BAE Systems plc
Preliminary Announcement 2022

Financial highlights

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

Results in brief

Financial performance measures as defined by the Group[2]

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

Financial performance measures as derived from IFRS[2]

	Year ended 31 December 2022	Year ended 31 December 2021	Variance[3]
Revenue	**£21,258m**	£19,521m	+8.9%
Operating profit	**£2,384m**	£2,389m	-
Basic earnings per share	**51.1p**	55.2p	-7.4%
Dividend per share	**27.0p**	25.1p	+7.6%
Net cash flow from operating activities	**£2,839m**	£2,447m	+£392m
Group's share of net post-employment benefits surplus/(deficit)	**£0.6bn**	£(2.1)bn	+£2.7bn
Order book	**£48.9bn**	£35.5bn	+£13.4bn

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

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

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

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

Strategic progress

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

Operational highlights

Electronic Systems

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

Platforms & Services

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

Air

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

Maritime

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

Cyber & Intelligence

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

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

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

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

Guidance for 2023

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

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

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

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

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Analyst and investor presentation

A presentation, for analysts and investors, of the Group's Results for 2022 will be available via webcast at 11.00am today (23 February 2023).

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 employ a skilled workforce of 93,100 people[1] in around 40 countries. Working with customers and local partners, we develop, engineer, manufacture, and support products and systems to deliver military capability, protect national security, and keep critical information and infrastructure secure.

1. Including share of equity accounted investments.

Preliminary results statement

Overview

BAE Systems delivered another strong year of performance in 2022, both financially and operationally. This was achieved despite the headwinds presented by the COVID-19 pandemic, continued supply chain disruptions, rising inflation and ongoing labour shortages. Whilst we expect that some of these challenges will persist, we enter 2023 with a robust competitive position, multiple new business opportunities, and significant financial resources – all of which point to another productive year ahead for BAE Systems and our shareholders.

These outcomes were driven by our people, their unwavering focus on our purpose – "to serve, supply and protect those who serve and protect us" – and a values-driven culture, committed to sustainable business practices and inclusion. This is underpinned by a robust governance structure and high ethical standards.

In 2022, global events resulted in a renewed recognition of the importance of the defence industry and our role in assisting governments in protecting their countries and citizens.

As one of the world's largest defence contractors, our technologies, capabilities and global footprint ensure we play a leading role in helping our customers meet an elevated threat environment.

This past year, the Group designed, developed, and manufactured a cutting-edge set of products – across the domains of air, land, sea, cyber and space – that our customers count on. Our exceptional product portfolio is enhanced with enabling technologies including artificial intelligence, autonomy, cryptography, and cyber defence, ensuring we remain at the forefront of national security-related technologies.

In addition to our defence portfolio, we continued to see a recovery in our commercial aviation product lines, as passenger flying hours continue to increase. Further, demand for our low and zero emission hybrid and fully electric drive and propulsion systems continued to grow, with emerging opportunities to take these applications into the defence arena, as well as maritime and air applications.

Our markets

A differentiating strength of BAE Systems is our geographic diversity and exposure to many of the world's largest national defence budgets. Most of the countries in which we operate have either announced increases or are making plans to increase spending to address the elevated threat environment. Whilst global economic and fiscal pressures weigh on governments, the commitment to defence in our major markets remains robust.

Our standing as the UK's largest defence company, a top 10 defence prime contractor in the US, the largest defence company in Australia, our enduring relationships with multiple customers in the Middle East, and strong European presence contributed to a record annual order intake of £37bn, driving our defence order backlog up to £59bn. This geographic footprint also provides us with the ability to export from the US, the UK, Australia and Sweden into countries which are also planning to increase defence spending.

In the US, by far the world's largest defence market, we are well aligned to the Department of Defense (DoD)'s emphasis on advanced technologies, which is the fastest growing part of the US budget. In areas like electronic warfare, multi-domain operations, Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) systems and advanced Defense Advanced Research Projects Agency (DARPA) projects, BAE Systems technologies are world-class and map directly into priorities in the US National Defense Strategy. In addition, we expect the renewed importance of armoured combat vehicles in the Ukraine conflict to benefit our combat vehicles business.

In the UK, the 2021 Defence Command Paper renewed commitments to our major programmes in complex warship, submarine and combat aircraft design and build, allowing for long-term investment in these key sovereign capabilities, as well as strong support for the cyber domain.

Our healthy opportunity pipeline is growing with domestic, export and collaboration opportunities, and we have the capabilities to support our UK customer in its emerging space ambitions.

In Europe, where the threat level is acute, the need for new equipment is most urgent and many defence budgets are rising. Our involvement in the Eurofighter Typhoon consortium, shareholding in missile-maker MBDA, ownership of the growing Hägglunds and Bofors businesses, acquisition of Bohemia Interactive Simulations and participation in US foreign military sales enable us to serve the European/NATO market through multiple channels.

The Air sector continues to support a global customer base and we have a significant operational business presence in the Middle East, notably in the Kingdom of Saudi Arabia, Qatar and Oman.

In December 2022, the governments of the UK, Japan and Italy, announced their shared ambition to develop a next generation fighter aircraft under a new Global Combat Air Programme (GCAP). The launch of GCAP firmly positions the UK, alongside Japan and Italy, as leaders in the design, development and production of next generation combat air capability. Working closely with our UK industry partners, the Air sector intends to strengthen its ties with Japanese and Italian industries as we work together to deliver this programme.

2022 financial performance

Our key financial metrics of sales, margin, underlying earnings per share, and free cash flow increased despite supply chain interruptions, labour shortages and the inflationary environment. This was possible because of the excellent work of our employees on programme execution, as well as by the internal efficiency and competitiveness initiatives we have underway.

On a constant currency basis, we grew sales by 4%, increased return on sales by 20 basis points, grew underlying earnings per share by 9%, and recorded another exceptional year for free cash flow of £2.0bn. Together with 2020 and 2021, we over-performed on our stated three-year free cash flow target by more than £1bn.

This collection of strong results was enhanced by our share repurchase programmes. In 2022, we repurchased £793m of our shares, or about 3% of our outstanding shares, completing the remainder of the Board's 2021 £500m authorisation and the initial tranche of the Board's three-year £1.5bn authorisation, approved in mid-2022.

Balance sheet strength

BAE Systems ended 2022 with a strong balance sheet, featuring a cash position of £3.1bn, a net debt (excluding lease liabilities) of £2.0bn, and a net pension position that has swung from a significant accounting deficit to an accounting surplus, thanks to the Group's funding commitments over the years and the higher interest rate environment.

The outcome of the triennial review with the pension Trustee and the Pensions Regulator was positive and has enabled the Group to move forward with a sensible capital allocation strategy that prioritises investing in the business for the long term through R&D and acquisitions in high growth/high return parts of the business, and capital expenditures to ensure our systems and facilities are modern and can support the Group's expected growth. We are also committed to returning value to shareholders through an attractive dividend, which has increased for 19 consecutive years, and share buybacks based on our confidence in the outlook.

2022 operational performance

Set against the backdrop of macro-economic challenges and heightened global tensions, we made excellent progress in meeting the strategic objectives we have been pursuing for several years. Our intense focus on operational excellence continues to benefit our customers and shareholders as we execute on complex, long-duration programmes like the Astute and Dreadnought submarine programmes, Type 26 and Hunter Class frigates, Typhoon and F-35 fighter jets, electronic warfare systems, and a leading portfolio of land combat vehicles, among many other programmes. This relentless attention to 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.

Each of our business sectors contributed to making 2022 a strong year for the Group:

Our **Electronic Systems** sector was the business unit most impacted by the global shortage of microelectronics, as well as by labour and staffing shortages within our operations and across our supply chain. The team developed operational approaches that helped mitigate the schedule and financial impacts of the supply chain constraints, producing another solid year with continued high margins and a robust order book. We are optimistic that these supply chain pressures will continue to ease in the near term.

Our **Platforms & Services** sector maintained relatively stable sales, whilst delivering margin expansion in 2022. The impacts from the COVID-19 pandemic negatively affecting the business began to abate in 2022. Our US combat vehicles business has ramped up the production of key programmes like the Armoured Multi-Purpose Vehicle (AMPV) and Amphibious Combat Vehicle (ACV), and our Swedish Hägglunds business recorded outstanding levels of new orders. Margins in our Ship Repair business have improved as we worked to address workforce challenges and operational performance post-COVID.

Our **Air** sector posted steady sales growth and increased margins, highlighted by the production of Typhoon fighters for Qatar, Germany and other customers, and the delivery of F-35 aft fuselage tail sections. The Tempest technology maturation programme is progressing well, and work continues to plan on the Future Combat Air System (FCAS) Concept & Assessment Phase, a contract we received in 2021. In 2022, the UK government announced plans to lead the development of a new flying combat air demonstrator, set to fly within the next five years, and the GCAP coalition with Japan and Italy. In addition, we renewed a major portion of our Saudi support business for another five years under a UK-Saudi government-to-government agreement.

Our **Maritime** sector posted good sales growth in 2022, and maintained steady margins, as major submarine and ship programmes continued to ramp up. Margin performance reflected the high volume of Dreadnought sales and increased Company-funded R&D expenditure. The Dreadnought nuclear deterrent submarine and the Global Combat Ship programmes (UK's Type 26, Australia's Hunter Class and Canada's licensed frigate) all grew year-over-year.

The **Cyber & Intelligence** sector recorded good sales growth and margin performance. The sector benefited from better workforce utilisation and efficiency following the worst of the pandemic. In the US, the Intelligence & Security business continued to demonstrate the value of its differentiated systems integration expertise, providing leading engineering, modelling and simulation capabilities to its customers, expanding in this area through the acquisition of Bohemia Interactive Simulations. In the UK, we established the Digital Intelligence business, bringing together capabilities in cyber, space, intelligence, security and data into one organisation to improve our customer alignment.

Our ESG agenda

We operate our business for the long term and place incorporating sustainable business practices in all aspects of our operations at the core of our approach. This includes, for example, our focus on employee safety and wellbeing, creating a diverse and inclusive workspace, supporting and engaging with the communities in which we operate, and delivering leading apprentice and graduate programmes to prepare the next generation of workers for the future. It also includes our focus on responsible environmental stewardship in our operations. We underpin everything with a robust governance structure that applies to all aspects and required adherence to our Code of Conduct.

We are exceptionally proud of what the Group accomplished in 2022. We hired a record number of UK apprentices and graduates and are particularly pleased that we increased the number of women to 30% of that intake. We progressed our climate resilience programmes and each of our sectors developed decarbonisation roadmaps to outline short-, medium- and long-term activities to support the Group's net zero ambition by 2030 (Scope 1 and 2). Our employees continue to be engaged in our sustainability programmes, actively participating across many elements. We have made substantial progress in our sustainability agenda over the past several years, and we recognise there is more work to do in the years ahead. These efforts will make us a better, higher-performing company in the future.

Board changes

At the Company's AGM in May last year, two non-executive directors, Dame Carolyn Fairbairn and Ian Tyler, stepped-down from the Board. At the beginning of November, Lord Mark Sedwill joined the Board as a non-executive director.

New Chair

This year's Annual General Meeting of shareholders will mark the conclusion of Sir Roger Carr's remarkable tenure as Chair. We have named Cressida Hogg as Sir Roger's successor, completing an intensive search for the most qualified candidate to fill the role. We all look forward to benefiting from her experience, wisdom and energy in the coming years. She joined the Board as a non-executive director and Chair designate on 1 November 2022 and will succeed Sir Roger as Chair at the conclusion of this year's AGM, due to be held on 4 May 2023.

Executive Committee changes

In the second half of 2022, we welcomed two new members to our Executive Committee (EC). Caitlin Hayden has joined as Group Communications Director following her role as Senior Vice President of Communications at BAE Systems, Inc. in the US. Ed Gelsthorpe also joined the EC as Group General Counsel. Ed has enjoyed a long and varied career in the Group and has served in several senior legal leadership positions.

Summary

As we close the book on 2022, the fundamentals of the business are strong, the outlook is bright, and our team is focused on our purpose – "to serve, supply and protect those who serve and protect us." While it is tragic that it took a war in Europe to raise the awareness of the importance of defence around the globe, BAE Systems is well positioned to help national governments keep their citizens safe and secure in an elevated threat environment.

For shareholders, the record order intake and increased order backlog, our position on major and enduring programmes, the pension accounting surplus, and management's continued attention to operational excellence and financial discipline together provide a high level of visibility for sales growth, margin expansion, cash generation and capital returns over the coming years.

Dividends

The Board has recommended a final dividend of 16.6p for a total of 27.0p for the full year. Subject to shareholder approval at the May 2023 Annual General Meeting, the dividend will be paid on 1 June 2023 to shareholders on the share register on 21 April 2023.

Financial glossary

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

The Group uses these APMs as a mechanism to support 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.

