights

- In addition to a successful test event, conducted in January 2023, of the Advanced Precision Kill Weapon System (APKWS®) that demonstrated new capabilities for critical mission sets in support of US and allied forces, the APKWS laser-guidance kit programme continues to execute under an Indefinite Delivery, Indefinite Quantity contract with awards worth $590m (£476m) in 2023, including international orders.
- Building on our position in energy and power management, we announced a collaboration with Heart Aerospace to define the battery system for Heart's ES-30 regional electric airplane, and Eve Air Mobility selected us to provide an advanced energy storage system for its electric vertical take-off and land aircraft.
- Our Power & Propulsion Solutions business was selected for North America's largest battery electric bus award, meaning our Gen3 system will power up to 1,229 Nova Bus battery electric buses in Quebec, Canada.
- Through our Data Link Solutions joint venture with Rockwell Collins, Inc. we were selected by the US Navy to provide our Firenet™ small form factor Multi-functional Information Distribution System Joint Tactical Radio which enables in-network communication for smaller platforms. This award continues to build on our portfolio of next-generation full-spectrum communication systems.

Looking forward

- Our Electronic Systems sector remains 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.
- We maintain a diverse portfolio of defence and commercial products and capabilities for US and international customers, and expect to benefit from applying innovative technology solutions to defence customers' existing and changing requirements, building on our 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 build on our technology strengths in emerging areas of demand, including precision weaponry, space resilience, hyper-velocity projectiles, autonomous platforms, and the development of multi-domain capabilities.
- In our commercial portfolio, we continue to leverage our leading electric drive propulsion capabilities to address growing demand for low and zero emission solutions across an increasing number of civil platforms, with opportunities to migrate these technologies to defence applications.
- We continue to invest in our people, R&D and facilities to ensure capacity and resources are in place to capitalise on the positive outlook across our defence and commercial markets.
- The acquisition of Ball Aerospace will provide further access to the growing space domain, C4ISR and missile and munitions markets.

Segmental performance: Platforms & Services

Platforms & Services, with 11,900[1] employees, with operations in the US, Sweden and UK, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including naval ship repair and the management and operation of two government-owned ammunition plants.

Financial performance

Financial performance measures as defined by the Group[2]

	2023	2022
Sales	**£3,922m**	£3,688m
Underlying EBIT	**£354m**	£326m
Return on sales	**9.0%**	8.8%
Operating business cash flow	**£426m**	£525m
Order intake	**£7.7bn**	£5.7bn
Order backlog	**£11.5bn**	£8.1bn

Financial performance measures derived from IFRS

	2023	2022
Revenue	**£3,842m**	£3,598m
Operating profit	**£373m**	£322m
Return on revenue	**9.7%**	8.9%
Cash flow from operating activities	**£624m**	£633m
Order book	**£11.1bn**	£7.7bn

– Sales were £3.9bn, an increase of 8%[3]. Our Hägglunds business accounted for the majority of the sector’s growth, with significant gains also recorded in our Ship Repair business.

– Operating business cash flow was £426m, reflecting significant advanced funding from customers partially offset by capital expenditure, predominantly in Ship Repair.

– Order intake of £7.7bn reflects a number of significant awards in the year, but primarily relates to the Czech Republic award for 246 CV90 MkIV infantry fighting vehicles worth $2.2bn (£1.8bn).

1. Including share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 47.
3. Constant currency basis.

Operational performance

In response to 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.

In the US, our Combat Mission Systems team is producing at heightened volumes across multiple programmes, drawing on our extensive manufacturing network and engineering capability spanning the US, including 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. The team continues to support critical vehicle modernisation programmes, and the AMPV entered the full-rate production phase during the second half of the year as the next-generation replacement for the M113.

Our BAE Systems Hägglunds team continued to build its order book with a large order of the CV90 MkIV infantry fighting vehicles in seven different variants from the Czech Republic. Ongoing build and upgrades continue for the current fleet of CV90s for a number of nations. Hägglunds has also seen a renewed interest in Arctic operations, leading to additional sales of our BvS10 all-terrain family of combat vehicles. Additionally, the team secured a strong partner to bring the BvS10 to the Indian market.

In our support services operations, modernisation and maintenance activities continue in our US shipyards for the US Navy’s non-nuclear fleet. We secured a ten-year contract, with a ceiling value of $8.8bn (£7.1bn), to continue operating the US Army’s Holston Army Ammunition Plant, and we continue to operate and modernise the Radford Army Ammunition Plant into 2026.

Operational highlights

- Our Hägglunds business continued to build its order book, with a large order of the CV90 vehicle in seven variants from the Czech Republic, and grow its portfolio through strong strategic investments and a partnership with Norway’s Ritek AS to produce two new variants for the Swedish Armed Forces.
- The UK Government selected 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.

- We started construction on a modern shiplift and land-level repair complex at our Jacksonville, Florida, shipyard that is expected to be operational in early 2025. However, in response to lower demand for Pacific-coast ship repair services throughout the year, we scaled back the workforce at our San Diego shipyard by nearly 500 positions.

Strategic and order highlights

- We secured a ten-year contract, with a ceiling value of $8.8bn (£7.1bn), to continue operating the US Army's Holston Army Ammunition Plant.
- We secured a $797m (£641m) contract with the US Army to continue production of the AMPV, with additional options for a potential total contract amount of $1.6bn (£1.3bn). This award brings the AMPV into full-rate production.
- We secured multiple contracts exceeding a total value of $870m (£700m) for the continued production of the Bradley A4. These awards will move more than 270 vehicles through our production lines and extend production through 2026.
- The Czech Republic awarded Hägglunds a contract to produce 246 CV90 MkIV infantry fighting vehicles in seven different variants. The contract is valued at $2.2bn (£1.8bn).
- Following the joint procurement agreement between Sweden, Germany and the UK, Germany purchased an additional 227 ultra-mobile, protected, all-terrain BvS10s valued at c.$400m (£322m). This investment from Germany will extend deliveries through to 2030.
- Our Weapon Systems UK team secured a five-year contract to follow from a previous ten-year programme for the delivery of M777 support services for the US, Australia and Canada with the initial year funded at $17m (£14m). Following M777 deployments to Ukraine and increased interest from armies around the world, Weapon Systems UK also secured a contract from the US Army to produce M777 superstructures for spares and repairs through the foreign military sales (FMS) process. This effectively brings the M777 towed lightweight howitzer back into production.
- We remain a critical provider of Army combat vehicles with our current franchises of AMPV, M109A7, M88 and Bradley vehicles, though we were not selected to participate in the follow-on phases of the US Army's Optionally Manned Fighting Vehicle programme.

Looking forward

- We continue to focus on increased long-term 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 AMPV, M109A7 self-propelled howitzer, Bradley upgrades, M88 HERCULES recovery vehicle and the US Marine Corps' ACV.
- There is a significant pipeline of future business opportunities for the CV90 and BvS10 from our Hägglunds business, as well as for artillery systems and munitions from our Bofors business.
- We continue to manage and operate the US Army's Radford and Holston ammunition plants, and focus on key modernisation activities.
- We will maintain our strong position on naval guns, missile launch programmes, and submarine programmes, as well as US Navy ship repair and modernisation activities where the business has invested in capitalised infrastructure and our facilities in key home ports.

Segmental performance: Air

Air, with 26,000[1] employees, comprises the Group's UK-based air build and support activities for European and international markets, US programmes, development of Future Combat Air Systems and FalconWorks®, alongside our business in the Kingdom of Saudi Arabia and interests in our European joint ventures: Eurofighter and MBDA.

Financial performance

Financial performance measures as defined by the Group[2]

	2023	2022
Sales	**£8,058m**	£7,698m
Underlying EBIT	**£949m**	£849m
Return on sales	**11.8%**	11.0%
Operating business cash flow	**£1,669m**	£1,140m
Order intake	**£11.0bn**	£14.0bn
Order backlog	**£27.2bn**	£24.4bn

Financial performance measures derived from IFRS

	2023	2022
Revenue	**£6,517m**	£6,286m
Operating profit	**£948m**	£809m
Return on revenue	**14.5%**	12.9%
Cash flow from operating activities	**£1,808m**	£1,202m
Order book	**£18.5bn**	£17.4bn

– Sales were £8.1bn, an increase of 4%[3], driven by increased activity in MBDA and higher air support volumes, while the future combat air programme continues to gain pace with activity more than doubling in 2023.

– Return on sales of 11.8% reflects good operational performance and risk retirement.

– Operating business cash flow of £1.7bn reflects the timing of customer advances and down payments from recent awards.

– Order backlog reached £27.2bn, following an order intake of £11.0bn in the year. 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 share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 47.
3. Constant currency basis.

Operational performance

We continue to work with our customers to support their existing platforms and provide new enhanced capabilities. Deliveries of Typhoon to Qatar continue, alongside support to the in-service fleet. In the Kingdom of Saudi Arabia, our support for Typhoon has been extended for a further five-year term. In our US Programmes division, we are focused on delivery execution across all production lines with 162 F-35 aft fuselages completed in 2023. The formation of our new FalconWorks® organisation and ongoing progress on the future combat air activities are important 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 with ten further Typhoon deliveries in the year, and a total of 18 aircraft now in service with the Qatar Emiri Air Force.
- On the future fighter programme, we continue work on developing the UK flying demonstrator 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 year to develop and bring to the market new products and technologies, is leading the development and testing of PHASA-35®, our persistent high altitude solar aircraft, with successful stratospheric flight trials taking place in June.
- We continue to deliver services under the five-year SBDCP, with the Tornado Support Service providing an enhanced and modernised solution for the Royal Saudi Air Force.

Strategic and order highlights

- Additional UK Ministry of Defence funding of £143.5m was awarded in the second half of the year, taking the total funding awarded in 2023 to c.£800m, to advance the concepting and technology of the next-generation combat aircraft to 2025.

