IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("QIBs") WITHIN THE MEANING OF RULE 144A ("RULE 144A") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR (2) NON-U.S. PERSONS PURCHASING THE SECURITIES DESCRIBED IN THE OFFERING MEMORANDUM OUTSIDE OF THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S ("REGULATION S") UNDER THE SECURITIES ACT.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this notice (the "*Offering Memorandum*"), whether received by e-mail or otherwise received as a result of electronic communication. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access. The Offering Memorandum has been prepared in connection with the proposed offering and sale of the securities described therein. The Offering Memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS OF OTHER JURISDICTIONS.

THE FOLLOWING OFFERING MEMORANDUM WILL BE ACCESSIBLE IN ELECTRONIC FORMAT AND YOU ACKNOWLEDGE THAT YOU RECEIVED THE OFFERING MEMORANDUM IN A FORM THAT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THE OFFERING MEMORANDUM CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED TO, AND WILL NOT BE ABLE TO, PURCHASE ANY OF THE SECURITIES.

Confirmation of your representation. In order to be eligible to view the Offering Memorandum or make an investment decision with respect to the securities described in the Offering Memorandum, investors must be either (1) QIBs or (2) non-U.S. persons who are outside of the United States in an offshore transaction in reliance on Regulation S. The Offering Memorandum is being sent at your request. By accepting this e-mail or other electronic transmission and by accessing the Offering Memorandum, you shall be deemed to have represented to us and each of BNP Paribas Securities Corp., BofA Securities, Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, SG Americas Securities, LLC, Australia and New Zealand Banking Group Limited, Barclays Capital Inc., Commerz Markets LLC, Credit Agricole Securities (USA) Inc., Crédit Industriel et Commercial S.A., Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, Lloyds Securities Inc., MUFG Securities Americas Inc., NatWest Markets Securities Inc., RBC Capital Markets, LLC, Santander US Capital Markets LLC, SEB Securities, Inc., SMBC Nikko Securities America, Inc., TD Securities (USA) LLC and Wells Fargo Securities, LLC (together, the "*Initial Purchasers*"), being the senders of the Offering Memorandum, that:

(1) you acknowledge that you are receiving such Offering Memorandum by electronic transmission; and

(2) either:

   (a) you and any customers you represent are QIBs; or

(b) (i) you and any customers you represent are outside the United States, (ii) you and any customers you represent are non-U.S. persons and (iii) the e-mail address that you gave us and to which the Offering Memorandum has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any state of the United States or the District of Columbia.

Prospective purchasers that are QIBs are hereby notified that the seller of the securities offered under the Offering Memorandum will be relying on the exemption from the provisions of Section 5 of the Securities Act pursuant to Rule 144A.

You are reminded that the Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the Offering Memorandum to any other person.

The materials relating to the Offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the Offering be made by a licensed broker or dealer and any of the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the Issuer in such jurisdiction. Under no circumstances shall the Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

In the United Kingdom, the Offering Memorandum is being distributed only to and is directed only at: (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "*Order*"); (b) high net worth entities falling within Article 49 of the Order; and (c) other persons to whom it may otherwise lawfully be communicated under the Order (all such persons together referred to as "*Relevant Persons*"). Any investment or investment activity to which the document relates is available only in the United Kingdom to Relevant Persons and will be engaged in only with such persons.

No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of Financial Services and Markets Act 2000 (the "*FSMA*")) received by it in connection with the issue or sale of the securities other than in circumstances in which Section 21(1) of the FSMA does not apply to us.

The Offering Memorandum has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Initial Purchasers, any person who controls any of the Initial Purchasers, the Issuer (as defined in the Offering Memorandum) or any of their respective directors, officers, employees, agents or affiliates of any of the foregoing entities or persons, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic form and any version that will be provided to you at a later date on request from the Initial Purchasers.

PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors

The securities described in the Offering Memorandum (the "*Securities*") are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("*EEA*"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "*MiFID II*"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "*Insurance Distribution Directive*"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "*PRIIPs Regulation*") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II Product Governance / Professional Investors and Eligible Counterparties only Target Market

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a "*distributor*") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

UK PRIIPs Regulation/Prohibition of Sales to United Kingdom Retail Investors

The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the "*EUWA*"); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law of the United Kingdom by virtue of the EUWA (the "*UK MiFIR*"). Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law of the United Kingdom by virtue of the EUWA (the "*UK PRIIPs Regulation*") for offering or selling the Securities or otherwise making them available to retail investors in the United Kingdom has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the United Kingdom may be unlawful under the UK PRIIPs Regulation.