Financial performance measures defined by the Group

Measure	**Purpose**	**Definition**	**Closest IFRS measure and reconciliation**
Sales	Enables management to monitor the revenue of both the Group's own subsidiaries as well as its strategically important equity accounted investments, to ensure programme performance is understood and in line with expectations.	Revenue plus the Group's share of revenue of equity accounted investments, excluding subsidiaries' revenue from equity accounted investments.	Page 11
Underlying EBIT	Provides a measure of operating profitability, excluding one-off events or adjusting items that are not considered to be part of the ongoing operational transactions of the business, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group.	Operating profit excluding amortisation of programme, customer-related and other intangible assets, impairment of intangible assets, finance costs and taxation expense of equity accounted investments (EBIT), and adjusting items[1]. 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.	Page 11
Return on sales	Provides a measure of operating profitability, excluding one-off events, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group	Underlying EBIT as a percentage of sales. Also referred to as margin.	Page 11
Underlying earnings per share	Provides a measure of the Group's underlying performance, which enables management to compare the profitability of the Group's recurring operations over time.	Profit for the 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[1] attributable to shareholders, being underlying earnings, divided by number of shares as defined for Basic EPS in accordance with IAS 33 Earnings per Share.	Page 13

Measure	Purpose	Definition	Closest IFRS measure and reconciliation
Underlying interest expense	Provides a measure of finance costs associated with the operational borrowings of the Group that is comparable over time.	Net finance costs for the Group and its share of equity accounted investments, excluding net interest expense on post-employment benefit obligations and fair value and foreign exchange adjustments on financial instruments and investments.	Page 46
Underlying effective tax rate	Provides a measure of taxation for the Group, excluding one-off items, that is comparable over time.	Taxation expense for the Group and its share of equity accounted investments, excluding any one-off tax benefit/expense, as a percentage of adjusted profit before taxation, being Profit before tax plus taxation expense of equity accounted investments, adjusted for adjusting items[1].	Page 47
Operating business cash flow	Provides a measure of cash generated by the Group's operations, to service debt and meet tax obligations, and in turn available for use in line with the Group's capital allocation policy.	Net cash flow from operating activities excluding taxation and including net capital expenditure (net of proceeds from funding of assets) and lease principal amounts, financial investment and dividends from equity accounted investments.	Page 14
Free cash flow	Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy.	Operating business cash flow less interest paid (net) and taxation.	Page 14
Net debt (excluding lease liabilities)	Allows management to monitor indebtedness of the Group, to ensure the Group's capital structure is appropriate and capital allocation policy decisions are suitably informed.	Cash and cash equivalents, less loans and overdrafts (including debt-related derivative financial instruments). Net debt does not include lease liabilities.	n/a
Order intake	Allows management to monitor the order intake of the Group's own subsidiaries as well as its strategically important equity accounted investments, providing insight into future years' sales performance.	Funded orders received from customers including the Group's share of order intake of equity accounted investments.	n/a
Order backlog	Supports future years' sales performance of subsidiaries and equity accounted investments.	Funded and unfunded unexecuted customer orders including the Group's share of order backlog of equity accounted investments. Unfunded orders include the elements of US multi-year contracts for which funding has not been authorised by the customer.	Page 13

Financial performance measures derived from IFRS

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

1. Adjusting items are items of financial performance which have been determined by management as being material by their size or incidence and not relevant to an understanding of the Group's underlying business performance. Adjusting items were referred to as non-recurring items in the prior year. No change has been made to the definition of these items, but the name has been changed to reflect that some items could be considered recurring in nature. The Group's definition of adjusting items includes profit or loss on business transactions, the impact of substantively enacted tax rate changes, and costs incurred which are one-off in nature, for example non-routine costs or income relating to post-retirement benefit schemes, and other items which management has determined as not being relevant to an understanding of the Group's underlying business performance. Note 2 Segmental analysis and revenue recognition includes more information on those items reported as adjusting in the year.

Income statement summary

	2022 £m	2021 £m
Financial performance measures as defined by the Group[1]		
Sales	**23,256**	21,310
Underlying EBIT	**2,479**	2,205
Return on sales	**10.7%**	10.3%
Financial performance measures derived from IFRS[2]	**£m**	£m
Revenue	**21,258**	19,521
Operating profit	**2,384**	2,389
Return on revenue	**11.2%**	12.2%
Reconciliation of sales to revenue	**£m**	£m
Sales	**23,256**	21,310
Deduct Group's share of revenue of equity accounted investments	**(3,342)**	(2,979)
Add Subsidiaries' revenue from equity accounted investments	**1,344**	1,190
Revenue	**21,258**	19,521
Reconciliation of underlying EBIT to operating profit	**£m**	£m
Underlying EBIT	**2,479**	2,205
Adjusting items	**91**	350
Amortisation of programme, customer-related and other intangible assets	**(110)**	(86)
Impairment of intangible assets	**(1)**	(15)
Financial expense of equity accounted investments	**(25)**	(27)
Taxation expense of equity accounted investments	**(50)**	(38)
Operating profit	**2,384**	2,389
Net finance costs	**(395)**	(279)
Taxation expense	**(315)**	(198)
Profit for the year	**1,674**	1,912

Exchange rates

	2022	2021
Average		
£/$	**1.236**	1.376
£/€	**1.173**	1.163
£/A$	**1.778**	1.832
Year end		
£/$	**1.203**	1.354
£/€	**1.127**	1.191
£/A$	**1.773**	1.863

Sensitivity analysis	**£m**
Estimated impact on sales of a five cent movement in the average exchange rate	
$	**400**
€	**55**
A$	**25**

1. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 8.
2. International Financial Reporting Standards.

Sales increased by £2.0bn to £23.3bn (2021 £21.3bn), a 4% increase on a constant currency basis[1], or 9% on a reported basis.

Revenue increased by £1.7bn, 9%, to £21.3bn (2021 £19.5bn).

Underlying EBIT increased to £2,479m (2021 £2,205m), giving a return on sales of 10.7% (2021 10.3%). Excluding the impact of exchange translation, the increase was 5%. On a reported basis this was 12%.

Operating profit remained stable at £2,384m (2021 £2,389m) with the one off gains in 2021 on the sale of Advanced Electronics Company (£132m) and the Filton and Broughton sites (£182m) offset by the gain on sale of the Financial Services business (£94m) and underlying growth in 2022.

Adjusting items in 2022 reflect a gain of £91m, comprising a £94m gain on the disposal of the Financial Services business in Digital Intelligence and a £13m gain related to past service cost on the pension scheme, offset by £16m of costs related to current and historical business transactions. The credit of £350m in 2021 comprised a £182m gain in HQ on the sale of the Filton and Broughton sites, a £132m gain on disposal of the Advanced Electronics Company and £26m on disposal of a business in our Electronic Systems segment and a net £10m gain relating to historical acquisitions.

Amortisation of programme, customer-related and other intangible assets was £110m (2021 £86m), the increase being driven by amortisation charges from businesses acquired during 2022 and a full year of cost from those acquired in 2021.

Impairment of intangible assets in 2022 is £1m (2021 £15m).

Net finance costs were £395m (2021 £279m). The underlying interest expense, including share of equity accounted investments, and excluding pension accounting and fair value and foreign exchange adjustments on financial instruments and investments, was £246m (2021 £241m). Net interest expense on the Group's pension surplus/(deficit), including equity accounted investments, was £38m (2021 £67m).

Taxation expense, including equity accounted investments, of £365m reflects the Group's underlying effective tax rate for the year of 19%, adjusted for the impact of the UK tax rate adjustment. The 2021 charge of £236m reflected the Group's underlying effective tax rate for the year of 18%, less the impact of a one-off tax benefit of £94m in respect of agreements reached regarding the exposure arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company regime (see note 4).

The calculation of the underlying effective tax rate is shown in note 4 on page 47.

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

Earnings per share

	2022	2021
Financial performance measures as defined by the Group[1]		
Underlying earnings (excluding the 2021 one-off tax benefit)	**£1,728m**	£1,523m
Underlying earnings per share (excluding the 2021 one-off tax benefit)	**55.5p**	47.8p
Underlying earnings (including the 2021 one-off tax benefit)	**£1,728m**	£1,617m
Underlying earnings per share (including the 2021 one-off tax benefit)	**55.5p**	50.7p
Financial performance measures derived from IFRS[2]		
Profit for the year attributable to equity shareholders	**£1,591m**	£1,758m
Basic earnings per share	**51.1p**	55.2p

Reconciliation of underlying earnings to profit for the year attributable to equity shareholders	**£m**	£m
Underlying earnings (excluding the 2021 one-off tax benefit)	**1,728**	1,523
Adjusting items, post tax	**94**	279
Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles, post tax	**(90)**	(84)
Net interest expense on post-employment benefit obligations, post tax	**(31)**	(55)
Fair value and foreign exchange adjustments on financial instruments and investments, post tax	**(110)**	1
One-off tax benefit (2021)	**–**	94
Profit for the year attributable to equity shareholders	**1,591**	1,758
Non-controlling interests	**83**	154
Profit for the year	**1,674**	1,912

Underlying earnings per share for the year increased by 9%, excluding the impact of exchange translation, to 55.5p (2021 47.8p excluding the one-off tax benefit).

Basic earnings per share was 51.1p (2021 55.2p). The decrease being due to lower gains on the adjusting items in 2022, and the one-off tax benefit in 2021, partially offset by the benefit of the share buybacks.

Orders

Financial performance measures as defined by the Group[1]	**2022**	2021
Order intake[3]	**£37,093m**	£21,458m
Order backlog[3]	**£58.9bn**	£44.0bn
Financial performance measures derived from IFRS[2]		
Order book[4]	**£48.9bn**	£35.5bn

Order intake[3] increased by £15,635m to £37,093m (2021 £21,458m). Our US-managed businesses had a book-to-bill ratio[5] of more than one.

Order backlog[3] increased by £14.9bn to £58.9bn (2021 £44.0bn).

Order book[4] increased by £13.4bn to £48.9bn (2021 £35.5bn).

1. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 8.
2. International Financial Reporting Standards.
3. Including share of equity accounted investments.
4. Order book represents the transaction price allocated to unsatisfied and partially satisfied performance obligations as defined by IFRS 15 Revenue from Contracts with Customers.
5. Ratio of Order intake to Sales.

Cash flow

	2022 £m	2021 £m
Financial performance measures as defined by the Group[1]		
Free cash flow	**1,950**	1,864
Financial performance measures derived from IFRS[2]	**£m**	£m
Net cash flow from operating activities	**2,839**	2,447
Reconciliation from free cash flow to net cash flow from operating activities	**£m**	£m
Free cash flow	**1,950**	1,864
Add back Interest paid, net of interest received	**237**	224
Add back Taxation	**365**	234
Operating business cash flow[1]	**2,552**	2,322
Add back Net capital expenditure and financial investment	**519**	209
Add back Principal element of lease payments and receipts	**227**	207
Deduct Dividends received from equity accounted investments	**(94)**	(57)
Deduct Taxation	**(365)**	(234)
Net cash flow from operating activities	**2,839**	2,447
Net capital expenditure and financial investment	**(519)**	(209)
Principal element of finance lease receipts	**9**	10
Dividends received from equity accounted investments	**94**	57
Interest received	**32**	23
Acquisitions and disposals	**(38)**	185
Net cash flow from investing activities	**(422)**	66
Interest paid	**(269)**	(247)
Equity dividends paid	**(802)**	(777)
Purchase of own shares	**(788)**	(368)
Partial disposal of shareholding in subsidiary undertaking	**-**	28
Dividends paid to non-controlling interests	**(166)**	(202)
Principal element of lease payments	**(236)**	(217)
Cash inflow from derivative financial instruments (excluding cash flow hedges)	**533**	61
Cash outflow from derivative financial instruments (excluding cash flow hedges)	**(205)**	(149)
Movement in cash collateral	**-**	(18)
Net cash flow from loans	**(400)**	(367)
Net cash flow from financing activities	**(2,333)**	(2,256)
Net increase in cash and cash equivalents	**84**	257
Add back Net cash flow from loans	**400**	367
Foreign exchange translation	**(478)**	(50)
Other non-cash movements	**131**	(16)
Decrease in net debt (excluding lease liabilities)	**137**	558
Opening net debt (excluding lease liabilities)	**(2,160)**	(2,718)
Net debt (excluding lease liabilities)	**(2,023)**	(2,160)

1. The purposes and definitions of non-GAAP measures are provided in the Financial glossary on page 8.
2. International Financial Reporting Standards.

Free cash flow was £1,950m (2021 £1,864m) after shareholder returns of £1,590m (2021 £1,145m). The strong performance this year was driven by continued good operational performance and working capital management.

Net cash inflow from operating activities was £2,839m (2021 £2,447m). The inflow reflects operational business performance, and working capital management.

Taxation payments were £365m (2021 £234m).

Net capital expenditure and financial investment was £519m (2021 £209m), increasing mainly as a result of the proceeds from the Filton and Broughton sites offsetting the expenditure in 2021.

Dividends received from equity accounted investments amounted to £94m (2021 £57m).

Cash flows in respect of acquisitions and disposals comprises a net outflow of £38m. This was primarily due to the cash outflow on the acquisition of Bohemia Interactive Simulations of £146m, being offset by the cash received on the sale of the Financial Services business of £101m. The cash inflow in 2021 in respect of **acquisitions and disposals,** of £185m was primarily in relation to the divestment of the Advanced Electronics Company.

Equity dividends paid in 2022 represents the 2021 final dividend (£480m) and the 2022 interim dividend (£322m).

Share buybacks saw an outflow of £788m in the year. The full 2021 programme of £500m completed in February 2022, of which £130m was spent in 2022. In July, a further three-year, £1.5bn share buyback programme was announced. During the year, payments of £658m were made towards share buybacks in relation to this three-year programme.

Dividends paid to non-controlling interests were £166m (2021 £202m), primarily reflecting payments made by our partially-owned subsidiaries in the Kingdom of Saudi Arabia.

There was a **net cash inflow from derivative financial instruments** of £328m (2021 £88m net outflow), arising from rolling hedges relating to balances within the Group's subsidiaries and equity accounted investments.

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

Net debt

Components of net debt (excluding lease liabilities)	**2022 £m**	2021 £m
Cash and cash equivalents	**3,107**	2,917
Debt-related derivative financial instruments (net)	**112**	(16)
Loans – non-current	**(5,189)**	(4,604)
Loans and overdrafts – current	**(53)**	(457)
Net debt (excluding lease liabilities)	**(2,023)**	(2,160)

The Group's **net debt (excluding lease liabilities)** at 31 December 2022 was £2,023m, a net decrease of £137m from the position at the start of the year. This is primarily a result of strong Free cash flow performance, partially offset by increased shareholder returns through dividends and share buybacks.

Cash and cash equivalents of £3,107m (2021 £2,917m) are held primarily for the repayment of debt securities, pension funding when required, payment of the 2022 final dividend, funding of further share buybacks under the £1.5bn programme announced in July 2022, and management of working capital.

Accounting policies

Changes in accounting policies

No new or amended standards which became applicable for the year ending 31 December 2022 had a material impact on the Group or required the Group to change its accounting policies.

Segmental review

The Group reports its performance through six reporting segments.

	Year ended 31 December 2022										
	As defined by the Group						Derived from IFRS				
	Sales £m	Underlying EBIT £m	Return on sales %	Operating business cash flow £m	Order Intake[1] £m	Order Backlog[1] £bn	Revenue £m	Operating profit £m	Return on revenue %	Net cash flow from operating activities £m	Order book £bn
Electronic Systems	5,057	838	16.6	650	5,444	8.1	5,057	747	14.8	860	6.7
Platforms & Services	3,688	326	8.8	525	5,719	8.1	3,598	322	8.9	633	7.7
Air	7,698	849	11.0	1,140	14,042	24.4	6,286	809	12.9	1,202	17.4
Maritime	4,598	356	7.7	235	9,716	17.2	4,484	352	7.9	418	16.6
Cyber & Intelligence	2,205	232	10.5	154	2,443	2.1	2,205	291	13.2	191	1.4
HQ[2]	420	(122)		(152)	426	–	10	(137)		(100)	–
Deduct Intra-group	(410)				(697)	(1.0)	(382)				(0.9)
Deduct Taxation[3]										(365)	
Total	**23,256**	**2,479**	**10.7**	**2,552**[4]	**37,093**	**58.9**	**21,258**	**2,384**	**11.2**	**2,839**	**48.9**

1. Including share of equity accounted investments.
2. HQ comprises the Group's head office activities, together with a 49% interest in Air Astana.
3. Taxation is managed on a Group-wide basis.
4. At a Group level, the key cash flow metric is Free cash flow (see Financial glossary on page 8). In 2022, Free cash flow was £1,950m (2021 £1,864m).