- On GCAP, a trilateral collaboration agreement between BAE Systems, Leonardo SpA (Italy) and Mitsubishi Heavy Industries (Japan) is now in place to enable collaboration and sharing of information towards the next phase of activities.
- We secured a further £535m of funding for European Common Radar System (ECRS) Mk2 Radar development for the Typhoon weapon system. The Royal Air Force of Oman has elected not to renew the current support arrangements for its Typhoon fleet. Discussions around our role in providing a level of support to the Royal Air Force of Oman continue.
- We secured the Lightning Air System National Capability Enterprise (LANCE) contract in March, which extends our 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 reached an agreement with the Saudi Arabian Government to continue to provide these services for another five years through to the end of 2027, valued at £3.7bn.
- Through FalconWorks®, the Air sector continues to invest in promising new and innovative technologies for the future, including the development of electric aircraft products with a number of partners.
- MBDA secured significant orders through 2023, in particular in air defence, maritime and land domains. These include production of medium-range ASTER B1 & B1NT missiles for use across the Italian and French armed forces, from the Polish Armament Agency to supply Launchers and Common Anti-Air Module Missiles (CAMM) for Poland's PILICA+ Air Defence upgrade programme. It also won orders for SAMP/T NG new generation ground-based air defence systems for the Italian Air Force, and for the Mid-Life Upgrade of the air defence systems of the French and Italian Horizon class frigates.
- MBDA is also supporting GCAP and signed a collaboration agreement with Mitsubishi Electric to work towards a weapons and effectors solution in support of the design of the GCAP core platform.

Looking forward

- 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 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 to secure potential further contract awards for Typhoon.
- Production of rear fuselage assemblies for the F-35 has reached full rate levels and is expected to be sustained at approximately 150 to 160 aft fuselages to be completed annually. The business plays a significant role in the F-35 sustainment programme in support of Lockheed Martin and support volumes should increase as the number of jets in service continues to increase.
- In the Kingdom of Saudi Arabia, the In-Kingdom Industrial Participation programme continues to make good progress consistent with our long-term strategy, whilst supporting the Kingdom's National Transformation Plan and Vision 2030. Our in-Kingdom support business is expected to remain stable underpinned by long-standing contracts that are expected to be renewed every five years, while we continue to support development of a Future Combat Air Partnership between the Kingdom of Saudi Arabia and the UK.
- MBDA has a strong order backlog and development programmes continue to improve the long-term capabilities of the business in air, land and sea domains. MBDA continues to be well placed to benefit from increased defence spending in Europe and internationally.

Segmental performance: Maritime

Maritime, with 27,500[1] employees, comprises the Group's UK-based maritime and land activities, including major submarine, ship build and support programmes, as well as our Australian business.

Financial performance

Financial performance measures as defined by the Group[2]

	2023	2022
Sales	**£5,536m**	£4,598m
Underlying EBIT	**£425m**	£356m
Return on sales	**7.7%**	7.7%
Operating business cash flow	**£291m**	£235m
Order intake	**£10.1bn**	£9.7bn
Order backlog	**£21.3bn**	£17.2bn

Financial performance measures derived from IFRS

	2023	2022
Revenue	**£5,391m**	£4,484m
Operating profit	**£423m**	£352m
Return on revenue	**7.8%**	7.9%
Cash flow from operating activities	**£629m**	£418m
Order book	**£20.4bn**	£16.6bn

– Sales of £5.5bn were up 22%[3], due to accelerated funding on the Dreadnought programme.

– Operating business cash flow of £291m is after capital investment in shipbuilding facilities in Glasgow and the Munitions business in Glascoed.

– Order intake of £10.1bn in the year has pushed order backlog to £21.3bn, primarily driven by the award of £3.95bn for the next phase of SSN-AUKUS as well as additional funding of £2.4bn for the continued activity on Dreadnought.

1. Including share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 47.
3. Constant currency basis.

Operational performance

Our major maritime platform programmes continue to progress, 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 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 will help ensure we can support increasing customer demand and, with the future potential of AUKUS, the sector is well positioned for future growth.

Operational highlights

- In February, HMS Anson left our Submarines site in Barrow-in-Furness, Cumbria, to begin sea trials with the Royal Navy. She joins HMS Astute, HMS Ambush, HMS Artful and HMS Audacious at their operational base, HM Naval Base Clyde, in Faslane. The remaining submarines in the Astute Class – Agamemnon and Agincourt – are at an advanced stage of construction.
- The UK Type 26 programme continues and construction is underway on the first four City Class Type 26 frigates, with a focus on skilled and experienced resource availability, including within the supply chain. HMS Glasgow is progressing through the key stages of outfit, test and commissioning, while HMS Cardiff is being prepared to enter the water for the first time in 2024. Following steel cut in June 2021, HMS Belfast continues steelwork construction, while the initial unit construction for HMS Birmingham began in April and is well underway.
- In Australia, the Hunter Class frigate programme continues to make strong progress towards a production contract for Batch 1. During the year, construction commenced on the first schedule protection block at Osborne Naval Shipyard in South Australia and the programme successfully completed the Preliminary Design Review. Alongside this, we continue the upgrade and sustainment of Australia's Anzac Class frigates at pace. Construction has also commenced on facilities at our Williamtown site to support F-35 maintenance activities.
- 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, we secured additional orders for the supply of munitions to the UK Ministry of Defence worth over £400m, to significantly increase the production of vital defence stocks.
- Development and investment activity across our munitions business continues. Over £200m is being invested, including two new machining lines in Washington (Tyne and Wear).

Strategic and order highlights

- We secured an order of £2.4bn for the continued Delivery Phase 3 activity on the Dreadnought Class submarine programme. Construction of the first three boats is underway at Barrow-in-Furness, Cumbria. A ceremony took place in February 2023 to mark the official steel cut on the third submarine, HMS Warspite.
- During the year, Australia, the UK and the US announced the pathway for Australia to acquire nuclear-powered submarines as part of the AUKUS programme. The 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. Our submarines business has secured an order intake of £3.95bn to enable the programme to transition into the detailed design phase and commence procurement of long-lead items and supporting infrastructure.
- We continue investing 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. Construction of a new ship assembly hall in Govan is well underway, and the new Applied Shipbuilding Academy in Scotstoun is planned to open in 2024.
- In Australia, we continued to invest in new products and opportunities and unveiled Strix™, a vertical take-off and landing (VTOL) uncrewed aerial system, RAZER, a low-cost precision guided munition, and showcased the Guided Missile Frigate, an evolution of the Hunter Class.
- In June, we secured a ten-year contract worth £270m to support the Royal Navy's three main radar systems. Under the contract, our engineers will provide maintenance to existing radars, alongside technology upgrades to systems already in use, and those being installed on the new Type 26 frigates under construction in Glasgow.

Looking forward

- Our Submarines business is executing across Astute, Dreadnought and SSN-AUKUS. Investment continues in the facilities at our Barrow-in-Furness, Cumbria, shipyard to provide the capabilities to deliver these long-term programmes.
- In the UK, shipbuilding sales are underpinned by the manufacture of Type 26 frigates and our capabilities across Warship Support, Underwater Weapons, Radar and Maritime Training.
- The Australian Defence Strategic Review confirmed the acquisition of conventionally armed, nuclear-powered submarines as part of the SSN-AUKUS programme and the Australian Government's commitment to continuous naval shipbuilding. Our Australian business is well positioned to respond to future opportunities this creates.
- Additionally the Australian business has long-term sustainment and upgrade activities in maritime, air, wide-area surveillance, missile defence and electronic systems.
- As the UK Ministry of Defence's long-term strategic partner for munitions supply, we continue to focus our operations in support of the UK Ministry of Defence and the UK's NATO allies, as well as other customers. To support this, investment continues across our facilities and infrastructure alongside recruitment activities to support increased demand.

Segmental performance: Cyber & Intelligence

Cyber & Intelligence, with 11,000[1] employees, comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business, and covers the Group's cyber security activities for national security, central government and government enterprises.

Financial performance

Financial performance measures as defined by the Group[2]

	2023	2022
Sales	**£2,321m**	£2,205m
Underlying EBIT	**£199m**	£232m
Return on sales	**8.6%**	10.5%
Operating business cash flow	**£204m**	£154m
Order intake	**£2.5bn**	£2.4bn
Order backlog	**£2.0bn**	£2.1bn

Financial performance measures derived from IFRS

	2023	2022
Revenue	**£2,321m**	£2,205m
Operating profit	**£179m**	£291m
Return on revenue	**7.7%**	13.2%
Cash flow from operating activities	**£261m**	£191m
Order book	**£1.4bn**	£1.4bn

– Sales increased by 6%[3], to £2.3bn, with both the UK and US businesses seeing increased operations in the year. Growth was 9%[3] after adjusting for the divestment of the financial crime detection business in 2022.

– Underlying EBIT was down 14%[3], delivering a return on sales, as expected, of 8.6% following additional investment in the year in space and multi-domain networking, and higher recruitment and facilities costs.

– Order backlog has remained steady against the prior year, with a book-to-bill[4] ratio of 1.1.

1. Including share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 47.
3. Constant currency basis.
4. Ratio of Order intake to Sales.

Operational performance

Our Intelligence & Security business has performed well in 2023, 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 stepped up our investment in the business for future growth. During the year, we opened a new site in Manchester to broaden our footprint and enable the business to access the wider labour market. We have also invested in talent recruitment and development through training academies to generate skillsets which are in short supply.