UK MiFIR Product Governance / Professional Investors and Eligible Counterparties only Target Market

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (COBS), and professional clients, as defined in the UK MiFIR; and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a "*distributor*") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Singapore SFA Product Notification

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "*SFA*") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "*CMP Regulations 2018*"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the securities offered under the Offering Memorandum are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

BAE SYSTEMS

BAE Systems plc

(incorporated with limited liability in England and Wales under the Companies Acts 1948 to 1980
with registered number 1470151)

US$800,000,000 5.000% Notes due 2027
Issue price: 99.591%
US$1,250,000,000 5.125% Notes due 2029
Issue price: 99.687%
US$500,000,000 5.250% Notes due 2031
Issue price: 99.786%
US$1,500,000,000 5.300% Notes due 2034
Issue price: 99.471%
US$750,000,000 5.500% Notes due 2054
Issue price: 98.341%

BAE Systems plc, a public limited company registered in England and Wales (the "*Issuer*"), is offering (the "*Offering*") $800,000,000 aggregate principal amount of its 5.000% Notes due 2027 (the "*2027 Notes*"), $1,250,000,000 aggregate principal amount of its 5.125% Notes due 2029 (the "*2029 Notes*"), $500,000,000 aggregate principal amount of its 5.250% Notes due 2031 (the "*2031 Notes*"), $1,500,000,000 aggregate principal amount of its 5.300% Notes due 2034 (the "*2034 Notes*") and $750,000,000 aggregate principal amount of its 5.500% Notes due 2054 (the "*2054 Notes*" and, together with the 2027 Notes, the 2029 Notes, the 2031 Notes and the 2034 Notes, the "*Securities*"). The Issuer is the parent holding company of the BAE Systems group of companies (which, together with the Issuer, are referred to herein as "*BAE Systems*").

The 2027 Notes, the 2029 Notes, the 2031 Notes, the 2034 Notes and the 2054 Notes will mature on March 26, 2027, March 26, 2029, March 26, 2031, March 26, 2034 and March 26, 2054, respectively, and upon surrender will be repaid in an amount equal to the principal amount thereof together with accrued and unpaid interest thereon. Interest on the Securities will be payable semi-annually in arrear on March 26 and September 26 of each year, commencing on September 26, 2024. The Securities will be redeemable at any time at the option of the Issuer at a redemption price calculated as set forth under "*Description of Securities—Optional Redemption.*"

The Securities will be direct, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* with all other direct, unsecured and unsubordinated obligations (except those obligations preferred by statute or operation of law) of the Issuer.

Application has been made to the London Stock Exchange plc (the "*London Stock Exchange*") for the Securities to be admitted to trading on the International Securities Market of the London Stock Exchange. The International Securities Market of the London Stock Exchange is not a United Kingdom regulated market for the purposes of Article 2(1)(13A) of Regulation (EU) No 600/2014 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the "*EUWA*") ("*UK MiFIR*").

The International Securities Market of the London Stock Exchange is a market designated for professional investors. Securities admitted to trading on the International Securities Market of the London Stock Exchange are not admitted to the Official List of the Financial Conduct Authority. The London Stock Exchange has not approved or verified the contents of this Offering Memorandum.

References in this Offering Memorandum to the Securities being "listed" (and all related references) shall mean that the Securities have been admitted to trading on the International Securities Market of the London Stock Exchange. This Offering Memorandum is an admission particulars for the purposes of the International Securities Market Rulebook.

This investment involves risk. See "Risk Factors" beginning on page 11.

The Securities have not been registered under the United States Securities Act of 1933, as amended (the "*Securities Act*"), or any state securities laws and are being offered and sold within the United States only to "qualified institutional buyers" ("*QIBs*") as defined in Rule 144A under the Securities Act and non-U.S. persons outside the United States in accordance with Regulation S under the Securities Act. For a description of certain restrictions on transfers of the Securities, see "*Plan of Distribution*" and "*Transfer Restrictions.*"

As at the date of this Offering Memorandum, the Issuer's long-term credit ratings are Baa1 ("Stable Outlook") (Moody's Investors Service Limited ("*Moody's*")), BBB+ ("Stable Outlook") (S&P Global Ratings UK Limited ("*S&P*")) and BBB+ ("Stable Outlook") (Fitch Ratings Limited ("*Fitch*")). A rating is not a recommendation to buy, sell or hold Securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

It is expected that delivery of beneficial interests in the Securities will be made through the facilities of The Depository Trust Company ("*DTC*") and its participants, including Euroclear Bank SA/NV, as operator of the Euroclear System ("*Euroclear*"), and Clearstream Banking, S.A. ("*Clearstream*"), on or about March 26, 2024, against payment therefor in immediately available funds.