Segmental review: Electronic Systems

Electronic Systems, with 16,900 employees[1], comprises the US- and UK-based electronics activities, including electronic warfare systems, navigation systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, space electronics and electric drive propulsion systems.

Operational and strategic key points

- Opened state-of-the-art facilities in Manchester, New Hampshire; Cedar Rapids, Iowa; and Austin, Texas.
- Cumulatively more than 1,200 electronic warfare systems delivered on F-35 programme.
- Deliveries continue of next-generation EW Eagle Passive Active Warning Survivability System to support upgrade of US Air Force F-15 platform and testing on F-15E and F-15EX test aircraft.
- Selected to design, test and supply energy management components for GE Aviation's megawatt class hybrid electric propulsion system supporting NASA's Electrified Powertrain Flight Demonstration project.
- The Long-Range Precision Guidance Kit programme reached a critical benchmark with the successful completion of its structural survivability test in the US Army's Extended Range Cannon Artillery.
- Delivered the 3,000th Multi-functional Information Distribution System Joint Tactical Radio System through our Data Link Solutions joint venture with Collins Aerospace.

Financial performance

Financial performance measures as defined by the Group

	2022	2021
Sales	**£5,057m**	£4,491m
Underlying EBIT	**£838m**	£766m
Return on sales	**16.6%**	17.1%
Operating business cash flow	**£650m**	£774m
Order intake[1]	**£5,444m**	£4,923m
Order backlog[1]	**£8.1bn**	£7.2bn

Financial performance measures derived from IFRS

	2022	2021
Revenue	**£5,057m**	£4,491m
Operating profit	**£747m**	£715m
Return on revenue	**14.8%**	15.9%
Cash flow from operating activities	**£860m**	£951m
Order book	**£6.7bn**	£5.7bn

- Results reflect the impact of the global shortage of microelectronics, as well as labour and staffing shortages within the operations and supply chain.
- Despite these challenges, sales grew by 2%[2], driven by growth in the Electronic Combat Solutions business.
- Return on sales of 16.6% was in line with 2022 guidance, and steady on a constant currency basis.
- Operating business cash flow has decreased due to the timing of programme executions.
- Key orders secured on C4ISR, Electronic Combat and Precision Strike and Sensing Solutions.
- Expect supply chain pressures to continue to ease in the near term, to allow enhanced growth and margin performance.

Operational performance

Electronic Combat Solutions

The F-35 Lightning II programme is delivering on Lot 15 electronic warfare (EW) systems and has delivered a cumulative total of over 1,200 EW systems. We are also supporting the Block 4 modernisation efforts under multiple contracts worth over $957m (£796m), and operating on our next Performance-Based Logistics contract worth $290m (£241m) to provide critical sustainment support for the F-35 EW system.

Under a contract from Boeing, we continue to deliver our next-generation EW Eagle Passive Active Warning Survivability System (EPAWSS) to support the upgrade of the US Air Force F-15 platform and testing on F-15E and F-15EX test aircraft. In July, EPAWSS modifications began on two operational US Air Force F-15Es and work began on the $36m (£30m) low-rate initial production phase two contract.

We continue to collaborate with Boeing in the pursuit of all F-15 EW upgrade opportunities, both domestic and international.

We are also under contract to supply the Digital Electronic Warfare System on new and existing F-15 aircraft for multiple international customers with a value of $91m (£76m).

On Long Range Anti-Ship Missile (LRASM) we began delivering on Lot 4 in November. This marked the first delivery of the new LRASM 1.1 configuration developed under the completed Diminishing Material Sources contracts.

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

Countermeasure & Electromagnetic Attack Solutions
Our Limited Interim Missile Warning System programme received $62m (£52m) in US Army funding for the fourth production lot order, bringing production lot order totals to $250m (£208m).

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 EC-37B aircraft while sustaining and upgrading the existing EC-130H fleet. We successfully tested third-party applications on Compass Call's Small Adaptive Bank of Electronic Resources (SABER) technology, enabling fielding of SABER on the EC-130H. We delivered key components for the US Air Force's first EC-37B Compass Call aircraft, which is targeted to initially field in 2024, and have started sustainment preparation.

We received approximately $14m (£12m) for the Smart D2™ technology as part of the US Navy's ALE-47 Common Carriage programme, representing the first purchase of the technology by the Department of Defense. Smart D2™ technology increases expendable payload capacity, incorporates a smart stores communication interface and enables the future replacement of key elements without replacing an aircraft's entire ALE-47 system to support real-time updates to next-generation countermeasures.

Precision Strike & Sensing Solutions
The APKWS® guidance kit programme continues to execute production under an Indefinite Delivery, Indefinite Quantity contract, with awards worth over $48m (£40m) received in the year. Multiple test events in 2022 demonstrated new capabilities, proving enhanced capabilities in support of US and allied forces' precision strike missions.

The Long-Range Precision Guidance Kit programme reached a critical benchmark with the successful completion of its structural survivability test in the US Army's Extended Range Cannon Artillery, securing funding for further development and bringing the total contract value to $99m (£82m).

The Terminal High Altitude Area Defense (THAAD) seeker programme provides the THAAD interceptor with critical targeting capability to defeat ballistic missile threats against the US and our allies. The programme is currently in full-rate production, with a follow-on order worth $209m (£174m). To keep pace with the evolving threat, BAE Systems has an ongoing effort valued at $150m (£125m) to design and prototype the next-generation THAAD infrared seekers.

We continue 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 (£231m).

C4ISR Systems
We are executing key programmes that provide full spectrum communications to meet customer needs for information sharing to support joint all-domain command and control. We have completed a system requirements review for the Airborne High Frequency Radio Modernization programme awarded in early 2022, and we have delivered the 3,000th Multi-functional Information Distribution System Joint Tactical Radio System through our Data Link Solutions Joint Venture with Collins Aerospace.

To bring our disruptive technology to the space domain, we are performing on the agreement to launch an experimental satellite. We continue to deliver radiation-hardened electronics to support space programmes of national importance, such as the James Webb Space Telescope, and are developing the next generation of radiation-hardened Application Specific Integrated Circuit libraries.

We transitioned our Mobility Air Forces Automated Flight Planning Service operations to Cloud One to align with the US Air Force's transformation objectives, providing increased storage, computing, processing flexibility and faster software upgrades.

Controls & Avionics Solutions
Airline traffic and business travel continue to improve, resulting in returning demand for Original Equipment Manufacturer deliveries and aftermarket services.

The business remains focused on supporting Boeing's aircraft deliveries and developing the integrated flight control electronics and remote electronic units for the new Boeing 777X aircraft, with the 777X flight control system performing as expected during flight testing.

Our full-authority digital engine controls, offered through the FADEC International and FADEC Alliance (joint ventures), continue to perform well across our portfolio. The business, through FADEC Alliance, is supporting CFM International's Revolutionary Innovation for Sustainable Engines programme by maturing new technologies that will enable a reduction in both fuel consumption and emissions. On the military side, GE achieved a successful First Engine to Test milestone in June, with our T901 FADEC.

We are engaged in developing the energy storage systems and controls for all-electric aircraft, particularly in the emerging air mobility segment. Specifically, we are executing the design, test and supply of advanced battery packs for GE Aviation's megawatt class hybrid electric propulsion system in support of NASA's Electrified Powertrain Flight Demonstration project. In October, Supernal selected BAE Systems to define the architecture of a lightweight, fly-by-wire system for its autonomous-capable aircraft.

Deliveries of F-35 vehicle management computers and active inceptor systems have successfully ramped up, and we supported the first US Depot stand-up. We continue to advance our autonomous control technologies through successful crewed-uncrewed teaming flight tests under a US Department of Defense programme. Separately, our development of an advanced vehicle control system for the UK's Dreadnought submarine programme remains on plan.

Power & Propulsion Solutions
As the global transit industry accelerates efforts to decarbonise, interest grows for our low and zero emission propulsion solutions. This year, US-based bus manufacturers Hometown Manufacturing and ElDorado National both chose our latest Gen3 electric drive technology to power their zero emission vehicles. Hometown Manufacturing will power their battery electric trolley buses and ElDorado National will power both hydrogen fuel cell electric buses and battery electric buses with Gen3 products. Also using our Gen3 electric drive system, Nova Bus continues to win battery electric bus bids in cities such as New York and Houston in the US, as well as Halifax, Nova Scotia in Canada.

Our new Gen3 power electronics incorporate advanced materials enabling smaller, lighter, more efficient systems with modular and scalable components. The flexibility of our systems increases our ability to address a broader range of markets, such as heavy-duty vocational vehicles and maritime vessels. Global fast ferry manufacturer, Green City Ferries, selected our Gen3 electric drive systems to power both their zero emission hydrogen fuel cell and battery electric ferries and Glas Ocean Electric chose our systems to power fishing fleets in North America and the Caribbean.

Looking forward

Forward-looking information for the Electronic Systems reporting segment is provided on page 34.

1. Including share of equity accounted investments.
2. Constant currency basis.

Segmental review: Platforms & Services

Platforms & Services, with 12,200 employees[1], has operations in the US, UK and Sweden. It manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including naval ship repair, and the management and operation of government-owned munitions facilities.

Operational and strategic key points

- Significant increase in order intake largely driven by the Hägglunds business.
- US Army selected the BAE Systems Beowulf for its Cold Weather All-Terrain Vehicle (CATV) programme to replace the Small Unit Support Vehicles, with a contract estimated to be worth up to $278m (£231m) for 110 vehicles.
- Submitted a proposal for the design concept phase for the US Army's Optionally Manned Fighting Vehicle programme.
- Our US shipyards marked continued performance improvements and secured $1.2bn (£1.0bn) in ship modernisation and repair orders.
- Received a five-year contract extension for Ordnance Systems Radford operations through to 2026 and a one-year extension through to 2024 for the Holston facility and supply contracts.
- Contract received worth $1.4bn (£1.2bn) to supply 152 CV9035 infantry fighting vehicles to replace the Slovakian Army's infantry fighting vehicle fleet.
- Czech government selected CV90 to replace its infantry fighting vehicle fleet. Contract expected in first half of 2023.

Financial performance

Financial performance measures as defined by the Group

	2022	2021
Sales	**£3,688m**	£3,395m
Underlying EBIT	**£326m**	£259m
Return on sales	**8.8%**	7.6%
Operating business cash flow	**£525m**	£287m
Order intake[1]	**£5,719m**	£3,236m
Order backlog[1]	**£8.1bn**	£5.6bn

Financial performance measures derived from IFRS

	2022	2021
Revenue	**£3,598m**	£3,318m
Operating profit	**£322m**	£252m
Return on revenue	**8.9%**	7.6%
Cash flow from operating activities	**£633m**	£351m
Order book	**£7.7bn**	£5.3bn

- Sales remained steady on a constant currency basis, as guided to for the year.
- Return on sales increased to 8.8%, as the impacts from the COVID-19 pandemic began to abate in 2022.
- The increase in operating business cash reflects timing of customer advances, primarily from orders in the Hägglunds business.

Operational performance

Combat Mission Systems

Combat Mission Systems is achieving consistent production throughput, at heightened volumes, across multiple programmes. Investments in facilities and new manufacturing technologies, including automation and robotic welding, are delivering positive returns as the business moves to full rate production across a number of platforms.

We delivered Amphibious Combat Vehicles (ACVs) to the US Marine Corps under low-rate initial production (LRIP) contracts totalling approximately $600m (£499m) for 116 vehicles. This completed the LRIP phase, and we transitioned to delivery on three full-rate production contracts for an additional 185 vehicles at a value of $973m (£809m). We received a $35m (£29m) contract for the design and development of a new ACV recovery variant in March, an $88m (£73m) contract in August to build three ACV-30 Production Representative Test Vehicles (PRTVs) and are working on additional variants. The new amphibious swim facility at York is now operational. In addition, we delivered an advanced Command, Control, Communication and Computers/Uncrewed Aerial Systems (ACV C4/UAS) variant of the ACV to the US Marine Corps, which will evaluate it as a capable, cost-effective Government-Off-The-Shelf solution for the Advanced Reconnaissance Vehicle programme.

On the US Army's Armoured Multi-Purpose Vehicle (AMPV) programme, we have received LRIP contracts worth $1.3bn (£1.1bn). Deliveries of the five variants continued in 2022 in accordance with the December 2021 schedule. We are also working under a July 2021 contract worth up to $600m (£499m) for AMPV System Technical Support (STS). We expect to receive a full-rate production contract for the AMPV programme in the first half of 2023. In support of this production award, the US Department of Defense has indicated its intention to procure over 100 additional AMPV vehicles to replace the 200 in-service M113 armoured personnel carriers provided to Ukraine.

On the M109A7 programme, contracts worth a total of $1.5bn (£1.2bn), all 133 LRIP vehicles and over 300 full-rate production vehicles have been delivered. We are now executing on fiscal year 2020 and 2021 full-rate production contracts totalling $750m (£624m) for 176 vehicles, including a $299m (£249m) contract received in June. We have also received early order material awards totalling $24m (£20m) for fiscal year 2022 full-rate production.

Work on the Bradley family of vehicles continues, and we received a five-year $383m (£318m) contract from the US Army to perform technical and sustainment support services for its fleet of Bradley Fighting Vehicles and M993 Multiple Launch Rocket System carriers. We continue the contract to upgrade Bradley vehicles to the A4 configuration valued at $809m (£673m) for 459 vehicles and spares. We are working on a five-year follow-on production contract to add about $258m (£215m) for 80 vehicles through 2023, with quantities to be determined for the remaining four years.

We are executing on a $32m (£27m) prototype contract received in 2020 from the US Army's Rapid Capabilities and Critical Technologies Office to integrate a hybrid-electric drive system onto Bradley Fighting Vehicles.

We continue to produce and sustain the US Army's M88 recovery vehicles under previously awarded contracts, and develop next-generation M88A3 prototypes under a $336m (£279m) contract.

In November 2022, we submitted a competitive proposal for the design and prototype phase for the US Army's Optionally Manned Fighting Vehicle programme.

We are producing Mk 41 Vertical Launching System (VLS) missile canisters for the US Navy under awards totalling $433m (£360m), with a total potential value of more than $624m (£519m). We are also working on a $164m (£136m), five-year contract as the Navy's design agent for missile canisters and the mechanical portion of the VLS.