Operational highlights

- As we continue to address the growing modelling & simulation and synthetic training markets, BAE Systems-owned Pitch Technologies was realigned from Platforms & Services to our Intelligence & Security business. The addition of Pitch builds on the 2022 acquisition of Bohemia Interactive Simulations (BISim) as we address the increased demand for innovative and cost-effective training and simulation software products.
- Our businesses continue to deliver strong performance on existing contracts with the US Navy, US Army, US Air Force and federal/civilian agencies – including a $699m (£562m), five-year contract for operations, maintenance and management services for the US Army's Defense Supercomputing Resource Center and a $478m (£384m), five-year contract to support weapon systems on US and UK submarine classes.
- The Wargaming Capability (WGC) programme conducted a successful operational demonstration test event of our wargaming system in June. The event consisted of test case and scenario execution demonstrating a broad range of wargaming activities and resulted in a successful pass from the US Marine Corps. The success of this test event allows the WGC team to continue moving forward to a production-ready capability with anticipated initial operating capability in 2025.
- In Digital Intelligence, investments in new products for space and international markets continue to progress well and all major external projects are delivering well against schedules.

Strategic and order highlights

- In Intelligence & Security, we secured task orders, in March, valued at $457m (£367m) to support critical mission operations for a government customer.
- In December, Germany's Bundeswehr acquired a BISim VBS4 enterprise licence. The enterprise licence provides the Bundeswehr with full access to BISim's easy-to-use, whole-earth virtual and constructive desktop trainer and simulation.
- Through collaboration between the Air sector and the Intelligence & Security business, PHASA-35® successfully demonstrated its ability to achieve stratospheric flight, and Intelligence & Security was subsequently awarded a US Army Space and Missile Defense Command contract that provides opportunities over a five-year period to undertake military utility demonstrations through the integration of sensor payloads operating on board the PHASA-35® aircraft.
- 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 portions of 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 (£524m) 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. We have also secured a number of multi-year deals with Central Government and National Security customers.

Looking forward

- Our 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 outlook for our US Government services sector in Intelligence & Security 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 modelling, simulation and synthetic training environment markets in the US and internationally support a positive outlook for our BISim and Pitch Technologies teams, and we continue to expand our wargaming capabilities to new markets and customers.
- In Digital Intelligence, where our capabilities are well aligned to UK defence, security and digital budgets, we continue to recruit talent and invest in our people through our training academies and a new facility in Manchester, in the North West of England.
- In the space domain, our Digital Intelligence business is focusing on delivering our Azalea™ programme to develop and build Low Earth Orbit satellites for the defence market.

Consolidated income statement

for the year ended 31 December

	Note	2023 £m	2023 Total £m	2022 £m	2022 Total £m
Continuing operations					
Revenue	2		**23,078**		21,258
Operating costs			**(20,917)**		(19,269)
Other income			**204**		215
Share of results of equity accounted investments			**208**		180
Operating profit	2		**2,573**		2,384
Finance income		**172**		47	
Finance costs		**(419)**		(442)	
Net finance costs	3		**(247)**		(395)
Profit before tax			**2,326**		1,989
Tax expense	4		**(386)**		(315)
Profit for the year			**1,940**		1,674
Attributable to:					
Equity shareholders			**1,857**		1,591
Non-controlling interests			**83**		83
			1,940		1,674
Earnings per share	5				
Basic earnings per share			**61.3p**		51.1p
Diluted earnings per share			**60.4p**		50.5p

Consolidated statement of comprehensive income

for the year ended 31 December

	2023			2022		
	Other reserves £m	**Retained earnings £m**	**Total £m**	Other reserves £m	Retained earnings £m	Total £m
Profit for the year	**–**	**1,940**	**1,940**	–	1,674	1,674
Other comprehensive income						
Items that will not be reclassified to the income statement:						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**–**	**(669)**	**(669)**	–	2,851	2,851
Tax on items that will not be reclassified to the income statement	**–**	**4**	**4**	–	(357)	(357)
Share of the other comprehensive (expense)/income of associates and joint ventures accounted for using the equity method (net of tax)	**–**	**(25)**	**(25)**	–	116	116
Items that may be reclassified to the income statement:						
Consolidated:						
Currency translation on foreign currency net investments	**(510)**	**–**	**(510)**	1,172	–	1,172
Reclassification of cumulative currency translation reserve on disposal of subsidiaries	**–**	**–**	**–**	(17)	–	(17)
Fair value loss arising on hedging instruments during the year	**(4)**	**–**	**(4)**	(102)	–	(102)
Cumulative fair value (gain)/loss on hedging instruments reclassified to the income statement	**(19)**	**–**	**(19)**	5	–	5
Tax on items that may be reclassified to the income statement	**3**	**–**	**3**	24	–	24
Share of the other comprehensive income/(expense) of associates and joint ventures accounted for using the equity method (net of tax)	**11**	**–**	**11**	(8)	–	(8)
Total other comprehensive (expense)/income for the year (net of tax)	**(519)**	**(690)**	**(1,209)**	1,074	2,610	3,684
Total comprehensive (expense)/income for the year	**(519)**	**1,250**	**731**	1,074	4,284	5,358
Attributable to:						
Equity shareholders	**(511)**	**1,175**	**664**	1,053	4,186	5,239
Non-controlling interests	**(8)**	**75**	**67**	21	98	119
	(519)	**1,250**	**731**	1,074	4,284	5,358

Consolidated statement of changes in equity

for the year ended 31 December

	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
At 1 January 2022	85	1,252	5,887	212	7,436	232	7,668
Profit for the year	–	–	–	1,591	1,591	83	1,674
Total other comprehensive income for the year	–	–	1,053	2,595	3,648	36	3,684
Total comprehensive income for the year	–	–	1,053	4,186	5,239	119	5,358
Share-based payments (inclusive of tax)	–	–	–	127	127	–	127
Cumulative fair value loss on hedging instruments transferred to the balance sheet (net of tax)	–	–	8	–	8	–	8
Ordinary share dividends	–	–	–	(802)	(802)	(166)	(968)
Purchase of own shares	(3)	–	3	(793)	(793)	–	(793)
At 31 December 2022	82	1,252	6,951	2,930	11,215	185	11,400
Profit for the year	**–**	**–**	**–**	**1,857**	**1,857**	**83**	**1,940**
Total other comprehensive expense for the year	**–**	**–**	**(511)**	**(682)**	**(1,193)**	**(16)**	**(1,209)**
Total comprehensive (expense)/income for the year	**–**	**–**	**(511)**	**1,175**	**664**	**67**	**731**
Share-based payments (inclusive of tax)	**–**	**–**	**–**	**132**	**132**	**–**	**132**
Cumulative fair value gain on hedging instruments transferred to the balance sheet (net of tax)	**–**	**–**	**(38)**	**–**	**(38)**	**–**	**(38)**
Ordinary share dividends	**–**	**–**	**–**	**(857)**	**(857)**	**(88)**	**(945)**
Purchase of own shares	**(1)**	**–**	**1**	**(558)**	**(558)**	**–**	**(558)**
Proceeds from unclaimed asset programme	**–**	**1**	**–**	**–**	**1**	**–**	**1**
At 31 December 2023	**81**	**1,253**	**6,403**	**2,822**	**10,559**	**164**	**10,723**

Consolidated balance sheet
as at 31 December

	Note	2023 £m	2022 £m
Non-current assets			
Intangible assets		**12,099**	12,644
Property, plant and equipment		**3,635**	3,235
Right-of-use assets		**1,311**	1,425
Investment property		**57**	63
Equity accounted investments		**832**	787
Other investments		**84**	99
Contract and other receivables		**633**	618
Post-employment benefit surpluses	6	**804**	1,297
Other financial assets		**227**	322
Deferred tax assets		**609**	338
		20,291	20,828
Current assets			
Inventories		**1,156**	976
Trade, contract and other receivables		**6,185**	6,166
Current tax		**160**	133
Other financial assets		**205**	252
Cash and cash equivalents		**4,067**	3,107
		11,773	10,634
Total assets		**32,064**	31,462
Non-current liabilities			
Loans		**(4,432)**	(5,189)
Lease liabilities		**(1,273)**	(1,375)
Contract liabilities		**(1,955)**	(945)
Other payables		**(1,594)**	(1,441)
Post-employment benefit obligations	6	**(575)**	(651)
Other financial liabilities		**(227)**	(272)
Deferred tax liabilities		**(10)**	(5)
Provisions		**(332)**	(338)
		(10,398)	(10,216)
Current liabilities			
Loans and overdrafts		**(679)**	(53)
Lease liabilities		**(147)**	(241)
Contract liabilities		**(3,865)**	(3,882)
Trade and other payables		**(5,436)**	(4,990)
Other financial liabilities		**(295)**	(328)
Current tax		**(285)**	(103)
Provisions		**(236)**	(249)
		(10,943)	(9,846)
Total liabilities		**(21,341)**	(20,062)
Net assets		**10,723**	11,400
Capital and reserves			
Issued share capital		**81**	82
Share premium		**1,253**	1,252
Other reserves		**6,403**	6,951
Retained earnings		**2,822**	2,930
Total equity attributable to equity holders of BAE Systems plc		**10,559**	11,215
Non-controlling interests		**164**	185
Total equity		**10,723**	11,400

Approved by the Board of BAE Systems plc on 20 February 2024 and signed on its behalf by:

C N Woodburn
Chief Executive

B M Greve
Chief Financial Officer

Consolidated cash flow statement

for the year ended 31 December

	Note	**2023 £m**	2022 £m
Profit for the year		**1,940**	1,674
Tax expense	4	**386**	315
Adjustment in respect of research and development expenditure credits		**(53)**	(35)
Share of results of equity accounted investments		**(208)**	(180)
Net finance costs	3	**247**	395
Depreciation, amortisation and impairment		**787**	767
Net gain on disposal of property, plant and equipment, and investment property		**(10)**	(3)
Gain in respect of business disposals		**–**	(93)
Gain on disposal of non-current investments		**–**	(7)
Cost of equity-settled employee share schemes		**110**	101
Movements in provisions		**–**	(54)
Difference between pension funding contributions paid and the pension charge		**(169)**	1
(Increase)/decrease in working capital:			
Inventories		**(223)**	(93)
Trade, contract and other receivables		**(287)**	(1,069)
Trade and other payables, and contract liabilities		**1,635**	1,485
Tax paid net of research and development expenditure credits received		**(395)**	(365)
Net cash flow from operating activities		**3,760**	2,839
Dividends received from equity accounted investments		**134**	94
Interest received		**126**	32
Principal element of finance lease receipts		**10**	9
Purchase of property, plant and equipment, and investment property		**(826)**	(599)
Purchase of intangible assets		**(131)**	(94)
Purchase of non-current other investments		**–**	(8)
Proceeds from funding related to assets		**149**	157
Proceeds from sale of property, plant and equipment, and investment property		**19**	18
Proceeds from sale of non-current other investments		**–**	7
Purchase of subsidiary undertakings and equity accounted investments, net of cash and cash equivalents acquired		**(14)**	(162)
Cash flow in respect of business disposals, net of cash and cash equivalents disposed		**(8)**	124
Net cash flow from investing activities		**(541)**	(422)
Interest paid		**(356)**	(269)
Equity dividends paid	7	**(857)**	(802)
Purchase of own shares	7	**(561)**	(788)
Dividends paid to non-controlling interests		**(88)**	(166)
Principal element of lease payments		**(292)**	(236)
Cash inflow from derivative financial instruments (excluding cash flow hedges)		**193**	533
Cash outflow from derivative financial instruments (excluding cash flow hedges)		**(389)**	(205)
Cash inflow from draw-down of loans		**162**	–
Cash outflow from repayment of loans		**–**	(400)
Net cash flow from financing activities		**(2,188)**	(2,333)
Net increase in cash and cash equivalents		**1,031**	84
Cash and cash equivalents at 1 January		**3,107**	2,917
Effect of foreign exchange rate changes on cash and cash equivalents		**(71)**	106
Cash and cash equivalents at 31 December		**4,067**	3,107

Notes to the accounts

1. Preparation of the Consolidated financial statements

Basis of preparation and statement of compliance

The consolidated financial statements of BAE Systems plc for the year ended 31 December 2023, which were approved by the Board on 20 February 2024, have been prepared on a going concern basis and in accordance with UK-adopted international accounting standards and the Companies Act 2006 applicable to companies reporting under IFRS.

These condensed consolidated financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006 but have been derived from the statutory accounts for the year-ended 31 December 2023. These statutory accounts have been audited and will be delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006 in due course.

The comparative figures for the year ended 31 December 2022 are not the Group's statutory accounts for that financial year. Those statutory accounts have been reported upon by the Group's auditor and delivered to the Registrar of Companies. The reports of the auditor in relation to the statutory accounts for the years ended 31 December 2023 and 31 December 2022 are unmodified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without modifying its report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The consolidated financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest million. They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments).

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 Annual Report 2023, the Group has adopted the amendments to IAS 12.

No other new or amended standards which became applicable for the period ending 31 December 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 considers a range of estimates and assumptions in the application of its accounting policies and management's assessment of the carrying value of assets and liabilities. In the event that these estimates or assumptions prove to be inaccurate, there may be an adjustment to the carrying values of assets and liabilities within the next year. Potential areas of the Group's financial statements which could be materially impacted may include, but are not limited to:

Revenue and 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, or 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 deliver effectively on its contracts and commitments. However, the volume, scale, complexity and long-term nature of its programmes mean that potential sensitivities would be wide-ranging and not practicable to calculate. Owing to the potential future impact of 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 operational disruption, production delays and increased costs as a result of disruption to the supply chain, changing working practices to move towards our net zero ambitions, or where there is uncertainty as to the recovery from customers of programme costs incurred.

The Group has recognised £0.3bn of revenue in respect of performance obligations satisfied or partially satisfied in previous years (2022 £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 it 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 the 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 that 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

In the course of preparing the Consolidated financial statements and when applying its accounting policies, the Group has been required to make judgements with regard to the actions required to enable the business to continue to meet customers' requirements in an operating environment still dominated by global economic uncertainties. 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 Consolidated financial statements.

Impact of climate ambitions on the Consolidated financial statements

In preparing the Consolidated financial statements management has considered the potential impact of climate change and the impact of climate-related risks and opportunities and the Group's net zero ambitions and decarbonisation activities on the Group's financial results.

As a responsible defence business, sustainability is embedded in our strategic framework, with one of the Group's long-term objectives to advance and integrate our ESG agenda. The products and services we provide are complex, diverse and developed over extended periods of time. Sustainability and the impact of our operations is considered in the planning and ongoing production of our products and services, including incorporation of the impact of the Group's net zero ambitions and decarbonisation activities. These are embedded in our financial reporting, forecasting and governance processes.

Estimates and judgement are required in determining how the Group will pursue its net zero ambitions. These, as well as mitigating actions required from the detailed review of climate risks and opportunities, have been factored into the current and future plans of the Group through the Integrated Business Plan (IBP). The IBP is the Group's annual long-term strategy review and five-year plan for each segment, including the investment case to decarbonise.

There are a number of core practices and processes that support the business to remain resilient and adapt to the impacts of climate change, whilst controlling the financial impacts to the Group. These include:

– *Maintenance and investment in our infrastructure* – our products are designed and built to remain in service for decades to come, and require development and construction over a significant period of time. In order to deliver complex engineering and technologically advanced products, we continuously invest in the maintenance and upkeep of our global sites and facilities. The Group regularly invests in its facilities to ensure they are maintained and adapted to enable our operations. Regular maintenance and investing in Group infrastructure is embedded in our strategy, and the expected associated costs are reflected in our IBP. Insurance also provides underlying cover for more immediate and unexpected impacts of climate change.

– *Investment in renewable energy* – during the year, the Group has entered into a number of Power Purchase Agreements (PPAs) to invest in renewable energy, providing long-term security of energy and pricing.

– *Proactive estate management* – a large part of our business is based on sites that are leased to the Group, as reflected in our right-of-use assets in the Consolidated financial statements. Although some facilities, such as shipyards, are required to be in certain locations, many of our operations are not tied to a particular location. Given the long-term outlook of our business, future physical impacts of climate change could be mitigated through movement of activities on these sites to facilities that will be less impacted by climate change. As and when sites are identified that would benefit from relocation, the associated costs are reflected within the IBP. We have not currently identified any sites which require relocation due to climate change. We also use opportunities of new building and refurbishment to upgrade energy efficiency.

The more immediate financial impacts of climate-related risks, and the actions being taken to address them, are reflected in the financial results of the Group for the year. These are not considered to have had a material impact. Areas impacted by climate-related risks and opportunities include:

– *Intangible assets* – the annual impairment review uses cash flow projections from the IBP, which incorporates any financial impact of climate-related risks and opportunities identified. This includes product repair and adaptation, as well as investment in facilities to progress the Group's net zero ambitions. All Cash-Generating Units showed sufficient headroom after incorporation of climate-related costs and opportunities.

– *Property, plant and equipment* – the useful economic life of existing capitalised assets across the Group has been reviewed in light of any repairs, upgrades to existing infrastructure, or future investment in facilities that will be required as a result of the climate-related risks and opportunities identified across our sites. No significant impairment of assets has been identified from this review.

– *Right-of-use assets, lease liabilities, and financial assets and liabilities* – the Group has entered into a number of PPAs during the year to provide more sustainable energy from renewable sources, including a new wind farm development and a number of solar projects across our UK enterprise, which will be completed in Q4 2026 and 2024 respectively. Once the projects are completed, and where the accounting for these agreements falls within the scope of IFRS 16 Leases, the relevant right-of-use assets and corresponding liabilities will be recognised in the Consolidated financial statements. The associated costs of the arrangement will be recognised in line with the term of the agreement. The Group has also considered whether any embedded derivatives have arisen, within the scope of IFRS 9 Financial Instruments, as a result of the PPAs entered into during the year. None are considered to exist at the balance sheet date, however this will continue to be monitored as the associated contractual arrangements are refined and the construction of the facility approaches completion.

– *Pension plans* – in assessing the value of pension assets for the UK schemes, the Group has considered the impact of climate change which is incorporated into the cash flow projections used in valuing infrastructure investment assets and pooled investment vehicle cash flows upon which the Group bases its assessment. There is also alignment between the UK Main Scheme and the Group's climate change objectives with consistent long-term net zero ambitions. This has not materially impacted the Group's net pension position during the year.

– *Deferred tax assets* – the recoverability of deferred tax assets are dependent on the future availability of profits, which in turn could be impacted by climate-related matters. The recoverability of deferred tax assets have been reviewed against the Group's future forecasts resulting from the IBP process, which incorporate identified climate-related risks and opportunities. No material risk to the recoverability of deferred tax assets has been identified.

– *Recoverability of contract and trade receivables* – our customers are also impacted by climate-related matters. The Group actively monitors credit risk in relation to defence-related sales to government customers or subcontractors to governments, which is considered extremely low as the probability of default is insignificant. For non-government commercial customers the Group assesses the impact of any credit losses but this is not considered to be material to the financial statements.

– *Share-based payments* – the award of Performance Shares within the 2023 Director's Long-Term Incentive framework has a 10% weighting based on the reduction of Group GHG emissions (Scope 1 and 2) aligned to a science-based pathway. The ability to meet this target will impact the amount and timing of any share-based payments over the term of the policy. The introduction of this condition has not materially impacted the financial results of the Group for the current year.