Joint Bookrunners

BNP PARIBAS **BofA Securities** **Citigroup** **J.P. Morgan** **Morgan Stanley** **SOCIETE GENERALE**

ANZ **Barclays** **CIC Market Solutions** **COMMERZBANK** **Credit Agricole CIB** **Deutsche Bank Securities**

Goldman Sachs & Co. LLC **Lloyds Securities** **MUFG** **NatWest Markets** **RBC Capital Markets** **Santander**

SEB **SMBC Nikko** **TD Securities** **Wells Fargo Securities**

March 19, 2024

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IMPORTANT: You must read the following before continuing. The following applies to this Offering Memorandum. You are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Memorandum. In accessing this Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information.

This Offering Memorandum does not constitute an offer of any securities other than those to which it relates or an offer to sell, or solicitation of an offer to buy, to any person in any jurisdiction where such an offer or solicitation would be unlawful.

The Securities have not been registered with, or recommended or approved by, the U.S. Securities and Exchange Commission (the "*SEC*") or any other federal, state or foreign securities commission or regulatory authority, nor has the SEC or any such other commission or regulatory authority passed upon the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense.

This Offering Memorandum does not constitute a prospectus for the purposes of Regulation (EU) 2017/1129 (the "*Prospectus Regulation*"). This Offering Memorandum has not been approved or reviewed by any regulator which is a competent authority under the Prospectus Regulation.

This Offering Memorandum does not constitute a prospectus for the purposes of Regulation (EU) 2017/1129 as it forms part of the domestic law of the United Kingdom by virtue of the EUWA (the "*UK Prospectus Regulation*") and no such prospectus is required to be (or will be) prepared in connection with the Securities. This Offering Memorandum has been prepared solely with regard to the Securities, which are: (i) not to be admitted to listing or trading on a United Kingdom regulated market for the purposes of Article 2(1)(13A) of the UK MiFIR; and (ii) not to be offered to the public in the United Kingdom (other than pursuant to one or more of the exemptions set out in Article 1(4) of the UK Prospectus Regulation). This Offering Memorandum has not been approved or reviewed by any regulator which is a competent authority under the UK Prospectus Regulation.

The Issuer accepts responsibility for the information contained in this Offering Memorandum and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Memorandum is, to the best of the knowledge of the Issuer, in accordance with the facts and contains no omission likely to affect its import.

EXTENDED SETTLEMENT

It is expected that delivery of the Securities will be made against payment therefor on or about the fifth business day following the date of pricing of the Securities (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Securities on any date prior to two business days before delivery will be required, by virtue of the fact that the Securities initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Securities who wish to make such trades should consult their own advisors.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS *("QIBs")* UNDER RULE 144A OR (2) NON-U.S. PERSONS OUTSIDE OF THE UNITED STATES IN ACCORDANCE WITH REGULATION S.

This Offering Memorandum is being provided to QIBs and to certain prospective investors outside of the United States for use solely in connection with the Offering of the Securities. Its use for any other purpose is not authorized. This Offering Memorandum may not be copied or reproduced in whole or in part, nor may it be distributed or any of its contents be disclosed to any person other than the prospective investors to whom it is being provided.

Prospective investors should note that there are further restrictions on the offering and sale of the Securities and the distribution of this Offering Memorandum. See "*Plan of Distribution*" and "*Transfer Restrictions*."

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Offering Memorandum and, if given or made, such information or

representation must not be relied upon as having been authorized by the Issuer, any of its subsidiaries and equity accounted investments or the Initial Purchasers. Neither the delivery of this Offering Memorandum nor any sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date of this Offering Memorandum or that the information contained in this Offering Memorandum is correct as at any time subsequent to that date. In making an investment decision, investors must rely on their own examination of the Issuer and its subsidiaries and equity accounted investments, the terms of the Offering of the Securities and the merits and risks involved. By receiving this Offering Memorandum, investors acknowledge that they have had an opportunity to request for review, and have received, all additional information they deem necessary to verify the accuracy and completeness of the information contained in this Offering Memorandum. Investors also acknowledge that they have not relied on the Initial Purchasers in connection with their investigation of the accuracy of this information or their decision on whether to invest in the Securities. The contents of this Offering Memorandum are not to be considered as legal, business or tax advice. Prospective investors should consult their own counsel, accountants and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Securities.