Ordnance Systems
We continue to operate and modernise the US Army's Radford and Holston ammunition plants under a total of $1.5bn (£1.2bn) in modernisation contracts. The Army awarded a five-year contract extension, through December 2026, for Radford operations; and a one-year contract extension, through December 2024, for the current Holston Army Ammunition Plant facility and supply contracts.

At Holston, modernisation activities continue, including the construction of a Weak Acetic Acid Recovery Plant, and the design, construction and commissioning of new production facilities. Contracts totalling $211m (£175m) were awarded in the year for energetics facilities at Holston.

At Radford, construction of a modern nitrocellulose facility has been completed, and the facility is in the commissioning and product qualification phase.

US Ship Repair
During the year, we received contracts with a cumulative value of $1.2bn (£1.0bn) for maintenance and modernisation across our Jacksonville, Florida; Norfolk, Virginia; and San Diego, California shipyards.

The US Ship Repair business continues to conduct modernisation and maintenance activities for the US Navy's non-nuclear fleet. Our shipyards were impacted by delayed starts to ship repair contracts due to operational naval tasking, coupled with delays to pending contract awards and higher than usual levels of customer-added work to existing contracts. Our investments in operational excellence and additional resources are delivering benefits as we address several challenged ship modernisation programmes.

BAE Systems Hägglunds
To accommodate significant new orders received over the past 24 months, the business continues to expand its workforce and facilities.

The US Army selected our Beowulf unarmoured all-terrain vehicle and we received a contract worth up to $278m (£231m) for 110 Cold Weather All-Terrain Vehicles. The Beowulf will replace the original BV206 Small Unit Support Vehicles.

The team is executing on a contract to upgrade and extend the life of the Netherlands CV9035 fleet, including the integration of an Active Protection System, anti-tank guided-missile system, and the addition of rubber band tracks to increase effectiveness. In addition, we continue to conduct mid-life upgrades on the Dutch CV90 fleet under a contract worth more than $500m (£416m), which includes the development and testing of a new turret. The first newly-upgraded CV90 was unveiled in October 2022, at our facility in northern Sweden.

In March 2022, we received a new contract to equip 20 CV90s with the Mjölner mortar system for Sweden, following the delivery of the first 40 systems on time, at cost and to quality. We have secured a $90m (£75m) contract to develop two new CV90 variants for the Swedish Army as part of the ongoing RENO programme.

While our work continues to extend the life of 186 Swiss Army CV90s to 2040, the first four of 20 CV90 vehicles for Norway were delivered on time and at cost in May under a contract exceeding $50m (£42m). We also received a seven-year contract in January for support, sustainment and readiness of 144 Norwegian CV90s. We also continue to upgrade and extend the life of CV90s in the Finnish Army fleet under an ongoing contract.

Slovakia and the Czech Republic selected CV90 in separate evaluations to replace their legacy infantry fighting vehicle fleets. Both contracts are supported by overarching government-to-government agreements with the Swedish government. Contract negotiations with the Government of Slovakia have completed and a contract was signed on 12 December at a value of $1.4bn (£1.2bn) for 152 CV9035 infantry fighting vehicles. We expect the contract negotiations with the Czech Republic to culminate in the first half of 2023.

The business is also working under contract from Sweden for 127 BvS10s worth approximately $200m (£166m), as well as sustaining and maintaining readiness to various customers of the BvS10 and CV90 fleets.

In December, Sweden, Germany, and the United Kingdom announced they have signed an agreement with BAE Systems to purchase 436 BvS10 all-terrain vehicles under a joint procurement in support of Arctic operations for the Collaborative All-Terrain Vehicle (CATV) programme, which could grow to a total of more than 10,000 all-terrain vehicles in the next 10 years. Sweden is procuring an additional 40 BvS10s in a separate contract, valued at approximately $50m (£42m).

BAE Systems Bofors
The 24 additional ARCHER systems for Sweden have been delivered, and we continue a number of ARCHER pursuits in our home and export markets. ARCHER was selected as one of two systems under consideration by the Swiss government for its future artillery system.

We are under multiple export contracts to deliver 40Mk4 and 57Mk3 naval gun systems, including five 57Mk3s and ten 40Mk4s for the UK Royal Navy's Type 31 frigates, as well as 12 40Mk4s to the Belgian and Dutch navies, and new 57mm (Mk110) gun systems to the US Navy and Coast Guard.

Weapon Systems UK
Production of 145 M777s for the Indian Army was completed in December, with all guns delivered to India under a $542m (£451m) Foreign Military Sales contract. In light of recent global events, we have received a number of inquiries about the availability of future M777 systems, as well as spare parts and

support. In conjunction with the US Government, we are evaluating potential options to restart production.

FNSS
FNSS, our land systems joint venture based in Turkey, continues to produce 8x8 wheeled armoured vehicles for the Royal Malaysian Army. Production continues on medium-weight tanks for delivery to Indonesia, and work has begun for specialist engineering vehicles for the Philippines.

Multiple contracts for the Turkish Armed Forces worth in excess of €700m (£621m) are progressing. These include contracts for assault amphibious vehicles, weapons carriers and special purpose 8x8 and 6x6 vehicles. In December 2022, a follow on contract was signed to modernise a further 52 armoured combat vehicles for the Turkish Armed Forces, in addition to the 133 armoured combat vehicles already delivered or in production.

Looking forward

Forward-looking information for the Platforms & Services reporting segment is provided on page 34.

1. Including share of equity accounted investments.

Segmental review: Air

Air, with 24,400 employees[1], comprises the Group's UK-based air activities for European and International Markets, US Programmes, and development of Future Combat Air Systems, alongside its business in the Kingdom of Saudi Arabia, together with its 37.5% interest in the European MBDA joint venture.

Operational and strategic key points

- Excellent progress on Tempest – the governments of the UK, Japan and Italy announced a new Global Combat Air Programme (GCAP), which will bring together the Tempest and F-X programmes.
- Qatar Typhoon and Hawk programme is progressing well, with all nine Hawk aircraft accepted by the customer and eight Typhoon aircraft now delivered and in service with the Qatari Emiri Air Force.
- Work continues on the Typhoon programme and the production programme has been extended following the award of 20 further aircraft for Spain during the year, for which BAE Systems supplies major units.
- 11-year contract signed to continue to support to the Royal Air Force's fleet of Hawk fast jet trainer and Royal Air Force Aerobatic Team aircraft.
- F-35 rear fuselage production continued at full rate levels, with 150 assemblies completed in the year.
- During the year, The Saudi British Defence Co-operation Programme was renewed for another five-year term.
- All 22 Hawk aircraft have now been completed and have entered into service with the Royal Saudi Air Force.

Financial performance

Financial performance measures as defined by the Group	**2022**	2021[2]	**Financial performance measures derived from IFRS**	**2022**	2021[2]
Sales	**£7,698m**	£7,449m	Revenue	**£6,286m**	£6,041m
Underlying EBIT	**£849m**	£772m	Operating profit	**£809m**	£849m
Return on sales	**11.0%**	10.4%	Return on revenue	**12.9%**	14.1%
Operating business cash flow	**£1,140m**	£548m	Cash flow from operating activities	**£1,202m**	£638m
Order intake[1]	**£14,042m**	£5,695m	Order book	**£17.4bn**	£12.2bn
Order backlog[1]	**£24.4bn**	£17.8bn			

- Sales growth of 3%[3] following delivery of Typhoon fighters for Qatar, Germany and other customers and delivery of F-35 aft fuselage tail sections during the year.
- Return on sales of 11.0%, reflects an increase in underlying EBIT of 7%[3].
- The increase in operating business cash flow reflects timing of customer advances and down payments.
- Order intake secured in the year includes the renewal of a major portion of our Saudi Support business, as well as multiple export orders in MBDA.

Operational performance

European and International Markets

Activity on the 24 Typhoon and nine Hawk aircraft and associated support and training contract for the State of Qatar continues to progress in accordance with our contractual milestones. All nine Hawk aircraft have been accepted by the customer and delivered to RAF Leeming, in line with the agreement to base the Qatari Hawk aircraft in the UK. Deliveries of Typhoon aircraft commenced in the second half of the year, with eight Typhoon aircraft delivered ahead of the 2022 FIFA World Cup and in service with the Qatari Emiri Air Force.

The final five major units were delivered during the year under the Kuwait Typhoon contract, secured by Italian Eurofighter partner Leonardo.

During the year, BAE Systems received an order for our workshare valued at in excess of £0.5bn for an additional 20 aircraft for the Spanish Air Force. Our Major Unit production on this contract has been combined with the £1.3bn order received in 2020 for 38 aircraft to replace Germany's original Typhoon Tranche 1 fleet. The first three front fuselage units are contracted to complete in 2023, and in total 22 major units have now commenced assembly.

During the year, the Group secured an 11-year follow-on contract valued at £0.6bn to continue support to the Royal Air Force's fleet of Hawk fast jet trainer and Royal Air Force Aerobatic Team aircraft.

Alongside this, the ten-year partnership arrangement for support to the Royal Air Force's Typhoon fleet continues to deliver the contracted flying hours.

Following initial entry into service of the export standard electronically scanned European Common Radar in late 2021 further deliveries were made through 2022. Development continues on the radar variants for the UK, German, Italian and Spanish Air Forces. During the year, the Group received further funding of £684m for development of the Typhoon weapon system and sensors, as part of the Partner Nations' commitment to the continual advancement of the Typhoon platform.

Future Combat Air System

The Tempest technology maturation programme is progressing well, and work continues to plan on the contract received in 2021 for the Future Combat Air System Concept & Assessment Phase. Working with national and international industry partners and the UK Ministry of Defence, this contract enables the development of a range of digital concepts, embedding new tools and techniques to design, evaluate and shape the final design and capability requirements of Tempest. During the second half of the year, the UK government confirmed plans for the UK to lead the development of a new flying combat air demonstrator, set to fly within the next five years, and has confirmed its commitment to an international coalition with Japan and Italy, under the Global Combat Air Programme.

US Programmes

F-35 rear fuselage manufacturing continued at full rate production through 2022 with 150 rear fuselage assemblies completed during the year, in line with the programmes for Lot 14, 15 and 16 contracts. This production rate is expected to continue into 2023.

Following the award in 2021 of a five-year contract for F-35 sustainment services to December 2025, we continue to provide services for both the UK and US customers in support of key F-35 sustainment activities.

Kingdom of Saudi Arabia

In the Kingdom of Saudi Arabia, the In-Kingdom Industrial Participation programme continues to make good progress consistent with our long-term strategy, while satisfying and supporting the Saudi Arabian government's National Transformation Plan and Vision 2030. Our in-Kingdom Saudi employee base shows 78% Saudisation, and 90% of our in-Kingdom female employees are Saudi nationals. We also continue the development of our footprint across the Kingdom, with demonstrable contributions to our local communities.

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

The previous five-year contract to provide Salam Typhoon support services to the Royal Saudi Air Force (RSAF) completed at the end of 2022. An interim agreement for the continuation of this service has been reached with the RSAF, and discussions are ongoing for us to continue to support the RSAF Typhoon fleet for a further five years. A full contract is expected to be agreed during 2023.

Under the Saudi British Defence Co-operation Programme (SBDCP) agreement, the Group discharges a number of contracts, including support to the Tornado fleet, provision of Officer and Aircrew training and Technician training for the RSAF, as well as technical training, engineering and logistics services for the Royal Saudi Naval Forces.

Following the completion of the previous five-year SBDCP funding arrangement on 31 December 2021, agreement has been reached with the Saudi Arabian government for the Group to continue to provide these services for a further five years through to 31 December 2026, and contracts to this effect were entered into during the second half of 2022.

All 22 Hawk aircraft assembled in-Kingdom have now been completed and have entered into service with the Royal Saudi Air Force.

We continue to review our portfolio of interests in a number of industrial companies in the Kingdom of Saudi Arabia, whilst exploring new business opportunities in the marketplace and through our Kingdom Partner Companies to collaborate with key local partners and deliver further In-Kingdom Industrial Participation. We remain aligned to the Kingdom's National Transformation Plan and Vision 2030 requirements.

Future Programmes

The Group continues to invest in promising new technologies, including through a number of industry collaborations related to the exploration and development of Air Electric Products. BAE Systems is one of a consortium of investors in the Eve Urban Air Mobility electric vertical take-off and landing (eVTOL) company, aimed at developing zero emission Air Vehicles. This investment led to further cooperation with Embraer S.A, resulting in the signing of a memorandum of understanding setting out an intent to create a commercial partnership to develop a defence variant of the Eve eVTOL aircraft.

Beyond Eve, BAE Systems has also established collaborative relationships in respect of Electric Products with UK-based Malloy Aeronautics, aiming to develop the T-650 Uncrewed Air Vehicle, and with Pipistrel Aircraft who have the first EASA certified light aircraft, Velis Electro.

MBDA

After winning a number of key domestic and export orders in 2021, MBDA has had continued success in 2022 continuing to be well placed to benefit from increased defence spending in a number of European countries along with further International opportunities.

Domestic market orders have been received in 2022, Italy has awarded a GBAD contract for Launchers and Common Anti-Air Modular Missiles Extended Range and a Development contract amendment for Teseo Mk2 Evolved.

Significant export market orders have been received in 2022. Aligned with the Rafale platform sales, MBDA has been awarded an air weapons package from the UAE and a further air weapons package for Greece. Following the Naval Group Intervention Frigate platform sale in Greece, MBDA has been awarded a Naval Based Air Defence weapons package for the frigates. A number of International customers have also awarded customer support contracts on their asset inventories. With European countries recognising the importance of sovereign capabilities in the missile sector and re-evaluating their needs, Poland has accelerated its ground-based air defence campaign, awarding MBDA an order for GBAD Launchers and Common Anti-air Modular Missiles.

Despite supply chain pressure in the aftermath of the pandemic, and as a result of the Ukraine crisis, MBDA is maintaining production across its product range. Progress continues across a number of assessment and development phase programmes including Future Cruise and Anti-Ship Weapon; MICA Next Generation, Spear Capability 3 and Aster Block 1 New Technology.

Looking forward

Forward-looking information for the Air reporting segment is provided on page 34.

1. Including share of equity accounted investments.
2. From 1 January 2022, the BAE Systems Australia Business transitioned from the Air segment to the Maritime segment. Comparative segmental financial information for 2021 has been re-presented to reflect the new business structure.
3. Constant currency basis.

Segmental review: Maritime

Maritime, with 24,200 employees[1], comprises the Group's UK-based maritime and land activities, as well as the Group's Australian business.