2. Segmental analysis and revenue recognition

Sales[1] and revenue by reporting segment

	Sales[1]		Deduct: Group's share of revenue of equity accounted investments		Add: Subsidiaries' revenue from equity accounted investments		Revenue	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Electronic Systems	**5,458**	5,057	**(255)**	(73)	**253**	73	**5,456**	5,057
Platforms & Services	**3,922**	3,688	**(80)**	(90)	**–**	–	**3,842**	3,598
Air	**8,058**	7,698	**(2,946)**	(2,651)	**1,405**	1,239	**6,517**	6,286
Maritime	**5,536**	4,598	**(150)**	(119)	**5**	5	**5,391**	4,484
Cyber & Intelligence	**2,321**	2,205	**–**	–	**–**	–	**2,321**	2,205
HQ	**471**	420	**(461)**	(410)	**–**	–	**10**	10
	25,766	23,666	**(3,892)**	(3,343)	**1,663**	1,317	**23,537**	21,640
Intra-group sales/revenue	**(482)**	(410)	**–**	1	**23**	27	**(459)**	(382)
	25,284	23,256	**(3,892)**	(3,342)	**1,686**	1,344	**23,078**	21,258

	Intra-group revenue		Revenue from external customers	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Electronic Systems	**157**	115	**5,299**	4,942
Platforms & Services	**46**	43	**3,796**	3,555
Air	**33**	29	**6,484**	6,257
Maritime	**86**	71	**5,305**	4,413
Cyber & Intelligence	**127**	114	**2,194**	2,091
HQ	**10**	10	**–**	–
	459	382	**23,078**	21,258

Sales[1] and revenue by customer location

	Sales[1]		Revenue	
	2023 £m	2022[2] £m	**2023 £m**	2022[2] £m
UK	**6,629**	5,428	**6,102**	4,918
Rest of Europe	**2,706**	2,201	**1,533**	1,230
US	**10,672**	10,166	**10,700**	10,157
Canada	**177**	125	**177**	125
Kingdom of Saudi Arabia	**2,688**	2,539	**2,687**	2,540
Qatar	**711**	1,156	**450**	885
Rest of Middle East	**225**	263	**178**	225
Australia	**949**	854	**943**	853
Rest of Asia and Pacific	**421**	420	**264**	283
Africa, and Central and South America	**106**	104	**44**	42
	25,284	23,256	**23,078**	21,258

1. Sales and underlying EBIT are alternative performance measures defined in the Alternative performance measures section on page 47. Sales includes both revenue from the Group's own subsidiaries as well as recognising the strategic importance in its industry of its equity accounted investments. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.
2. Sales and revenue figures for 2022 to UK and Rest of Europe have been re-presented to reflect the workshare on the Typhoon programme.

Revenue from external customers by domain

	2023					2022				
	Air £m	**Maritime £m**	**Land £m**	**Cyber £m**	**Total £m**	Air £m	Maritime £m	Land £m	Cyber £m	Total £m
Electronic Systems	**4,611**	**170**	**518**	**–**	**5,299**	4,404	145	393	–	4,942
Platforms & Services	**37**	**1,099**	**2,660**	**–**	**3,796**	41	1,043	2,471	–	3,555
Air	**6,380**	**104**	**–**	**–**	**6,484**	6,223	34	–	–	6,257
Maritime	**200**	**4,714**	**391**	**–**	**5,305**	268	3,778	367	–	4,413
Cyber & Intelligence	**637**	**305**	**234**	**1,018**	**2,194**	250	274	127	1,440	2,091
	11,865	**6,392**	**3,803**	**1,018**	**23,078**	11,186	5,274	3,358	1,440	21,258

Operating profit/(loss) by reporting segment

	Underlying EBIT[3]		Adjusting items		Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles		Finance and tax expense of equity accounted investments		Operating profit/(loss)	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Electronic Systems	**878**	838	**21**	–	**(93)**	(91)	**–**	–	**806**	747
Platforms & Services	**354**	326	**21**	–	**–**	–	**(2)**	(4)	**373**	322
Air	**949**	849	**–**	(1)	**–**	(1)	**(1)**	(38)	**948**	809
Maritime	**425**	356	**–**	–	**–**	–	**(2)**	(4)	**423**	352
Cyber & Intelligence	**199**	232	**–**	78	**(20)**	(19)	**–**	–	**179**	291
HQ	**(123)**	(122)	**(2)**	14	**(3)**	–	**(28)**	(29)	**(156)**	(137)
	2,682	2,479	**40**	91	**(116)**	(111)	**(33)**	(75)	**2,573**	2,384
Net finance costs									**(247)**	(395)
Profit before tax									**2,326**	1,989
Tax expense									**(386)**	(315)
Profit for the year									**1,940**	1,674

3. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 47. It 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. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.

3. Net finance costs

	2023 £m	2022 £m
Interest income on cash and other financial instruments	**130**	34
Interest income on finance lease receivables	**1**	1
Net present value gains on provisions and other payables	**–**	12
Net interest income on post-employment benefit obligations	**41**	–
Finance income	**172**	47
Interest expense on loans and other financial instruments	**(286)**	(221)
Facility fees	**(14)**	(4)
Interest expense on lease liabilities	**(53)**	(48)
Net present value expenses on provisions and other payables	**(9)**	(4)
Net interest expense on post-employment benefit obligations	**–**	(37)
(Loss)/gain on remeasurement of financial instruments at fair value through profit or loss[1,2]	**(267)**	396
Foreign exchange gains/(losses)[2,3]	**210**	(524)
Finance costs	**(419)**	(442)
Net finance costs	**(247)**	(395)

1. Comprises gains and losses on derivative financial instruments, principally held to manage the Group's exposure to interest rate fluctuations on current and anticipated external borrowings and exchange rate fluctuations on balances with the Group's subsidiaries and equity accounted investments.
2. The net gain or loss on remeasurement of financial instruments at fair value through profit or loss and the net gain or loss on foreign exchange are presented within finance costs as the gains and losses relate to the same underlying transactions.
3. The foreign exchange gains/losses primarily reflects exchange rate movements on US dollar-denominated borrowings.

4. Tax expense

Reconciliation of tax expense

The following table reconciles the theoretical income tax expense, using the UK corporation tax rate, to the reported tax expense. The UK corporation tax rate increased from 19% to 25% with effect from 1 April 2023. A blended rate of 23.5% is used in the reconciliation below to reflect this change (2022 19.0%). The reconciling items represent, besides the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from differences between the local tax base and the reported financial statements.

	2023 £m	2022 £m
Profit before tax	**2,326**	1,989
UK corporation tax rate	**23.5%**	19.0%
Expected income tax expense	**(547)**	(378)
Effect of tax rates in foreign jurisdictions, including US state taxes	**(7)**	(54)
Expenses not tax effected	**(19)**	(19)
Income not subject to tax	**125**	68
Research and development tax credits	**22**	15
Adjustments in respect of prior years	**(24)**	8
Adjustments in respect of equity accounted investments	**48**	34
Tax rate adjustment	**1**	3
Other	**15**	8
Tax expense	**(386)**	(315)

The Group's underlying effective tax rate is sensitive to the geographical mix of profits and shall be impacted, from 2024 onwards, by the UK's enactment of the Organisation for Economic Co-operation and Development's Global Anti-Base Erosion Model Rules (Pillar Two). The Group has applied the temporary exemption issued by the International Accounting Standards Board from the accounting for deferred taxes under IAS 12. Accordingly the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes. Whilst the Group does not anticipate a material quantitative impact from Pillar Two legislation for the 2024 financial year there are expected to be significant and complex compliance obligations.

5. Earnings per share

	2023			2022		
	£m	**Basic pence per share**	**Diluted pence per share**	£m	Basic pence per share	Diluted pence per share
Profit for the year attributable to equity shareholders	**1,857**	**61.3**	**60.4**	1,591	51.1	50.5

	2023 Millions	2022 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 year	**(24)**	(32)
Weighted average number of ordinary shares used in calculating basic earnings per share	**3,031**	3,112
Incremental ordinary shares in respect of employee share schemes	**41**	41
Weighted average number of ordinary shares used in calculating diluted earnings per share	**3,072**	3,153

6. Post-employment benefits

Funding

Introduction

The majority of the UK and US defined benefit pension schemes are funded by the Group's subsidiaries and equity accounted investments. The individual pension schemes' funding requirements are based on actuarial measurement frameworks set out in their funding policies.

For funding valuation purposes, pension scheme assets are included at market value at the valuation date, whilst the liabilities are measured on an actuarial funding basis using the projected unit credit method and discounted to their present value based on prudent assumptions set by the Trustees following consultation with scheme actuaries.

The funding valuations are performed by professionally qualified independent actuaries and include assumptions which differ from the actuarial assumptions used for IAS 19 accounting purposes shown on page 40. The purpose of the funding valuations is to design funding plans which ensure that the schemes have sufficient funds available to meet future benefit payments.

UK valuations

Funding valuations of the Group's UK defined benefit pension schemes are performed at least every three years. Following the accelerated payment in 2021 of the remaining sponsor deficit reduction contributions under the previously agreed deficit recovery plan, the Group and Trustees agreed to carry out an early triennial funding valuation for the Main Scheme as at 31 March 2021. This valuation was concluded and signed off on 30 June 2022.

The results of the most recent triennial valuation for the Main Scheme are shown below. This valuation was agreed with the Trustees and certified by the Scheme Actuary after consultation with The Pensions Regulator in the UK.

	Main Scheme as at 31 March 2021 £bn
Market value of assets	22.9
Present value of liabilities	(22.9)
Funding surplus	–
Percentage of accrued benefits covered by the assets at the valuation date	100%

The other UK schemes were all in surplus at their most recent triennial valuations.