This offering is being made in reliance upon exemptions from registration under the Securities Act for an offer and sale of securities that does not involve a public offering. The Securities may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Securities are being offered and sold only (i) to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (ii) in offers and sales that occur outside the United States to purchasers who are not U.S. persons (as defined in Regulation S) in offshore transactions in reliance on Regulation S under the Securities Act. By purchasing the Securities, investors are deemed to have made the acknowledgements, representations, warranties and agreements set forth under "*Transfer Restrictions*."

The Initial Purchasers reserve the right to withdraw this offering of Securities at any time and to reject any commitment to subscribe for the Securities, in whole or in part. The Initial Purchasers also reserve the right to allot less than the full amount of Securities sought by investors. The Initial Purchasers and certain related entities may acquire a portion of the Securities for their own account.

No action has been taken by the Initial Purchasers, the Issuer or any other person that would permit an offering of the Securities or the circulation or distribution of this Offering Memorandum or any offering material in relation to the Issuer or its subsidiaries and equity accounted investments or the Securities in any country or jurisdiction where action for that purpose is required.

The laws of certain jurisdictions may restrict the distribution of this Offering Memorandum and the offer and sale of the Securities. Persons into whose possession this Offering Memorandum or any Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of the Securities. In particular, there are restrictions on the distribution of this Offering Memorandum and the offer or sale of the Securities in the United States, Canada, the European Economic Area, Hong Kong, Japan, Republic of China, Singapore, South Korea, Switzerland, United Arab Emirates and the United Kingdom. For a further description of certain restrictions on the offering and sale of the Securities and the distribution of this Offering Memorandum, see "*Plan of Distribution*" and "*Transfer Restrictions.*" None of the Issuer, the Initial Purchasers or their respective representatives is making any representation to any offeree or any purchaser of the Securities regarding the legality of any investment in the Securities by such offeree or purchaser under applicable legal investment or similar laws or regulations. Accordingly, no Securities may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

The Securities will be issued in fully registered form and only in denominations of $200,000 and integral multiples of $1,000 in excess thereof. The Securities will be issued initially in fully registered form as beneficial interests in Global Securities (defined below). QIBs may elect to hold Global Securities (the "*Rule 144A Global Securities*") purchased by them through the facilities of the DTC, which will act as depositary for the Securities. Holders of Securities sold in offshore transactions in reliance on Regulation S under the Securities Act may

elect to hold Global Securities (the "*Regulation S Global Securities*" and, together with the Rule 144A Global Securities, the "*Global Securities*") through the facilities of Euroclear and Clearstream as participants in DTC. Prior to the date that is 40 days after the later of the commencement of the Offering or the closing date, beneficial interests in such Regulation S Global Securities may be held only through Euroclear and Clearstream. See "*Description of Securities—Book-Entry; Delivery and Form*."

To purchase the Securities, investors must comply with all applicable laws and regulations in force in any jurisdiction in which investors purchase, offer or sell the Securities or possess or distribute this Offering Memorandum. Investors must also obtain any consent, approval or permission required by such jurisdiction for investors to purchase, offer or sell any of the Securities under the laws and regulations in force in any jurisdiction in which investors are subject or in which investors make such purchase, offer or sale. None of the Issuer, its subsidiaries and equity accounted investments or the Initial Purchasers will have responsibility therefor.

Any prospective investor subject to the United States Employee Retirement Income Security Act of 1974, as amended ("*ERISA*") and/or Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "*Code*") should consult with its own counsel and other advisors regarding the consequences under ERISA and/or the Code of an investment in the Securities. See "*Certain ERISA Considerations*" and "*Transfer Restrictions.*"

STABILIZATION

In connection with the Offering of the Securities, J.P. Morgan Securities LLC (the "*Stabilization Manager*") (or any person acting on behalf of the Stabilization Manager) may purchase and sell the Securities in the open market or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Stabilization Manager of a greater number of Securities than it is required to purchase in the Offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Securities while the Offering is in progress. However, there is no assurance that the Stabilization Manager (or any person acting on behalf of the Stabilization Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the Offering of the Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilization action or over-allotment must be conducted by the Stabilization Manager (or any person acting on behalf of the Stabilization Manager) in accordance with all applicable laws and rules.

These activities by the Stabilization Manager, as well as other purchases by the Stabilization Manager for its own account, may stabilize, maintain or otherwise affect the market price of the Securities. As a result, the price of the Securities may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Stabilization Manager at any time. These transactions may be effected in the over-the-counter market or otherwise.