Operational and strategic key points

- The UK Ministry of Defence awarded a £4.2bn contract to BAE Systems to manufacture the next five City Class Type 26 frigates for the Royal Navy in Glasgow.
- First City Class Type 26 frigate entered the water and is being outfitted at Scotstoun shipyard in Glasgow.
- £3.4bn of further contract funding awarded as part of Delivery Phase 3 for the Dreadnought programme.
- The fifth Astute Class submarine, HMS Anson, exited our Barrow shipyard to commence sea trials in February 2023. The remaining two submarines, Agamemnon and Agincourt, are at advanced stages of construction.
- Construction of the first two Dreadnought Class submarines is well advanced and, in September 2022, build activities commenced on the third of class submarine. A formal steel cut ceremony for the third boat was held in Barrow in February 2023.
- RBSL's multi-million pound investment in its Telford manufacturing site completed in 2022, with manufacturing activities due to commence in 2023.
- A$1.5bn (£0.8bn) extended 'In Service Support' contract for the Hawk aircraft commenced in 2022 for the Royal Australian Air Force.

Financial performance

Financial performance measures as defined by the Group

	2022	2021[2]
Sales	**£4,598m**	£4,169m
Underlying EBIT	**£356m**	£351m
Return on sales	**7.7%**	8.4%
Operating business cash flow	**£235m**	£374m
Order intake[1]	**£9,716m**	£5,688m
Order backlog[1]	**£17.2bn**	£12.1bn

Financial performance measures derived from IFRS

	2022	2021[2]
Revenue	**£4,484m**	£4,093m
Operating profit	**£352m**	£347m
Return on revenue	**7.9%**	8.5%
Cash flow from operating activities	**£418m**	£534m
Order book	**£16.6bn**	£11.6bn

- Sales grew by 10%[3], driven by significant milestones being achieved on major submarine and ship programmes during the year.
- Margin reflects high volume of Dreadnought sales, and increased Company-funded R&D expenditure.
- Operating cash flow reflects the unwind of customer advances in UK Munitions.
- Significant orders were secured in the year, including further contract funding for the next phase of Dreadnought and the build of five further City Class Type 26 frigates for the Royal Navy.

Operational performance

Naval Ships

The Type 26 programme continues to progress with construction underway on the first three City Class Type 26 frigates. The first City Class Type 26, HMS Glasgow, entered the water for the first time in December 2022 and has transitioned to our Scotstoun shipyard where further outfit, test and commissioning is underway. HMS Cardiff progressed through her unit erect programme following the installation of her gearbox and propulsion motors in 2022 in preparation for roll out and block integration in 2023. HMS Belfast continues to progress after entering manufacture in June 2021. In November, the UK Ministry of Defence awarded a £4.2bn contract to BAE Systems to manufacture the next five City Class Type 26 frigates for the Royal Navy in Glasgow. The cut steel ceremony for the first ship from this order is expected to take place in the first half of 2023.

We have committed circa £300m investment to better enable us to deliver on our customer commitments and secure the long-term future for complex warship shipbuilding in Glasgow. Key investments include a new ship assembly hall in the Govan yard, a new multi-function panel line and a new Applied Shipbuilding Academy in Scotstoun. We are also making significant investments to digitalise manufacturing operations, giving colleagues working across our yards dynamic access to data and information.

The Canadian Surface Combatant programme continues to progress under the Definition Phase Contract where BAE Systems has responsibility for Warship Design, and is now moving into the Functional Design stage, having held the Preliminary Design Review in December 2022. Work is also progressing on the Support Services subcontract, which is a four-year framework agreement to provide technical assistance to Irving Shipbuilding Inc., through intellectual property licensing, and the provision of consultancy services to help upskill its workforce ahead of cutting steel on the first ship.

Our Combat Systems business continues to provide the combat system capabilities across the Carrier Strike Group whilst achieving an average of 99.75% equipment availability for the fleet. The business has now opened a collaboration centre at the Maritime Integration and Support Centre (MISC) in Portsmouth which provides space, capability and mentoring for SMEs, academia and global technology companies to co-develop new solutions for our customers, exploiting existing and emerging digital capabilities.

Submarines

Our Submarines business is a member of the Dreadnought Alliance and continues to work alongside the Submarine Delivery Agency (SDA) and Rolls-Royce to deliver the replacement for the Royal Navy's Vanguard Class, which carries the UK's nuclear deterrent. Four Dreadnought Class submarines will be built at our site in Barrow, with the first of these due to enter operational service in the early 2030s.

Construction of the first two Dreadnought Class submarines is well advanced and, in September 2022, build activities commenced on the third of class submarine. A formal steel cut ceremony for the third boat was held in Barrow in February 2023. The value of the programme to the Group to date is £11.2bn, with additional contract funding of £3.4bn received in 2022 as part of Delivery Phase 3 (DP3). DP3 will see the first of class submarine, Dreadnought, exit our Barrow site to begin sea trials.

The fifth Astute, HMS Anson, exited our Barrow shipyard to commence sea trials in February 2023. The remaining two submarines, Agamemnon and Agincourt, are at advanced stages of construction in Barrow.

Early design and mobilisation activities continue on the Submersible Ship Nuclear Replacement (SSNR) programme, which will deliver a replacement for the Astute class.

Maritime Services

Our Maritime Services business has successfully delivered continued support to the UK Ministry of Defence and the Royal Navy at HM Naval Base Portsmouth. Service delivery under the Ministry of Defence's Future Maritime Support Programme (FMSP) came into effect on 1 October 2021, and will continue until at least September 2026.

Under the FMSP Ship Engineering Management and Delivery contract, we continued to maintain, repair, upgrade and prepare the Portsmouth flotilla. This includes support to the aircraft carriers, destroyers, frigates and minehunters based in Portsmouth.

We continued to support the Royal Navy's Batch 2 Offshore Patrol Vessels (OPVs) around the globe with our teams deployed to North America, the Caribbean, the South Atlantic and the Indo-Pacific regions during the year.

The Type 45 Power Improvement Project is progressing and the first ship, HMS Dauntless, successfully completed her programme during the year. PIP embodiment work on HMS Daring in Birkenhead was also completed in the year, and HMS Dragon's upgrade is being conducted alongside a deep maintenance upkeep in Portsmouth.

In our Underwater Weapons business, the Torpedo Repair and Maintenance contract for in-service support to the UK's Royal Navy continues to perform well. The £270m Spearfish heavyweight torpedo upgrade programme, delivered for the UK Ministry of Defence and Royal Navy, continues to produce modification kits for weapon conversion as part of the production phase which commenced in 2021.

Land UK

Our munitions business has recently transitioned between munitions supply contracts, with the UK Ministry of Defence. A number of activities have been undertaken to close out the Munitions Acquisition, the Supply Solution (MASS) contract and plans enacted for the launch of the Next Generation Munitions Solution (NGMS) contract, which superseded the MASS contract. This contract is effective from 1 January 2023, and details the supply of munitions for the next 15 years.

The £90m NGMS investment programme is advancing at pace, with £20m of this committed to updating and expanding manufacturing equipment and infrastructure. A new state-of the-art automated machining line has been installed at our munitions plant in Washington, Tyne and Wear and a new Tube Vent Electrics manufacturing plant at Radway Green in Cheshire launched in the final quarter of 2022. This secured an additional sovereign capability for this UK Ministry of Defence component, that was last produced in the UK ten years ago. Similarly, at Glascoed in Monmouthshire, a new manufacturing facility for 40mm cased telescoped ammunition was finalised in 2022.

RBSL's multi-million pound investment in its Telford manufacturing site completed in 2022, with manufacturing activities starting in early 2023. The Challenger 3 Demonstration Phase is progressing in line with the programme plan, with work on the first eight prototypes underway. The Boxer programme is progressing with technology transfer proceeding as planned. Supply chain activities for both programmes are proceeding well with notable focus on securing UK supply chain resilience.

Australia

Australia's current geopolitical climate has brought about a sharpened focus on the defence market. BAE Systems Australia is well placed to be a strong partner to the Australian Government through focused and disciplined delivery on major programmes such as the Hunter Frigate and the Jindalee Operational Radar Network (JORN), and is well positioned to support future needs driven by the AUKUS alliance.

The Hunter Class Frigate programme is progressing strongly with the fifth and final prototype block being manufactured at the world-class Osborne digital shipyard in South Australia, ahead of cutting steel on the first schedule protection blocks for Ship 1 in 2023.

In the Maritime Sustainment business, the Group secured a six-year contract, expected to be worth circa A$155m (£87m), to optimise the capability of the Hobart Class Destroyers in October 2022. BAE Systems Australia's participation in the sustainment and upgrade of the fleet on eight ANZAC class frigates at our Henderson facility continued at pace delivering HMAS Toowoomba to the Royal Australian Navy for sea trials in 2022.

In December, a four year extension to the Warship Management Alliance Agreement was agreed which will see completion of the current capability uplifts on all ANZAC class frigates and preparation for the next programme of upgrade under the Future Maritime Sustainment Model (FMSM).

In the aerospace sector, the A$1.5bn (£0.8bn) extended 'In Service Support' contract for the Hawk aircraft commenced in 2022 and will see BAE Systems Australia provide this Lead In Fighter training capability until at least 2031. The contract includes software and hardware upgrades and new engines for the 33-strong fleet, which will align the aircraft with the UK Royal Air Force's T2 Hawk.

Aircraft sustainment activity continues to ramp up, aligned to the expansion of the Australian F-35 Joint Strike Fighter fleet. Australia is committed to a fleet of 72 aircraft and is on track to have received all by the end of 2023.

The JORN programme upgrade is being delivered against a revised schedule. Technology developed at the Group's Edinburgh Parks facility has been successfully demonstrated to the customer and is being integrated to enhance and sustain the network which is a key defence capability to protect Australia's northern approaches.

BAE Systems Australia's Research and Development business, Red Ochre LABS, is supporting the development of bespoke sovereign capabilities for the Australian customer in autonomous systems, high frequency systems and electronic warfare. Emerging and disruptive technologies are being applied to deliver complex solutions including common autonomous architectures, uncrewed ground vehicles equipped with an artificial intelligence capability and market leading electronic support measures.

Looking forward

Forward-looking information for the Maritime reporting segment is provided on page 35.

1. Including share of equity accounted investments.
2. From 1 January 2022, the BAE Systems Australia Business transitioned from the Air segment to the Maritime segment. Comparative segmental financial information for 2021 has been re-presented to reflect the new business structure.
3. Constant currency basis.

Segmental review: Cyber & Intelligence

Cyber & Intelligence, with 10,500 employees[1], comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business, and covers the Group's cyber security, and secure government activities.

Operational and strategic key points

Intelligence & Security

- Won a $699m (£581m) contract for operations, maintenance, and management services for the US Army's Defense Supercomputing Resources Center.
- Awarded one of the prime positions on a multi-award $300m (£249m) Indefinite Delivery, Indefinite Quantity contract to support critical mission operations for a government customer.
- Multiple additional contract awards, including a $143m (£119m) five-year contract from the US Navy to support the integration of mission equipment, combat systems, and computer programmes for the Surface Combat Systems Center.
- Completed the acquisition of Bohemia Interactive Simulations (BISim) which has been fully integrated into BAE Systems and continues to provide cutting-edge virtual training for allied militaries, including the $9m (£7m) DVS2 contract from the UK Ministry of Defence.

Digital Intelligence

- Strong order intake and revenue growth.
- Continued integration and growth of the acquired In-Space Missions business.
- In October 2022, the business completed the sale of its financial crime detection business.

Financial performance

Financial performance measures as defined by the Group

	2022	2021[2]
Sales	**£2,205m**	£1,923m
Underlying EBIT	**£232m**	£179m
Return on sales	**10.5%**	9.3%
Operating business cash flow	**£154m**	£201m
Order intake[1]	**£2,443m**	£2,034m
Order backlog[1]	**£2.1bn**	£1.8bn

Financial performance measures derived from IFRS

	2022	2021[2]
Revenue	**£2,205m**	£1,923m
Operating profit	**£291m**	£177m
Return on revenue	**13.2%**	9.2%
Cash flow from operating activities	**£191m**	£233m
Order book	**£1.4bn**	£1.2bn

- Sales increased by 7%[3] on a constant currency basis, with the US Intelligence & Security business benefitting from the acquisition of BISim during the year.
- Return on sales increased to 10.5%, reflecting better workforce utilisation and efficiencies.
- Multiple contract awards secured in the year, across both the Digital Intelligence business and the US Intelligence and Security business.
- Digital Intelligence ended the year with a book-to-bill[4] ratio of 1.2.

Operational performance

Intelligence & Security

Air & Space Force Solutions

On the US Air Force Intercontinental Ballistic Missile Integration Support Contractor (ISC 1.0) programme, we continue to provide programme management, systems engineering, integration and testing, sustainment and cyber defence support, with cumulative funding approaching the previously increased $1.3bn (£1.1bn) contractual ceiling. In late June 2022, the Air Force awarded the recompete of the programme to BAE Systems under an 18-year ISC 2.0 contract with a ceiling value of $12bn (£10bn). The award was protested, and following the Government Accountability Office (GAO) ISC 2.0 protest sustainment decision issued in mid-October, all 2.0 transition activities were put on hold. The Air Force intends to take corrective action to address the GAO issues and we continue to support the ISC programme under a contract extension received in January 2023.

We were awarded a $15m (£12m) Indefinite Delivery, Indefinite Quantity contract by the Naval Air Warfare Aircraft Division, to integrate the C-27J into the US Coast Guard's (USCG) Medium Range Surveillance Aircraft Fleet. The aircraft will help the USCG to fulfil its maritime patrol, drug and migrant interdiction, disaster response, and search and rescue missions more effectively.

In the year, the business successfully completed multiple prototype tests of its Multiple Object Tracking Radar, a mobile instrumentation radar, demonstrating its ability to meet critical performance parameters – range, transportability, accuracy, and beacon tracking – that other radars of comparable cost, size, weight and power cannot.

Integrated Defense Solutions

We continue to perform on the five-year, $478m (£397m) sole-source contract to support weapon systems on board the US Ohio and UK Vanguard Class submarines, as well as the future US Columbia Class and UK Dreadnought Class submarines.

The US Army awarded a $699m (£581m), five-year contract for Defense Supercomputing Resource Center operations, maintenance, and management services. Under this contract, we are providing technical support to advance high-performance computer services, capabilities, and infrastructure across five sites in the US.

We were awarded a $143m (£119m), five-year contract from the US Navy to continue to support the integration of mission equipment, combat systems, and computer programmes for the Surface Combat Systems Center in Wallops Island, Virginia. These mission-essential systems are used across the fleet for all current and future cruiser, destroyer, and amphibious ship modernisation initiatives.