The valuations were determined using the following mortality assumptions:

Life expectancy of a male currently aged 65 (years)	86 – 89
Life expectancy of a female currently aged 65 (years)	88 – 90
Life expectancy of a male at age 65, currently aged 45 (years)	88 – 91
Life expectancy of a female at age 65, currently aged 45 (years)	90 – 93

As part of the process of the Main Scheme's 2021 valuation, the Trustees and the Group agreed to update the methodology to use a cash flow matching strategy, such that assets are invested with the aim of the expected income directly matching the expected benefit payments of the Main Scheme. The cash flow matching strategy aims to manage risk through a defined amount of risk buffer assets, which equate to the agreed prudence margin in the valuation. The risk buffer assets are measured over time to ensure the Main Scheme is sufficiently funded. The asset portfolio is currently invested in a selection of bonds designed to match the pension payments for current pensioners, as well as a mix of growth-seeking assets aimed to generate returns for the pension payments for future pensioners. Over time, assets from the return-seeking portfolio will be realised to purchase additional, lower-risk assets to match the increasing current pensioner payments.

The valuations for the other schemes use a different method in that discount rates were directly based on prudent levels of expected returns for the assets held by the schemes, reflecting the planned investment strategies and maturity profiles of each scheme. The discount rates are curves which provide a different rate for each year into the future. Under IAS 19, the discount rate for accounting purposes is based on third-party AA corporate bond yields.

The inflation assumptions for each of the valuations were derived based on the difference between the yields, on index-linked and fixed-interest long-term government bonds. The inflation assumption is a curve which provides a different rate for each year into the future.

There have been no changes to the contributions or benefits, as set out in the rules of the schemes, for pension scheme members as a result of the new funding valuations.

The results of future triennial valuations and associated funding requirements will be impacted by a number of factors, including the future performance of investment markets and anticipated members' longevity.

US valuations

The Group's US pension schemes are valued annually, with the latest valuations performed as at 1 January 2023. The actuarial present value of accumulated plan benefits is determined by an independent actuary and uses actuarial assumptions to adjust the accumulated plan benefits earned by participants to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment.

Contributions

Under the terms of the trust deeds of the UK schemes, the Group is required to have a funding plan determined at the conclusion of the triennial funding valuations.

Equity accounted investments make regular contributions to the schemes in which they participate in line with the schedule of contributions and are allocated a share of funding contributions.

In 2023, total employer contributions to the Group's pension schemes were £274m (2022 £267m), including amounts funded by equity accounted investments of £30m (2022 £23m), and included approximately £68m (2022 £45m) of payments associated with the share buyback programme in respect of the Main Scheme.

Contributions in 2024 to the Group's pension schemes are expected to be at a similar level to 2023.

IAS 19 accounting

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		
	2023	2022	2021	**2023**	2022	2021
Financial assumptions						
Discount rate – past service (%)	**4.5**	4.8	1.9	**4.8**	5.0	2.8
Discount rate – future service (%)	**4.6**	4.8	1.9	**4.8**	5.0	2.8
Retail Prices Index (RPI) inflation (%)	**2.8**	3.0	3.1	**n/a**	n/a	n/a
Rate of increase in salaries (%)	**2.8**	3.0	3.1	**n/a**	n/a	n/a
Rate of increase in deferred pensions (CPI/RPI) (%)	**2.1/2.8**	2.3/3.0	2.4/3.1	**n/a**	n/a	n/a
Rate of increase in pensions in payment (%)	**1.6 – 3.6**	1.7 – 3.6	1.7 – 3.7	**n/a**	n/a	n/a
Demographic assumptions						
Life expectancy of a male currently aged 65 (years)	**85 – 89**	86 – 89	86 – 89	**88**	87	87
Life expectancy of a female currently aged 65 (years)	**88 – 89**	88 – 90	88 – 90	**89**	89	89
Life expectancy of a male currently aged 45 (years)	**86 – 89**	87 – 90	86 – 90	**87**	87	87
Life expectancy of a female currently aged 45 (years)	**89 – 90**	89 – 91	89 – 91	**89**	89	89

Life expectancy

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 and Faculties 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.

In addition, to allow for future improvements in longevity, the Continuous Mortality Investigation 2022 tables (published by the Institute of Actuaries) have been used (in 2022, the Continuous Mortality Investigation 2021 tables were used), with an assumed long-term rate of mortality improvements of 1.0% per annum (2022 1.0%), an initial rate adjustment parameter ('A') of 0.2% (2022 0.25%), a smoothing parameter ('Sk') of 7 (2022 7) and the following weighting ('W') parameters: W2022 35% (2022 n/a); W2021 0% (2022 7.5%); and W2020 0% (2022 7.5%).

For the majority of the US schemes, the mortality tables used at 31 December 2023 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.

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 finance costs	(608)	124	(484)
Increase in liabilities due to changes in financial assumptions	(376)	(52)	(428)
Decrease/(increase) in liabilities due to changes in demographic assumptions	38	(1)	37
Experience losses	(111)	(22)	(133)
Contributions in excess of/(less than) service cost	151	(12)	139
Settlements	–	60	60
Net interest income/(expense)	106	(20)	86
Foreign exchange adjustments	–	19	19
Movement in other schemes	–	(33)	(33)
Total net IAS 19 surplus/(deficit) at 31 December 2023	**1,158**	**(420)**	**738**
Withholding tax on surpluses	(441)	–	(441)
Total net IAS 19 surplus/(deficit) at 31 December 2023 (net of withholding tax)	**717**	**(420)**	**297**
Allocated to equity accounted investments	(68)	–	(68)
Group's share of net IAS 19 surplus/(deficit) excluding Group's share of amounts allocated to equity accounted investments at 31 December 2023	**649**	**(420)**	**229**
Represented by:			
Post-employment benefit surpluses	747	57	804
Post-employment benefit obligations	(98)	(477)	(575)
	649	**(420)**	**229**

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. Since the half-year 2023 results, the asset valuations for the settlement have been finalised, resulting in an additional gain of £9m. The total gain is now $75m (£60m). This gain has been recognised in the Consolidated income statement, and as an adjusting item.

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. On 22 November 2023, the UK government announced that the authorised surplus payments charge would be reduced from 35% to 25% from 6 April 2024. The legislation had not been legally enacted as at the date of issue of these financial statements. The surplus has been recognised net of withholding tax of 35% at 31 December 2023 (2022: 35%) based on the enacted legislation at that date. Should the legislation have been enacted at year-end, this would have resulted in an £0.1bn increase in the pension surplus. This tax would be levied prior to the future refunding of any surplus and therefore the surplus has 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 31 December 2023 and keeping all other assumptions as set out on page 40.

The pension schemes hold a number of unquoted pooled investment vehicles, which are investments in private markets. These are valued based on latest available valuation reports, and as noted on page 38, these valuations are subject to estimation uncertainty as their valuation techniques incorporate a number of assumptions, including those associated with the impact of climate change. Should these funds' actual valuations at 31 December 2023 be on average 2% different to those assumed, this would result in a £0.2bn (2022 £0.2bn) change in the valuation of the assets.

Financial assumptions

The estimated impact of changes in the discount rate and inflation assumptions on the defined benefit pension obligation, together with the estimated impact on scheme assets, is shown in the table below. The estimated impact on scheme assets takes into account the Group's risk management activities in respect of interest rate and inflation risk. The sensitivity analysis on the defined benefit obligation is measured on an IAS 19 accounting basis.

	Decrease/(increase) in pension obligation[1] £bn	(Decrease)/increase in scheme assets[1] £bn
Discount rate:		
0.5 percentage point increase/decrease	1.3/(1.5)	(1.3)/1.5
1.0 percentage point increase/decrease	2.5/(3.1)	(2.5)/3.2
2.0 percentage point increase/decrease	4.6/(6.9)	(4.5)/7.1
3.0 percentage point increase/decrease	6.3/(11.8)	(6.1)/12.0

	(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	0.2/(0.2)
0.5 percentage point increase/decrease	(0.7)/0.7	0.8/(0.8)
1.0 percentage point increase/decrease	(1.4)/1.3	1.8/(1.5)

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	(0.8)/0.8

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

7. Equity dividends

	2023 £m	2022 £m
Final 16.6p dividend per ordinary share paid in the year (2022 15.2p)	**508**	480
Interim 11.5p dividend per ordinary share paid in the year (2022 10.4p)	**349**	322
	857	802

After the balance sheet date, the directors proposed a final dividend of 18.5p per ordinary share. The dividend proposed amounts to approximately £599m, although the final payment is likely to be lower as a result of the impact of share repurchases. The dividend, which is subject to shareholder approval, will be paid on 3 June 2024 to shareholders registered on 19 April 2024. The ex-dividend date is 18 April 2024. The payment of this dividend will not have any tax expense consequences for the Group.

Shareholders who do not at present participate in the Company's Dividend Reinvestment Plan and wish to receive the final dividend in shares rather than cash should complete a mandate form for the Dividend Reinvestment Plan and return it to the registrars no later than 10 May 2024.

Purchase of own shares

On 29 July 2021, the Company announced the details of a share buyback programme to repurchase up to £500m of its own shares over the following 12 months (the 2021 share buyback programme). The 2021 share buyback programme was completed on 2 February 2022. During 2022, 24,253,065 shares were repurchased under the 2021 share buyback programme for a total price, including transaction costs, of £132m.

In July 2022, the directors approved a new share buyback programme (the 2022 share buyback programme) of up to £1.5bn over the next three years under the same terms as the 2021 buyback programme. During 2022, 82,997,065 shares were repurchased under the 2022 share buyback programme for a total price, including transaction costs, of £664m. In total during 2022, 107,250,130 shares were repurchased under the 2021 and 2022 share buyback programmes for a total price, including transaction costs, of £796m.

During 2023, the total number of shares repurchased under the 2022 share buyback programme was 58,689,756 for a total price, including transaction costs, of £558m.

All ordinary shares acquired have been subsequently cancelled, with the nominal value of ordinary shares cancelled deducted from share capital against the capital redemption reserve.