Intelligence Solutions

We continue to execute on a $506m (£421m) contract to provide industry-leading and multi-disciplinary analytic support capabilities supporting first responders, war fighters and policy makers. These tailored analytic services span a multitude of mission specifications and operating environments. Services include, but are not limited to: source discovery and collection, time-dominant and long-term analytic assessments, cartographic production, and multi-media content generation.

We were awarded one of the prime positions on a multi-award $300m (£249m) Indefinite Delivery, Indefinite Quantity contract to support critical mission operations for a government customer.

A government agency awarded us two contracts to support the customer's IT environment at their site in Washington, DC. In September 2022, we were awarded a seven-year, $137m (£114m) contract to provide 365/24/7 Network Operations support; and in October 2022, we were awarded another seven-year, $108m (£90m) contract to continue to support the integration of commercial-off-the-shelf and government off-the-shelf applications.

In March 2022, we completed the acquisition of BISim, a global software developer of simulation and training solutions for military organisations around the world (see note 35 to the Group accounts on page 288 for more details).

Digital Intelligence

The business performed well in 2022, increasing order backlog and delivering revenue and profit growth in line with expectations through a period of reorganisation.

Programme execution continues to be strong and well controlled across all areas, supporting underlying margin growth. Operating costs continue to be tightly controlled with investment expenditure being prioritised to deliver future growth.

The National Security business has continued to grow order backlog and revenue through investing in skills and capability that support long-term customer strategic aims.

The International Government business has successfully delivered a number of key programmes to existing customers during the year. Bidding activity in new markets is beginning to pick up, as a result of easing of travel restrictions during the year.

The UK Central Government business has renewed various key programmes across the Foreign, Commonwealth and Development Office, UK Border Force and Health sectors. The team also signed a framework contract for £40m, which secures a key Home Office programme for the next three years.

Within our Defence & Space business unit, we have formed an integrated team bringing together expertise from BAE Systems and In-Space Missions to develop Azalea, a cluster of highly resilient satellites which are capable of gathering, analysing and communicating Synthetic Aperture Radar, optical and radio frequency signals.

Within our Digital Defence Services business, demand for both product and service solutions remains high. Strong delivery performance in C5ISR has helped strengthen margins and investment in developing space products, in collaboration with In-Space Missions, remains a key area of focus. The business continues to invest in future talent through development academies to address national labour and skills shortages.

On 28 October 2022, the sale of the financial crime detection business was completed. Further details can be found in note 20 to the Group accounts on page 263.

Looking forward

Forward-looking information for the Cyber & Intelligence reporting segment is provided on page 35.

1. Including share of equity accounted investments.
2. From 1 January 2022, the Group established a new Digital Intelligence business, bringing together our non-US digital and data capabilities for our customers. The new Digital Intelligence business is reported within the Cyber & Intelligence segment. Comparative segmental financial information for 2021 has been re-presented to reflect the new business structure.
3. Constant currency basis.
4. Ratio of Order intake to Sales.

Looking forward by segment

BAE Systems' reporting segments, Electronic Systems, Platforms & Services, Air, Maritime and Cyber & Intelligence, align with the strategic direction of the Group.

Electronic Systems

Electronic Systems is well positioned for growth in the medium-term as it continues to address current and evolving US defence priority programmes from its strong franchise positions, which are supported by a long-standing programme of research and development. The sector's focus remains on maintaining a diverse portfolio of defence and commercial products and capabilities for US and international customers, and it expects to benefit by applying innovative technology solutions to meet defence customers' existing and changing requirements, building on its significant roles on F-35 Lightning II, F-15 upgrade, M-Code GPS upgrades and classified programmes, as well as a number of precision weapon products. Over the longer term, the sector is poised to leverage its technology strengths in emerging areas of demand such as precision weaponry, space resilience, hyper-velocity projectiles and autonomous platforms. With our electric drive propulsion capabilities, we continue to address the need for low and zero emission technology across an increasing number of civil platforms, with opportunities to migrate these technologies to the defence arena.

The commercial aviation market was negatively impacted by the pandemic, and, whilst a recovery in air travel continues to develop, it is expected to take several years to reach previous demand levels. With the positive outlook for the sector, we continue to invest in our people, R&D and in new facilities, a number of which opened in 2022.

Platforms & Services

Combat Mission Systems is underpinned by a strong order backlog and incumbencies on key franchise programmes, to include the US Army's Armored Multi-Purpose Vehicle, M109A7 self-propelled howitzer, Bradley upgrade programmes, M88 HERCULES recovery vehicle, and the US Marine Corps' Amphibious Combat Vehicle. This US vehicle portfolio is augmented by the CV90 and BvS10 domestic and export programmes from BAE Systems Hägglunds and artillery systems from BAE Systems Bofors, and the FNSS joint venture continues to execute on its order book of both Turkish and international orders. These long-term contracts, franchise positions and the renewed demand environment for land systems make the combat vehicle and artillery product lines well placed for growth in the medium term.

In the maritime domain, the sector has a strong position on naval gun and missile launch programmes, as well as US Navy ship repair activities where the business has invested in capitalised infrastructure and its facilities in key home ports. The business remains well aligned to the US Navy's operational strategy and fleet projections.

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

Air

Future Typhoon production and support sales are underpinned by existing contracts. Discussions continue in relation to 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 these current levels. 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. The GCAP agreement with Japan and Italy is fundamental to meeting the goals set out in the UK government's Combat Air Strategy and represents a significant step forward for the Air sector in ensuring we have a sustainable long-term combat aircraft manufacturing capability.

In the Kingdom of Saudi Arabia, the In-Kingdom Industrial Participation programme continues to make good progress consistent with our long-term strategy, as well as the Saudi Arabian government's National Transformation Plan and Vision 2030. Our in-Kingdom support business is expected to remain stable, underpinned by the recent renewal of the Saudi British Defence Co-operation Programme, a key long-standing contract, for another five years, and negotiations with the Salam Project Office, to agree Phase 4 of the Typhoon Support Solution Service, which remain ongoing and which we expect to conclude during the course of 2023.

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

Maritime

The outlook is positive based on long-term contracted positions and with a number of UK, Australian and international opportunities to further this outlook. Within Submarines, the business is executing on two long-term programmes. On the Astute Class programme, the fifth of class exited our Barrow Shipyard to commence sea trials in February 2023, and the two remaining boats are in build. On the Dreadnought programme, manufacturing activities continue on the first three boats of a four-boat programme. Investment continues in the facilities at our Barrow shipyard in order to provide the capabilities to deliver these long-term programmes through the decade and beyond. In shipbuilding, sales are underpinned by the manufacture of Type 26 frigates. The through-life support of UK surface ship platforms provides a sustainable business in technical services and mid-life upgrades.

Future work in Land UK will be underpinned by existing in-service support contracts and the contracted workshare on the Mechanised Infantry Vehicle (Boxer) and Challenger 3 Main Battle Tank programmes. Munitions supply from 2023 will be delivered under the 15-year Next Generation Munitions Solution and volumes are expected to increase in the coming years given the elevated threat requirements.

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

Cyber & Intelligence

Intelligence & Security

The outlook for the US government services sector is robust with the opportunity for mid-term growth. Market conditions remain highly competitive and continue to evolve in response to shifting government priorities. The US business remains well positioned and will continue to leverage its established market positions and reputation for reliable and adaptable performance to meet customer demands for innovative, cost effective and cyber-hardened solutions to pursue both recompete contracts and new business across its portfolio of system integration, sustainment and modernisation solutions for military and intelligence customers. The addition in 2022 of Bohemia Interactive Simulations positions the business well to enhance and grow its synthetic training operations to the US military and its allies.

Digital Intelligence

In 2022, we formed a new operating business, BAE Systems Digital Intelligence, bringing together many of our world leading digital transformation, cyber security, complex data analysis, and communication and information capabilities from across the Group. This activity will enable even closer collaboration across the Group to help our customers operate successfully, safely and efficiently in the digital world, and in time bring a greater range of capabilities to our customers.

Consolidated income statement

for the year ended 31 December

	Notes	2022 £m	2022 Total £m	2021 £m	2021 Total £m
Continuing operations					
Revenue	2		**21,258**		19,521
Operating costs			**(19,269)**		(17,743)
Other income			**215**		472
Share of results of equity accounted investments			**180**		139
Operating profit	2		**2,384**		2,389
Financial income		**47**		32	
Financial expense		**(442)**		(311)	
Net finance costs	3		**(395)**		(279)
Profit before taxation			**1,989**		2,110
Taxation expense	4		**(315)**		(198)
Profit for the year			**1,674**		1,912
Attributable to:					
Equity shareholders			**1,591**		1,758
Non-controlling interests			**83**		154
			1,674		1,912
Earnings per share	5				
Basic earnings per share			**51.1p**		55.2p
Diluted earnings per share			**50.5p**		54.7p

Consolidated statement of comprehensive income

for the year ended 31 December

	2022 Other reserves £m	2022 Retained earnings £m	2022 Total £m	2021 Other reserves £m	2021 Retained earnings £m	2021 Total £m
Profit for the year	**–**	**1,674**	**1,674**	–	1,912	1,912
Other comprehensive income						
Items that will not be reclassified to the income statement:						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**–**	**2,851**	**2,851**	–	2,451	2,451
Tax on items that will not be reclassified to the income statement	**–**	**(357)**	**(357)**	–	(394)	(394)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (net of tax)	**–**	**116**	**116**	–	64	64
Items that may be reclassified to the income statement:						
Consolidated:						
Currency translation on foreign currency net investments	**1,172**	**–**	**1,172**	32	–	32
Reclassification of cumulative currency translation reserve on disposal of subsidiaries	**(17)**	**–**	**(17)**	(9)	–	(9)
Fair value (loss)/gain arising on hedging instruments during the year	**(102)**	**–**	**(102)**	11	–	11
Cumulative fair value loss/(gain) on hedging instruments reclassified to the income statement	**5**	**–**	**5**	(32)	–	(32)
Tax on items that may be reclassified to the income statement	**24**	**–**	**24**	4	–	4
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (net of tax)	**(8)**	**–**	**(8)**	(4)	–	(4)
Total other comprehensive income for the year (net of tax)	**1,074**	**2,610**	**3,684**	2	2,121	2,123
Total comprehensive income for the year	**1,074**	**4,284**	**5,358**	2	4,033	4,035
Attributable to:						
Equity shareholders	**1,053**	**4,186**	**5,239**	(3)	3,882	3,879
Non-controlling interests	**21**	**98**	**119**	5	151	156
	1,074	**4,284**	**5,358**	2	4,033	4,035

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
Balance at 1 January 2021	87	1,249	5,923	(2,616)	4,643	278	4,921
Profit for the year	–	–	–	1,758	1,758	154	1,912
Total other comprehensive income for the year	–	–	(3)	2,124	2,121	2	2,123
Total comprehensive income for the year	–	–	(3)	3,882	3,879	156	4,035
Share-based payments (inclusive of tax)	–	–	–	94	94	–	94
Cumulative fair value gain on hedging instruments transferred to the balance sheet (net of tax)	–	–	(35)	–	(35)	–	(35)
Ordinary share dividends	–	–	–	(777)	(777)	(202)	(979)
Purchase of own shares	(2)	–	2	(371)	(371)	–	(371)
Unclaimed assets programme proceeds	–	3	–	–	3	–	3
At 31 December 2021	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**

Consolidated balance sheet

as at 31 December

	Notes	2022 £m	2021 £m
Non-current assets			
Intangible assets		**12,644**	11,716
Property, plant and equipment		**3,235**	2,852
Right-of-use assets		**1,425**	1,091
Investment property		**63**	67
Equity accounted investments		**787**	554
Other investments		**99**	76
Other receivables		**618**	551
Post-employment benefit surpluses	6	**1,297**	483
Other financial assets		**322**	305
Deferred tax assets		**338**	622
		20,828	18,317
Current assets			
Inventories		**976**	811
Trade, other and contract receivables		**6,166**	4,825
Current tax		**133**	71
Other financial assets		**252**	194
Cash and cash equivalents		**3,107**	2,917
		10,634	8,818
Total assets		**31,462**	27,135
Non-current liabilities			
Loans		**(5,189)**	(4,604)
Lease liabilities		**(1,375)**	(1,083)
Contract liabilities		**(945)**	(519)
Other payables		**(1,441)**	(1,248)
Post-employment benefit obligations	6	**(651)**	(2,607)
Other financial liabilities		**(272)**	(302)
Deferred tax liabilities		**(5)**	(77)
Provisions		**(338)**	(331)
		(10,216)	(10,771)
Current liabilities			
Loans and overdrafts		**(53)**	(457)
Lease liabilities		**(241)**	(212)
Contract liabilities		**(3,882)**	(2,874)
Trade and other payables		**(4,990)**	(4,636)
Other financial liabilities		**(328)**	(214)
Current tax		**(103)**	(27)
Provisions		**(249)**	(276)
		(9,846)	(8,696)
Total liabilities		**(20,062)**	(19,467)
Net assets		**11,400**	7,668
Capital and reserves			
Issued share capital		**82**	85
Share premium		**1,252**	1,252
Other reserves		**6,951**	5,887
Retained earnings		**2,930**	212
Total equity attributable to equity holders of BAE Systems plc		**11,215**	7,436
Non-controlling interests		**185**	232
Total equity		**11,400**	7,668

Approved by the Board of BAE Systems plc on 22 February 2023 and signed on its behalf by:

C N Woodburn
Chief Executive

B M Greve
Group Finance Director

Consolidated cash flow statement
for the year ended 31 December

	Notes	2022 £m	2021 £m
Profit for the year		**1,674**	1,912
Taxation expense	4	**315**	198
Adjustment in respect of research and development expenditure credits		**(35)**	(16)
Share of results of equity accounted investments		**(180)**	(139)
Net finance costs	3	**395**	279
Depreciation, amortisation and impairment		**767**	720
Gain on disposal of property, plant and equipment, and investment property		**(3)**	(192)
Gain in respect of held for sale assets and business disposals		**(93)**	(158)
Gain on disposal of non-current investments		**(7)**	–
Cost of equity-settled employee share schemes		**101**	92
Movements in provisions		**(54)**	(66)
Difference between pension funding contributions paid and the pension charge		**1**	(18)
(Increase)/decrease in working capital:			
Inventories		**(93)**	54
Trade, other and contract receivables		**(1,069)**	610
Trade and other payables, and contract liabilities		**1,485**	(615)
Research and development expenditure credits – cash received		**–**	20
Taxation paid		**(365)**	(234)
Net cash flow from operating activities		**2,839**	2,447
Dividends received from equity accounted investments		**94**	57
Interest received		**32**	23
Principal element of finance lease receipts		**9**	10
Purchase of property, plant and equipment, and investment property[1]		**(599)**	(516)
Purchase of intangible assets		**(94)**	(96)
Purchase of non-current other investments		**(8)**	(15)
Proceeds from funding related to assets[1]		**157**	150
Proceeds from sale of property, plant and equipment, and investment property		**18**	271
Proceeds from sale of non-current other investments		**7**	–
Equity accounted investment funding		**–**	(3)
Purchase of subsidiary undertakings, net of cash and cash equivalents acquired		**(162)**	(30)
Cash flow in respect of business disposals, net of cash and cash equivalents disposed		**124**	215
Net cash flow from investing activities		**(422)**	66
Interest paid		**(269)**	(247)
Equity dividends paid	7	**(802)**	(777)
Purchase of own shares		**(788)**	(368)
Dividends paid to non-controlling interests		**(166)**	(202)
Partial disposal of shareholding in subsidiary undertaking		**–**	28
Principal element of lease payments		**(236)**	(217)
Cash inflow from derivative financial instruments (excluding cash flow hedges)		**533**	61
Cash outflow from derivative financial instruments (excluding cash flow hedges)		**(205)**	(149)
Cash flow from movement in cash collateral		**–**	(18)
Cash outflow from repayment of loans		**(400)**	(367)
Net cash flow from financing activities		**(2,333)**	(2,256)
Net increase in cash and cash equivalents		**84**	257
Cash and cash equivalents at 1 January		**2,917**	2,667
Effect of foreign exchange rate changes on cash and cash equivalents		**106**	(7)
Cash and cash equivalents at 31 December		**3,107**	2,917

1. To align with further detail provided in the current year cash flow statement, funding received from the UK Government for the construction of assets for the year ended 31 December 2021 has been presented in equivalent detail with the cash inflow now shown separately as "Proceeds from funding related to assets" to cash outflows on the "Purchase of property, plant and equipment, and investment property.

Notes to the accounts

1. Preparation of the consolidated financial statements

Basis of preparation and statement of compliance

The consolidated financial statements of BAE Systems plc 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 435 of the Companies Act 2006 and should be read in conjunction with the Annual Report 2022. The comparative figures for the year ended 31 December 2021 are not the Group's statutory accounts for that financial year. Those financial statements have been reported upon by the Group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006.

The 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 instruments).

New and amended standards adopted by the Group

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

Key Sources of estimation uncertainty

The application of the Group's accounting policies requires the use of estimates. In response to the potential impact of risks and uncertainties, the Group undertakes risk assessments and scenario planning in order to be able to respond to potential rapid changes in circumstances. The Group therefore considers a range of estimates and assumptions in the application of its accounting policies and management's assessment of the carrying values of assets and liabilities. In the event that these estimates or assumptions prove to be incorrect, there may be an adjustment to the carrying values of assets and liabilities 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, and more frequently as determined by events or circumstances.

The long-term nature of many of the Group's contracts means that judgements are made in estimating future costs on a contract, as well as when risks will be mitigated or retired. The impact of global supply chain issues, volatility in global gas and energy prices, and the ongoing response to climate change, have increased uncertainty in relation to these judgements and estimates. The Group continues to work closely and collaboratively with its key customers to continue to deliver effectively on its contracts and commitments. However, the volume, scale, complexity and long-term nature of its programmes mean that a range of calculated potential sensitivities would be wide-ranging and not practicable to calculate. Owing to the ongoing uncertainty regarding the potential future impact of the current uncertainties, the Group's estimates and assumptions related to revenue recognition could be impacted by issues such as reduced productivity as a result of operation disruption, production delays and increased costs as a result of disruption to the supply chain, changing working practices to move towards net zero, or where there is uncertainty as to the recovery from customers of programme costs incurred.

In 2022, the Group recognised £0.3bn of revenue in respect of performance obligations satisfied or partially satisfied in previous years (2021 £0.3bn). This continues to provide an approximation of the potential revenue sensitivity arising as a result of management's estimates and assumptions for variable consideration, future costs, and technical and other risks, however may not reflect the full potential impact on the contract receivables and contract liabilities balances.

Post-employment benefit obligations

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

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

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

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

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

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

Critical Judgements made in applying accounting policies

No critical judgements have been made in the process of applying the Group’s accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the financial statements.

2. Segmental[1] analysis and revenue recognition

Sales[2] and revenue by reporting segment

	Sales[2]		Deduct Share of revenue of equity accounted investments		Add Subsidiaries' revenue from equity accounted investments		Revenue	
	2022 £m	2021[1] £m	**2022 £m**	2021[1] £m	**2022 £m**	2021[1] £m	**2022 £m**	2021[1] £m
Electronic Systems	**5,057**	4,491	**(73)**	(54)	**73**	54	**5,057**	4,491
Platforms & Services	**3,688**	3,395	**(90)**	(79)	**–**	2	**3,598**	3,318
Air	**7,698**	7,449	**(2,651)**	(2,505)	**1,239**	1,097	**6,286**	6,041
Maritime	**4,598**	4,169	**(119)**	(79)	**5**	3	**4,484**	4,093
Cyber & Intelligence	**2,205**	1,923	**–**	–	**–**	–	**2,205**	1,923
HQ	**420**	281	**(410)**	(271)	**–**	–	**10**	10
	23,666	21,708	**(3,343)**	(2,988)	**1,317**	1,156	**21,640**	19,876
Intra-group sales/revenue	**(410)**	(398)	**1**	9	**27**	34	**(382)**	(355)
	23,256	21,310	**(3,342)**	(2,979)	**1,344**	1,190	**21,258**	19,521

	Intra-group revenue		Revenue from external customers	
	2022 £m	2021[1] £m	**2022 £m**	2021[1] £m
Electronic Systems	**115**	101	**4,942**	4,390
Platforms & Services	**43**	34	**3,555**	3,284
Air	**29**	19	**6,257**	6,022
Maritime	**71**	80	**4,413**	4,013
Cyber & Intelligence	**114**	111	**2,091**	1,812
HQ	**10**	10	**–**	–
	382	355	**21,258**	19,521

Sales[2] and revenue by customer location

	Sales[2]		Revenue	
	2022 £m	2021 £m	**2022 £m**	2021 £m
UK	**4,608**	4,201	**4,324**	3,935
Rest of Europe	**3,021**	2,435	**1,824**	1,502
US	**10,166**	9,109	**10,157**	9,108
Canada	**125**	141	**125**	141
Kingdom of Saudi Arabia	**2,539**	2,497	**2,540**	2,476
Qatar	**1,156**	1,267	**885**	1,014
Rest of Middle East	**263**	326	**225**	275
Australia	**854**	763	**853**	762
Rest of Asia and Pacific	**420**	449	**283**	285
Africa, and Central and South America	**104**	122	**42**	23
	23,256	21,310	**21,258**	19,521

Revenue from external customers by domain

	2022					2021[1]				
	Air £m	**Maritime £m**	**Land £m**	**Cyber £m**	**Total £m**	Air £m	Maritime £m	Land £m	Cyber £m	Total £m
Electronic Systems	**4,404**	**145**	**393**	**–**	**4,942**	3,846	87	457	–	4,390
Platforms & Services	**41**	**1,043**	**2,471**	**–**	**3,555**	37	1,061	2,186	–	3,284
Air	**6,223**	**34**	**–**	**–**	**6,257**	5,987	33	2	–	6,022
Maritime	**268**	**3,778**	**367**	**–**	**4,413**	255	3,417	341	–	4,013
Cyber & Intelligence	**250**	**274**	**127**	**1,440**	**2,091**	264	411	136	1,001	1,812
HQ	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
	11,186	**5,274**	**3,358**	**1,440**	**21,258**	10,389	5,009	3,122	1,001	19,521

Operating profit/(loss) by reporting segment

	Underlying EBIT[2]		Adjusting items[3]		Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles		Financial and taxation expense of equity accounted investments		Operating profit/(loss)	
	2022 £m	2021[1] £m	**2022 £m**	2021[1] £m	**2022 £m**	2021[1] £m	**2022 £m**	2021[1] £m	**2022 £m**	2021[1] £m
Electronic Systems	**838**	766	**–**	33	**(91)**	(84)	**–**	–	**747**	715
Platforms & Services	**326**	259	**–**	–	**–**	(1)	**(4)**	(6)	**322**	252
Air	**849**	772	**(1)**	132	**(1)**	(10)	**(38)**	(45)	**809**	849
Maritime	**356**	351	**–**	–	**–**	(1)	**(4)**	(3)	**352**	347
Cyber & Intelligence	**232**	179	**78**	3	**(19)**	(5)	**–**	–	**291**	177
HQ	**(122)**	(122)	**14**	182	**–**	–	**(29)**	(11)	**(137)**	49
	2,479	2,205	**91**	350	**(111)**	(101)	**(75)**	(65)	**2,384**	2,389
Net finance costs									**(395)**	(279)
Profit before taxation									**1,989**	2,110
Taxation expense									**(315)**	(198)
Profit for the year									**1,674**	1,912

Performance obligations

The Group's order book[4], reconciled to order backlog as defined by the Group, is shown below.

	2022 £bn	2021 £bn
Order backlog[2] as defined by the Group	**58.9**	44.0
Deduct: Unfunded order backlog	**(2.3)**	(2.3)
Deduct: Share of order backlog[2] of equity accounted investments	**(12.0)**	(10.1)
Add: Order backlog[2] in respect of orders from equity accounted investments	**4.3**	3.9
Order book[4]	**48.9**	35.5

Prior year re-presentation

With effect from 2022, the Group established a new Digital Intelligence business, bringing together our non-US digital and data capabilities to further strengthen how we deliver these services and capabilities for our customers. The new Digital Intelligence business is reported within the Cyber & Intelligence segment. In addition, our BAE Systems Australia business transitioned from the Air segment to the Maritime segment. Comparative segmental financial information for 2021 has been re-presented in this report to reflect the new business structures. The below table outlines the impact on the key reported line items:

	2021					
	Sales[2]			Revenue		
	As reported £m	Adjustment £m	**Re-presented £m**	As reported £m	Adjustment £m	**Re-presented £m**
Electronic Systems	4,491	–	**4,491**	4,491	–	**4,491**
Platforms & Services	3,395	–	**3,395**	3,318	–	**3,318**
Air	8,321	(872)	**7,449**	6,913	(872)	**6,041**
Maritime	3,416	753	**4,169**	3,340	753	**4,093**
Cyber & Intelligence	1,752	171	**1,923**	1,752	171	**1,923**
HQ	307	(26)	**281**	36	(26)	**10**
	21,682	26	**21,708**	19,850	26	**19,876**
Intra-group sales/revenue	(372)	(26)	**(398)**	(329)	(26)	**(355)**
	21,310	–	**21,310**	19,521	–	**19,521**

	Underlying EBIT[2]			Operating Profit		
	As reported £m	Adjustment £m	**Re-presented £m**	As reported £m	Adjustment £m	**Re-presented £m**
Electronic Systems	766	–	**766**	715	–	**715**
Platforms & Services	259	–	**259**	252	–	**252**
Air	856	(84)	**772**	930	(81)	**849**
Maritime	288	63	**351**	289	58	**347**
Cyber & Intelligence	156	23	**179**	152	25	**177**
HQ	(120)	(2)	**(122)**	51	(2)	**49**
	2,205	–	**2,205**	2,389	–	**2,389**

1. With effect from 2022, the Group established a new Digital Intelligence business, bringing together our non-US digital and data capabilities to further strengthen how we deliver these services and capabilities for our customers. The new Digital Intelligence business is reported within the Cyber & Intelligence segment. In addition, our BAE Systems Australia business transitioned from the Air segment to the Maritime segment. Comparative segmental financial information for 2021 has been re-presented in this report to reflect the new business structures.
2. Sales, underlying EBIT and Order backlog are alternative performance measures defined in the Financial glossary on page 8, they are presented here as our internal measure of segmental performance, to provide additional information on performance to the user, and to reconcile to the equivalent IFRS measure.
3. Adjusting items in 2022 comprises a £94m gain on the disposal of the Financial Services business in Digital Intelligence, £16m costs related to current and historical business transactions, and a £13m gain related to past service on pension schemes. (2021 comprises a £182m gain on disposal of investment property in HQ, a £7m gain in Electronic Systems in relation to a historical acquisition, and £157m from gains on disposal of subsidiaries and equity accounted investments recognised in Electronic Systems (£26m) and Air (£131m). £63m of the gain on disposal of AEC recognised in 2021 is attributable to non-controlling interest, details of which are available in note 12).
4. Order book represents the transaction price allocated to unsatisfied and partially satisfied performance obligations as defined by IFRS 15 Revenue from Contracts with Customers.

3. Net finance costs

	2022 £m	2021 £m
Interest income on cash and other financial instruments	**34**	29
Interest income on finance lease receivables	**1**	1
Net present value adjustments	**12**	2
Financial income	**47**	32
Interest expense on bonds and other financial instruments	**(221)**	(206)
Facility fees	**(4)**	(3)
Interest expense on lease liabilities	**(48)**	(43)
Net present value adjustments on provisions and other payables	**(4)**	–
Net interest expense on post-employment benefit obligations	**(37)**	(65)
Gain/(loss) on remeasurement of financial instruments at fair value through profit or loss[1,2]	**396**	(29)
Foreign exchange (losses)/gains[2,3]	**(524)**	35
Financial expense	**(442)**	(311)
Net finance costs	**(395)**	(279)

1. Comprises gains and losses on derivative financial instruments, principally derivative instruments to manage the Group's exposure to interest rate fluctuations on 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 losses/gains primarily reflects exchange rate movements on US dollar denominated borrowings.

Additional analysis

	2022 £m	2021 £m
Net finance costs:		
Group	**(395)**	(279)
Share of equity accounted investments	**(25)**	(27)
Total of Group and equity accounted investments' finance costs	**(420)**	(306)
Analysed as:		
Underlying net interest expense[1]:		
Group	**(230)**	(220)
Share of equity accounted investments	**(16)**	(21)
	(246)	(241)
Other:		
Group:		
Net interest expense on post-employment benefit obligations	**(37)**	(65)
Fair value and foreign exchange adjustments on financial instruments and investments	**(128)**	6
Share of equity accounted investments:		
Net interest expense on post-employment benefit obligations	**(1)**	(2)
Fair value and foreign exchange adjustments on financial instruments and investments	**(8)**	(4)
Total of Group and equity accounted investments' finance costs	**(420)**	(306)

1. Underlying net interest expense is an alternative performance measure defined in the Financial glossary on page 8, it is presented here to provide additional information on performance to the user, and to reconcile to the equivalent IFRS measure.