As part of the 2021 and 2022 buyback programmes, it was agreed that should a better alternative use for the Company's cash reserves be identified, the share buyback programme would be ceased, and the money instead used for the alternative purpose. Therefore, when the Company issued a mandate to the brokers to purchase shares on their behalf, the mandates were structured such that they could be revoked at any point. As such, no financial liability has been recognised for shares not yet purchased under the 2022 programme.

In August 2023, the directors approved a further share buyback programme (the 2023 share buyback programme) of up to £1.5bn, which is expected to commence after completion of the 2022 share buyback programme and conclude within three years of its commencement.

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.

The derivative fair values are based on reputable third party forecast data, and then adjusted for credit risk, including the Group's own credit risk, and market risk.

Due to the variability of the valuation factors, the fair values presented at 31 December 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

	2023		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	**84**	**84**	99	99
Other financial assets	**227**	**227**	322	322
Other financial liabilities	**(227)**	**(227)**	(272)	(272)
Current				
Other financial assets	**205**	**205**	252	252
Money market funds	**1,375**	**1,375**	1,149	1,149
Other financial liabilities	**(295)**	**(295)**	(328)	(328)
Financial instruments not measured at fair value:				
Non-current				
Loans	**(4,432)**	**(4,045)**	(5,189)	(4,588)
Current				
Loans	**(679)**	**(672)**	(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 and level 3. The total value of investments classified as level 3 is immaterial. There were no transfers between levels during the year. Alternative valuation techniques would not materially change the valuations presented.

Financial assets and liabilities in the Group's Consolidated balance sheet are either held at fair value or at amortised cost. With the exception of loans, the carrying value of financial instruments measured at amortised cost approximates their fair value. For the bonds included within loans the fair value of loans presented in the table above is derived from market prices as of 31 December, classified as level 1 using the fair value hierarchy. The fair value of the private placement included within loans has been valued based on the interest yield on an equivalent observable bond, applied to the private placement cash flows, and has been classified as level 3 using the fair value hierarchy.

9. Related party transactions

The Group has a related party relationship with its equity accounted 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:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Sales to related parties	**1,686**	1,344
Purchases from related parties	**658**	615
Management recharges	**8**	8

	31 December 2023 £m	31 December 2022 £m
Amounts owed by related parties	**79**	77
Amounts owed to related parties[1]	**1,746**	1,262

1. At 31 December 2023, £1,509m (2022 £1,021m) was owed by BAE Systems plc and £237m (2022 £241m) by other Group subsidiaries.

10. Acquisition of businesses

Businesses acquired during 2023

Eurostep acquisition

On 31 October, the Group acquired 100% of the share capital of Eurostep, a secure data sharing company headquartered in Sweden, for consideration of £9m. The company will form part of the Cyber & Intelligence segment, within the Digital Intelligence business.

The results and financial position of the acquired businesses have been consolidated from the date of acquisition.

Businesses acquired during 2022

On 11 November 2021, the Group announced its intention to acquire 100% of the share capital of BIS Invest S.a.r.l. and its subsidiaries, together the Bohemia Interactive Simulations Group (BISim Group) for a consideration of $200m (£151m). On 4 March 2022, this deal passed all required pre-closing activities, and the acquisition was completed. Using the latest game-based technology, the experienced BISim team of engineers develops high-fidelity, cost-effective training and simulation software products and components to meet the growing demand for defence applications. BISim forms part of the Cyber & Intelligence segment.

The results and financial position of the acquired business have been consolidated from the date of acquisition. The purchase price allocation exercise was finalised in the year, with no changes, and is summarised below.

Acquisition consideration and fair value of net assets acquired

	£m
Intangible assets	71
Property, plant and equipment	1
Right-of-use assets	1
Receivables	10
Deferred tax assets	1
Lease liabilities	(1)
Payables	(8)
Deferred tax liabilities	(14)
Provisions	(6)
Cash and cash equivalents	5
Net identifiable assets acquired	60
Goodwill	91
Net assets acquired	**151**
Satisfied by:	
Cash consideration	151
Total consideration	**151**

The net outflow of cash in respect of the acquisition is as follows:

	£m
Cash consideration	151
Cash and cash equivalents acquired	(5)
Net cash outflow in respect of the acquisition of the business	**146**

The goodwill recognised is primarily attributable to expected synergies. No goodwill is expected to be deductible for tax purposes. Goodwill has been allocated to the Intelligence & Security business. No impairment losses have been recognised in respect of goodwill in the year ended 31 December 2022.

The acquisition contributed £38m to the Group's revenue and £8m to the Group's underlying EBIT[1] between the date of acquisition and 31 December 2022. If it had been completed on 1 January 2022, the Group's revenue from the acquisition would have been £42m, and the Group's underlying EBIT[1] would have been £8m for the year ended 31 December 2022.

Contractual cash flows on trade, other and contract receivables are recognised net of expected credit losses. No contingent liabilities have been recognised or require disclosure in respect of this acquisition.

1. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 47. It is presented here as our internal measure of segmental performance, to provide additional information on performance to the user.

11. Events after the reporting period

Ball Aerospace

On 17 August 2023, the Group announced its intention to acquire 100% of the share capital of the Ball Aerospace division for consideration of $5.5bn (£4.4bn), of which $0.75bn is expected to be recoverable under a tax benefit associated with the acquisition. The acquisition completed on 16 February 2024. Upon completion, the Group drew down $4.0bn (£3.2bn) under a bridge finance facility, and paid $1.5bn (£1.2bn) in cash from the Group's existing cash resources, in initial settlement of the transaction.

Ball Aerospace is a leading provider of spacecraft, mission payloads, optical systems, and antenna systems. Headquartered in Colorado, with more than 5,200 employees, it has existing customer relationships among the Intelligence Community, US Department of Defense, and civilian space agencies. It is well positioned across several markets; military and civil space, C4ISR, and missile and munitions. The space market exposure extends across positions in defence, intelligence, and scientific missions. The Tactical Solutions business is well positioned to capture expected increases in demand for missiles and munitions.

Given the limited time since the acquisition date and the size and complexity of the transaction, the Group is working through the accounting under IFRS 3 Business Combinations and is unable to reasonably estimate and determine the fair value of net assets acquired and resulting goodwill at the date of this report. The Group will work through the fair value exercise under IFRS 3 and provisional disclosures will be reported in the Group's 2024 half-year results.

Air Astana IPO

On 12 January 2024, Air Astana announced its intention to proceed with a joint initial public offering (IPO) on the London Stock Exchange, the Astana International Exchange in Kazakhstan, and the Kazakhstan Stock Exchange. On 9 February 2024, the IPO was launched. As a result of the IPO, it is expected that the total shareholding held by BAE Systems in Air Astana will be between 15% and 17%, with proceeds from the sale of shares of between $227m (£180m) and $207m (£164m). The Group will continue to equity account for the remaining investment.

At 31 December 2023 the Group held a 49% shareholding in Air Astana, with a carrying value of £84m. At that time, management did not consider that the IPO was highly probable as the listing was not being actively marketed, the Air Astana Board of Directors had not approved the IPO, and it was not reasonably certain that the intended offering value would be achieved. Consequently, the investment was not held for sale as at 31 December 2023 and the subsequent completion of the IPO is considered to be a non-adjusting post balance sheet event.

Malloy Aeronautics acquisition

On 31 January 2024 the Group acquired 100% of the share capital of Malloy Aeronautics for £60m cash consideration, plus adjustments for working capital and contingent consideration, for which the fair value is still being assessed. Malloy Aeronautics designs and supplies all-electric uncrewed aerial systems to both civil and military customers. Their range of uncrewed, heavy lift quadcopters are capable of lifting payloads from 68kg to 300kg over short-range missions. Malloy Aeronautics will form part of FalconWorks®, the research and development business within the Air segment.

12. Annual General Meeting

This year's Annual General Meeting will be held on 9 May 2024. Details of the resolutions to be proposed at that meeting will be included in the notice of Annual General Meeting that will be sent to shareholders at the end of March 2024.

13. Contingent liabilities

The Group believes that any significant liability in respect of its guarantees and performance bond arrangements, and legal actions and claims not already provided for, is remote.

Alternative performance measures

We monitor the underlying financial performance of the Group using alternative performance measures (APMs). These measures are not defined in IFRS and, therefore, are considered to be non-GAAP measures. Accordingly, the relevant IFRS measures are also presented where appropriate.

The Group uses these APMs as a mechanism to support year-on-year business performance and cash generation comparisons, and to 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 year, and does not consider them to be more important than, or superior to, their equivalent IFRS measures. As each APM is defined by the Group, they may not be directly comparable with equivalently-named measures in other companies.

Purpose, definitions, breakdowns and reconciliations to the relevant statutory measure, where appropriate, are included below.

Sales

Purpose
Enables management to monitor the revenue of both the Group's own subsidiaries as well recognising the strategic importance in its industry of its equity accounted investments, to ensure programme performance is understood and in line with expectations.

Definition
Revenue plus the Group's share of revenue of equity accounted investments, excluding subsidiaries' revenue from equity accounted investments.

Reconciliation of sales to revenue		**2023 £m**	2022 £m
Sales	KPI	**25,284**	23,256
Deduct: Group's share of revenue of equity accounted investments		**(3,892)**	(3,342)
Add: Subsidiaries' revenue from equity accounted investments		**1,686**	1,344
Revenue		**23,078**	21,258

Underlying EBIT

Purpose
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.

Definition
Operating profit excluding amortisation of programme, customer-related and other intangible assets, impairment of intangible assets, net finance costs and tax expense of equity accounted investments (EBIT) and adjusting items. 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.

Reconciliation of underlying EBIT to operating profit		**2023 £m**	2022 £m
Underlying EBIT	KPI	**2,682**	2,479
Adjusting items		**40**	91
Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles		**(116)**	(111)
Net finance income/(costs) of equity accounted investments		**14**	(25)
Tax expense of equity accounted investments		**(47)**	(50)
Operating profit		**2,573**	2,384

Return on sales

Purpose

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.