4. Taxation expense

Reconciliation of taxation expense

The following table reconciles the theoretical income tax expense, using the UK corporation tax rate, to the reported tax expense. 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.

	2022 £m	2021 £m
Profit before taxation	**1,989**	2,110
UK corporation tax rate	**19%**	19%
Expected income tax expense	**(378)**	(401)
Effect of tax rates in foreign jurisdictions, including US state taxes	**(54)**	(56)
Expenses not tax effected	**(19)**	(5)
Income not subject to tax	**68**	70
Research and development tax credits	**15**	23
Adjusting items	**17**	48
Chargeable gains	**–**	(3)
Utilisation of previously unrecognised tax losses	**–**	2
Adjustments in respect of prior years	**8**	109
Adjustments in respect of equity accounted investments	**34**	26
Tax rate adjustment	**3**	10
Other	**(9)**	(21)
Taxation expense	**(315)**	(198)

Calculation of the underlying effective tax rate

	2022 £m	2021 £m
Profit before taxation	**1,989**	2,110
Add back: Taxation expense of equity accounted investments	**50**	38
Add back/(Deduct): Taxable adjusting items	**1**	(347)
Deduct: Non-taxable adjusting items	**(92)**	(3)
Adjusted profit before taxation	**1,948**	1,798
Taxation expense	**(315)**	(198)
Taxation expense of equity accounted investments	**(50)**	(38)
Exclude: One-off tax benefit[1]	**–**	(94)
Exclude: Taxation adjustments in respect of taxable adjusting items	**–**	19
Exclude: Tax rate adjustment	**(3)**	(10)
Adjusted taxation expense (including equity accounted investments)	**(368)**	(321)
Underlying effective tax rate[2]	**19%**	18%

1. The one-off tax benefit of £94m in 2021 was in respect of agreements reached regarding the exposure arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company regime.
2. Underlying effective tax rate is an alternative performance measure defined in the Financial glossary on page 8.

The Group's underlying effective tax rate is sensitive to the geographic mix of profits and may be impacted when multiple territories implement the Organisation for Economic Co-operation and Development's Global Anti-Base Erosion Model Rules (Pillar Two). Management is closely monitoring the progress of the tax legislation process in each jurisdiction in which the Group operates. As at the balance sheet date, none of the jurisdictions in which the Group operates had enacted or substantively enacted tax legislation related to Pillar Two. The Group does not have sufficient information at this stage to determine the potential quantitative impact.

5. Earnings per share

	2022			2021		
	£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	**1,591**	**51.1**	**50.5**	1,758	55.2	54.7
Add back/(deduct):						
Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles, post tax[1]	**90**			84		
Net interest expense on post-employment benefit obligations, post tax[1]	**31**			55		
Fair value and foreign exchange adjustments on financial instruments and investments, post tax[1]	**110**			(1)		
Adjusting items attributable to shareholders, post tax[2]	**(94)**			(279)		
Underlying earnings[3], post tax	**1,728**	**55.5**	**54.8**	1,617	50.7	50.4
One-off tax benefit[4]	**–**			(94)		
Underlying earnings[3], excluding one-off tax benefit	**1,728**	**55.5**	**54.8**	1,523	47.8	47.4

	Millions	**Millions**	Millions	Millions
Ordinary shares in issue as at 1 January		**3,404**		3,467
Less:				
Treasury shares as at 1 January		**(237)**		(249)
Shares held in trust which were contingently returnable as at 1 January		**(23)**		(23)
Number of ordinary shares outstanding as at 1 January		**3,144**		3,195
Net weighted average number of ordinary shares repurchased in year		**(32)**		(8)
Weighted average number of ordinary shares used in calculating basic earnings per share	**3,112**	**3,112**	3,187	3,187
Incremental ordinary shares in respect of employee share schemes		**41**		24
Weighted average number of ordinary shares used in calculating diluted earnings per share		**3,153**		3,211

1. The tax impact is calculated using the underlying effective tax rate of 19% (2021 18%). The calculation of the underlying effective tax rate is shown in note 4.
2. In 2021, £63m of the gain on disposal of AEC was attributable to non-controlling interest. Therefore, only the gain attributable to shareholders has been removed in calculating the underlying earnings attributable to shareholders. The tax on adjusting items has been determined using the actual tax due on those items, see note 4 for details.
3. Underlying earnings per share is an alternative performance measure defined in the Financial glossary on page 8, it is presented here to provide additional information on performance to the user, and to reconcile to the equivalent IFRS measure.
4. The one-off tax benefit of £94m in 2021 was in respect of agreements reached regarding the exposure arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company regime.

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 50. 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 valuations are shown below. These valuations were agreed with the Trustees and certified by the scheme actuaries after consultation with The Pensions Regulator in the UK.

	Main Scheme as at 31 March 2021 £bn	Other schemes as at 31 March 2020 £bn
Market value of assets	22.9	2.1
Present value of liabilities	(22.9)	(2.0)
Funding surplus	–	0.1
Percentage of accrued benefits covered by the assets at the valuation date	100%	105%

The valuations in 2020 and 2021 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)	87 – 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 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 assure the 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 portfolio.

The 2020 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.

The inflation assumptions for each of the valuations were derived using data from the Bank of England, which is 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.

Under IAS 19, the discount rate for accounting purposes is based on third-party AA corporate bond yields whereas, for funding valuation purposes, the discount rate is based on a prudent level of expected returns from the broader and mixed types of investments reflected in the schemes' investment strategies.

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 2022.

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 2022, total employer contributions to the Group's pension schemes were £267m (2021 £324m), including amounts funded by equity accounted investments of £23m (2021 £39m), and included approximately £45m (2021 £90m) of deficit recovery payments in respect of the UK schemes.

Contributions in 2023, for both UK and US schemes, are expected to be at a similar level to 2022.

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		
	2022	2021	2020	**2022**	2021	2020
Financial assumptions						
Discount rate – past service (%)	**4.8**	1.9	1.4	**5.0**	2.8	2.4
Discount rate – future service (%)	**4.8**	1.9	1.6	**5.0**	2.8	2.4
Retail Prices Index (RPI) inflation (%)	**3.0**	3.1	2.7	**n/a**	n/a	n/a
Rate of increase in salaries (%)	**3.0**	3.1	2.7	**n/a**	n/a	n/a
Rate of increase in deferred pensions (%)	**2.3/3.0**	2.4/3.1	2.0/2.7	**n/a**	n/a	n/a
Rate of increase in pensions in payment (%)	**1.7 – 3.6**	1.7 – 3.7	1.6 – 3.6	**n/a**	n/a	n/a
Demographic assumptions						
Life expectancy of a male currently aged 65 (years)	**86 – 89**	86 – 89	86 – 88	**87**	87	87
Life expectancy of a female currently aged 65 (years)	**88 – 90**	88 – 90	88 – 90	**89**	89	89
Life expectancy of a male currently aged 45 (years)	**87 – 90**	86 – 90	87 – 89	**87**	87	87
Life expectancy of a female currently aged 45 (years)	**89 – 91**	89 – 91	89 – 91	**89**	89	88

Summary of movements in post-employment benefit obligations

	UK £m	US and other £m	Total £m
Total net IAS 19 deficit at 1 January 2022	(1,973)	(313)	(2,286)
Actual return on assets excluding amounts included in net interest expense	(5,094)	(1,199)	(6,293)
Decrease in liabilities due to changes in financial assumptions	10,745	1,067	11,812
Increase in liabilities due to changes in demographic assumptions	(39)	–	(39)
Experience losses	(1,672)	(6)	(1,678)
Contributions in excess of service cost	8	(9)	(1)
Past service cost – plan amendments	14	2	16
Net interest expense	(31)	(6)	(37)
Foreign exchange adjustments	–	(24)	(24)
Movement in other schemes	–	5	5
Total IAS 19 surplus/(deficit) at 31 December 2022	**1,958**	**(483)**	**1,475**
Withholding tax on surpluses	(722)	–	(722)
Total net IAS 19 surplus/(deficit) at 31 December 2022 (net of withholding tax)	**1,236**	**(483)**	**753**
Allocated to equity accounted investments	(107)	–	(107)
Group's share of net IAS 19 surplus/(deficit) excluding Group's share of amounts allocated to equity accounted investments at 31 December 2022	**1,129**	**(483)**	**646**

Surplus recognition

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

Sensitivity analysis

The sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 December 2022 and keeping all other assumptions as set out above.

Financial assumptions

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

	Decrease/(increase) in pension obligation[1] £bn	(Decrease)/increase in scheme assets[1] £bn
Discount rate:		
0.5 percentage point increase / decrease	1.4/(1.5)	(1.2)/1.4
1.0 percentage point increase / decrease	2.6/(3.2)	(2.3)/2.9
2.0 percentage point increase / decrease	4.7/(7.2)	(4.3)/6.6
3.0 percentage point increase / decrease	6.5/(12.4)	(5.9)/11.4

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

	(Increase)/decrease in pension obligation[1] £bn	Increase/(decrease) in scheme assets[1] £bn
Inflation:		
0.1 percentage point increase / decrease	(0.2)/0.2	0.1/(0.1)
0.5 percentage point increase / decrease	(0.8)/0.8	0.7/(0.6)
1.0 percentage point increase / decrease	(1.5)/1.5	1.4/(1.1)

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

Demographic assumptions

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

	(Decrease)/increase in net surplus[1] £bn
Life expectancy:	
One-year increase/decrease	(0.8)/0.7

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

7. Equity dividends

	2022 £m	2021 £m
Final 15.2p dividend per ordinary share paid in the year (2021 14.3p)	**480**	461
Interim 10.4p dividend per ordinary share paid in the year (2021 9.9p)	**322**	316
	802	777

After the balance sheet date, the directors proposed a final dividend of 16.6p per ordinary share. The dividend proposed amounts to approximately £511m, although the final payment is likely to be lower as a result of the impact of share buybacks. The dividend, which is subject to shareholder approval, will be paid on 1 June 2023 to shareholders registered on 21 April 2023. The ex-dividend date is 20 April 2023.

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 5 May 2023.

8. Fair value measurement

Fair value of financial instruments

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

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

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

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

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

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

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

	2022		2021	
	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 OCI	**99**	**99**	76	76
Other financial assets	**322**	**322**	305	305
Other financial liabilities	**(272)**	**(272)**	(302)	(302)
Current				
Other financial assets	**252**	**252**	194	194
Money market funds	**1,149**	**1,149**	1,171	1,171
Other financial liabilities	**(328)**	**(328)**	(214)	(214)
Financial instruments not measured at fair value:				
Non-current				
Loans	**(5,189)**	**(4,588)**	(4,604)	(5,045)
Current				
Loans and overdrafts	**(53)**	**(53)**	(457)	(462)

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 are immaterial. There were no transfers between levels during the year.

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

9. Financial risk management

Currency risk

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

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

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

The estimated impact on foreign exchange gains and losses in net finance costs of a ten cent movement in the closing sterling to US dollar exchange rate on the retranslation of US dollar-denominated bonds held by BAE Systems plc is approximately £258m (2021 £203m).

The Group enters into cash flow hedges in order to manage all material firm transactional exposures. The estimated impact on fair value gains and losses in other reserves of a ten cent movement in the closing sterling to US dollar exchange rates on the transactional cash flow hedges is approximately £94m (2021 £111m). The estimated impact of a ten cent movement in the closing sterling to Euro exchange rate on the transactional cash flow hedges is approximately £35m (2021 £39m).

Credit risk

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

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

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

Cash management

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

10. Related party transactions

Transactions with related parties occur in the normal course of business, are priced on an arm's-length basis and settled on normal trade terms. The more significant transactions are disclosed below:

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Sales to related parties	**1,344**	1,190
Purchases from related parties	**615**	586

	31 December 2022 £m	31 December 2021 £m
Amounts owed by related parties	**77**	34
Amounts owed to related parties[1]	**1,262**	1,137

1. At 31 December 2022, £1,021m (2021 £907m) was owed by BAE Systems plc and £241m (2021 £230m) by other Group subsidiaries.

11. Acquisition of businesses

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 and 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 of BISim is as follows:

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

Businesses acquired during 2021

On 4 March 2021, the Group acquired 100% of the share capital of Pulse Power and Measurement Limited for a consideration of £21m. The net assets acquired, including intangible assets identified, were valued at £11m, resulting in a goodwill of £10m.

On 14 September 2021, the Group acquired 100% of the share capital of In-Space Missions Limited for a fair value consideration of £15m. The provisional net assets acquired, including intangible assets identified, have been valued at £5m, resulting in a provisional goodwill of £10m. The purchase price allocation for all 2021 acquisitions was finalised within the current year.

1. Underlying EBIT is an alternative performance measure defined in the Financial glossary on page 8, it is presented here as our internal measure of segmental performance, to provide additional information on performance to the user, and to reconcile to the equivalent IFRS measure.

12. Business disposals

Business disposals during 2022

On 9 July 2022 the Group entered into an agreement for the sale of BAE Systems' financial crime detection business from the Digital Intelligence business in our Cyber & Intelligence segment. The sale to SymphonyAI completed on 28 October 2022. Disposal costs of £25m were incurred in relation to the sale, relating to costs incurred in the sale and operational separation of the business.

The gain recognised on disposal was as follows:

	£m
Cash received or receivable:	
Cash	131
Total disposal consideration	**131**
Carrying amount of net assets sold (see below)	(29)
Disposal costs	(25)
Cumulative currency translation gain	17
Gain on sale before tax	**94**

Net cash inflow arising on disposal:	
Cash consideration received	131
Less: cash and cash equivalents disposed	(17)
Less: disposal costs	(13)
	101

Assets and liabilities presented as at the date of disposal were as follows:

	£m
Intangible assets including goodwill	23
Right-of-use assets	3
Trade, other and contract receivables	26
Cash and cash equivalents	17
Total assets	**69**
Lease liabilities	(3)
Contract liabilities	(9)
Trade and other payables	(27)
Provisions	(1)
Total liabilities	**(40)**
Net assets disposed	**29**

Business disposals during 2021

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

13. Events after the reporting period

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

14. Annual General Meeting

This year's Annual General Meeting will be held on 4 May 2023. 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 2023.

15. Other information

The financial information for the year ended 31 December 2022 contained in this preliminary announcement was approved by the Board on 22 February 2023. This announcement does not constitute statutory accounts of the Company within the meaning of Section 435 of the Companies Act 2006, but is derived from those accounts.

Statutory accounts for the year ended 31 December 2021 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2022 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The auditors have reported on those accounts. Their reports were not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

Cautionary statement:

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