Definition

Underlying EBIT as a percentage of sales. Also referred to as margin.

		2023 £m	2022 £m
Sales	KPI	**25,284**	23,256
Underlying EBIT	KPI	**2,682**	2,479
Return on sales		**10.6%**	10.7%

Underlying earnings per share

Purpose

Provides a measure of the Group's underlying performance, which enables management to compare the profitability of the Group's recurring operations over time.

Definition

Profit for the year 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 attributable to shareholders, being underlying earnings, divided by number of shares as defined for Basic EPS in accordance with IAS 33 Earnings per Share.

Reconciliation of underlying earnings to profit attributable to equity shareholders	2023 £m	2022 £m
Underlying earnings	**1,916**	1,728
Adjustments:		
Adjusting items	**40**	91
Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles	**(116)**	(111)
Net interest income/(expense) on post-employment benefit obligations	**44**	(38)
Fair value and foreign exchange adjustments on financial instruments and investments	**(66)**	(136)
Tax impact of adjustments	**39**	57
Profit for the year attributable to equity shareholders	**1,857**	1,591

Reconciliation of underlying EBIT to underlying earnings		2023 £m	2022 £m
Underlying EBIT	KPI	**2,682**	2,479
Group and equity accounted investments underlying net finance costs (see reconciliation page 49)		**(211)**	(246)
Underlying tax expense (see reconciliation page 50)		**(472)**	(422)
Underlying profit for the year		**1,999**	1,811
Deduct: Non-controlling interest		**(83)**	(83)
Underlying earnings		**1,916**	1,728
Weighted average number of ordinary shares used in calculating basic earnings per share (note 5)		**3,031**	3,112
Underlying earnings per share – basic	KPI	**63.2p**	55.5p
Weighted average number of ordinary shares used in calculating diluted earnings per share (note 5)		**3,072**	3,153
Underlying earnings per share – diluted		**62.4p**	54.8p

Adjusting items

Purpose
To adjust items of financial performance from the reported underlying results 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.

Definition
Adjusting items include 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.

	2023 £m	2022 £m
Profit on business disposals	**–**	94
Gain related to settlements and past service costs on the pension schemes	**60**	13
Acquisition-related costs	**(20)**	(16)
Adjusting items	**40**	91

Underlying net finance costs

Purpose
Provides a measure of net finance costs associated with the operational borrowings of the Group that is comparable over time.

Definition
Net finance costs for the Group and its share of equity accounted investments, excluding net interest income/expense on post-employment benefit obligations and fair value and foreign exchange adjustments on financial instruments.

	2023 £m	2022 £m
Net finance costs – Group	**(247)**	(395)
(Deduct)/add back:		
Net interest (income)/expense on post-employment benefit obligations	**(41)**	37
Fair value and foreign exchange adjustments on financial instruments	**57**	128
Underlying net finance costs – Group	**(231)**	(230)
Net finance income/(costs) – equity accounted investments	**14**	(25)
(Deduct)/add back:		
Net interest (income)/expense on post-employment benefit obligations	**(3)**	1
Fair value and foreign exchange adjustments on financial instruments	**9**	8
Underlying net finance income/(costs) – equity accounted investments	**20**	(16)
Total of Group and equity accounted investments' underlying net finance costs	**(211)**	(246)

Underlying effective tax rate

Purpose
Provides a measure of tax expense for the Group, excluding one-off items, that is comparable over time. During the year, the calculation of the underlying effective tax rate has been re-presented to better align to the underlying profit of the Group. This has not impacted the prior year effective tax rate.

Definition
Tax expense for the Group and its share of equity accounted investments, excluding any one-off tax benefit/expense related to adjusting items and other items excluded from underlying EBIT, as a percentage of underlying profit before tax.

Calculation of the underlying effective tax rate

		2023 £m	2022 £m
Underlying EBIT (see reconciliation on page 47)	KPI	**2,682**	2,479
Group and equity accounted investments' underlying net finance costs (see reconciliation on page 49)		**(211)**	(246)
Underlying profit before tax		**2,471**	2,233
Group tax expense		**(386)**	(315)
Tax expense of equity accounted investments		**(47)**	(50)
Exclude:			
Tax expense in respect of taxable adjusting items		**11**	–
Tax expense in respect of other items excluded from underlying profit		**(49)**	(54)
Tax rate adjustment		**(1)**	(3)
Underlying tax expense		**(472)**	(422)
Underlying effective tax rate		**19%**	19%

Free cash flow

Purpose
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.

Definition
Net cash flow from operating activities, including dividends received from equity accounted investments, interest paid, net of interest received, net capital expenditure and financial investments, and principal elements of lease payments and receipts.

Reconciliation from free cash flow to net cash flow from operating activities

		2023 £m	2022 £m
Free cash flow	KPI	**2,593**	1,950
Add back:			
Interest paid, net of interest received		**230**	237
Net capital expenditure and financial investment		**789**	519
Principal element of lease payments and receipts		**282**	227
Deduct: Dividends received from equity accounted investments		**(134)**	(94)
Net cash flow from operating activities		**3,760**	2,839

Operating business cash flow

Purpose
Provides a measure of cash generated by the Group's operations, which is comparable across the Group, to service debt and meet tax obligations, and in turn available for use in line with the Group's capital allocation policy.

Definition
Net cash flow from operating activities excluding tax paid net of research and development expenditure credits received and including net capital expenditure (net of proceeds from funding of assets) and lease principal amounts, financial investment and dividends from equity accounted investments.

Reconciliation from operating business cash flow to net cash flow from operating activities

	2023 £m	2022 £m
Operating business cash flow	**3,218**	2,552
Add back:		
Net capital expenditure and financial investment	**789**	519
Principal element of lease payments and receipts	**282**	227
Deduct:		
Dividends received from equity accounted investments	**(134)**	(94)
Tax paid net of research and development expenditure credits received	**(395)**	(365)
Net cash flow from operating activities	**3,760**	2,839

Reconciliation of operating business cash flow to net cash flow from operating activities by reporting segment

	Operating business cash flow		Deduct: Dividends received from equity accounted investments		Add back: Net capital expenditure, lease principal amounts and financial investment		Net cash flow from operating activities	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Electronic Systems	**811**	650	**(8)**	(6)	**158**	216	**961**	860
Platforms & Services	**426**	525	**–**	–	**198**	108	**624**	633
Air	**1,669**	1,140	**(112)**	(84)	**251**	146	**1,808**	1,202
Maritime	**291**	235	**(7)**	(4)	**345**	187	**629**	418
Cyber & Intelligence	**204**	154	**–**	–	**57**	37	**261**	191
HQ	**(183)**	(152)	**(7)**	–	**62**	52	**(128)**	(100)
	3,218	2,552	**(134)**	(94)	**1,071**	746	**4,155**	3,204
Tax paid net of research and development expenditure credits received							**(395)**	(365)
Net cash flow from operating activities							**3,760**	2,839

Net debt (excluding lease liabilities)

Purpose
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.

Definition
Cash and cash equivalents, less loans and overdrafts (including debt-related derivative financial instruments). Net debt does not include lease liabilities.

Components of net debt (excluding lease liabilities)		2023 £m	2022 £m
Cash and cash equivalents		**4,067**	3,107
Debt-related derivative financial instruments (net)		**22**	112
Loans – non-current		**(4,432)**	(5,189)
Loans and overdrafts – current		**(679)**	(53)
Net debt (excluding lease liabilities)	KPI	**(1,022)**	(2,023)

Order intake

Purpose

Allows management to monitor the order intake of the Group together with its equity accounted investments, providing insight into future years' sales performance.

Definition
Funded orders received from customers including the Group's share of order intake of equity accounted investments.

		2023 £bn	2022 £bn
Order intake	KPI	**37.7**	37.1

Order backlog

Purpose
Supports future years' sales performance of the Group together with its equity accounted investments.

Definition
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.

Reconciliation of order backlog, as defined by the Group, to order book[1]

	2023 £bn	2022 £bn
Order backlog, as defined by the Group	**69.8**	58.9
Deduct:		
Unfunded order backlog	**(2.3)**	(2.3)
Share of order backlog of equity accounted investments	**(13.5)**	(12.0)
Add back: Order backlog in respect of orders from equity accounted investments	**4.0**	4.3
Order book[1]	**58.0**	48.9

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

Cautionary statement:

All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of BAE Systems plc and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements, which reflect management's assumptions made on the basis of information available to it at this time, appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of BAE Systems plc concerning, amongst other things, its results in relation to operations, financial condition, liquidity, prospects, growth, commitments and targets (including environmental, social and governance commitments and targets), strategies and the industry in which it operates. Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "intends", "will", "will continue", "should", "would be", "seeks", "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not guarantees of future performance and the actual results of operations, financial condition and liquidity of BAE Systems plc, the development of the industry in which it operates and the ability of BAE Systems plc to meet its commitments and targets may differ materially from those made in or suggested by the forward-looking statements contained in this document. In addition, even if results of operations, financial condition and liquidity of BAE Systems plc, the development of the industry in which it operates and/or performance against commitments and targets are consistent with the forward-looking statements contained in this document, those results, developments or performance may not be indicative of results, developments or performance in subsequent periods.

These forward-looking statements speak only as of the date of this document. Subject to the requirements of the Disclosure Guidance and Transparency Rules, the Market Abuse Regulation or applicable law, BAE Systems plc explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of it. All subsequent written and oral forward-looking statements attributable to either BAE Systems plc or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to herein and contained elsewhere in this document.

BAE Systems plc and its directors accept no liability to third parties in respect of this document save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Schedule 10A of the Financial Services and Markets Act 2000. It should be noted that Schedule 10A and Section 463 of the Companies Act 2006 contain limits on the liability of the directors of BAE Systems plc so that their liability is solely to BAE Systems plc.