AVAILABLE INFORMATION AND REPORTS TO HOLDERS OF SECURITIES

The Issuer is not subject to reporting requirements under the Exchange Act. The Issuer, however, makes available information under Rule 12g3-2(b) under the Exchange Act. In addition, the Issuer files information, including annual reports, with the Financial Services and Markets Act 2000. Copies of the Issuer's annual reports, the contents of which are not part of this Offering Memorandum, may be obtained through the website maintained by BAE Systems plc at https://www.baesystems.com/en/home. Information on BAE Systems' website is not incorporated by reference into this Offering Memorandum.

The Issuer has agreed that it will make available, upon request, to any holder or prospective purchaser of the Securities the information required pursuant to Rule 144A(d)(4) under the Securities Act with respect to itself, during any period in which the Issuer is not subject to Section 13 or 15(d) of the Exchange Act or not exempt by virtue of Rule 12g3-2(b) thereunder. Any such requests should be directed to the Issuer in care of the Company Secretary at BAE Systems plc, 6 Carlton Gardens, London, SW1Y 5AD, United Kingdom.

BAE Systems plc publishes the following information regarding its financial accounts:

Annual Report. The full, consolidated, annual, audited accounts for BAE Systems plc, together with additional information on BAE Systems plc, which are published annually in March/April.

Half-Yearly Report. The extracted, consolidated, unaudited accounts for the first six months of the financial year for BAE Systems plc, which are published annually in July/August.

Preliminary Announcement. The extracted, consolidated accounts for BAE Systems plc for the financial year, which are published annually in February.

PRESENTATION OF CURRENCY AND FINANCIAL AND OTHER INFORMATION

Unless otherwise specified or the context otherwise requires, references to "$," "US$," "dollars" and "U.S. dollars" are to the lawful currency of the United States of America (the "*United States*"), references to "pounds," "pounds Sterling," "£" and "p" are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the "*United Kingdom*"), references to "Australian dollar" are to the lawful currency of the Commonwealth of Australia ("*Australia*"), references to "Saudi riyal" are to the lawful currency of the Kingdom of Saudi Arabia and references to "€" and "euro" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. Unless otherwise stated, all monetary amounts with respect to the financial information of BAE Systems plc in this Offering Memorandum are expressed in pounds Sterling.

The consolidated annual financial statements of BAE Systems plc for the year ended December 31, 2023 included in this Offering Memorandum, which comprise the consolidated balance sheets as of December 31, 2023, and the related consolidated income statements, statements of comprehensive income, statements of changes in equity, and cash flow statements for the year ended December 31, 2023, and the related notes to the consolidated financial statements, are referred to herein as the "*BAE Systems 2023 Annual Financial Statements*". The consolidated annual financial statements of BAE Systems plc for the year ended December 31, 2022 included in this Offering Memorandum, which comprise the consolidated balance sheets as of December 31, 2022, and the related consolidated income statements, statements of comprehensive income, statements of changes in equity, and cash flow statements for the year ended December 31, 2022, and the related notes to the consolidated financial statements, are referred to herein as the "*BAE Systems 2022 Annual Financial Statements*". The BAE Systems 2023 Annual Financial Statements and the BAE Systems 2022 Annual Financial Statements are referred to herein collectively as the "*BAE Systems Annual Financial Statements*". The BAE Systems Annual Financial Statements are prepared in accordance with applicable law and UK-adopted International Financial Reporting Standards ("*IFRS*").

Various numbers and percentages set out in this Offering Memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be the sum of the figures that precede them.

See "*Independent Auditors*" for a description of the independent auditor's reports to the members of BAE Systems plc dated February 20, 2024 and February 22, 2023 on the BAE Systems 2023 Annual Financial Statements and the BAE Systems 2022 Annual Financial Statements, respectively. In accordance with guidance issued by The Institute of Chartered Accountants in England and Wales, each of the independent auditor's reports included in this Offering Memorandum incorporates language that states that: "This report is made solely to [BAE Systems plc]'s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to [BAE Systems plc]'s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than [BAE Systems plc] and [BAE Systems plc]'s members, as a body, for our audit work, for this report, or for the opinions we have formed." The independent auditor's reports are included on pages F-3 and F-80 of this Offering Memorandum. Investors in the Securities should understand that in making these statements the independent auditors confirmed that they do not accept or assume any liability to parties (such as the purchasers of the Securities) other than BAE Systems plc and BAE Systems plc's members as a body with respect to the reports and to the independent auditor's audit work and opinions. The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act, or in a report filed under the Exchange Act. If a U.S. court (or any other court) were to give effect to such limiting language, the recourse that investors in the Securities may have against the independent auditor based on its report or the consolidated financial statements to which it relates could be limited.

Alternative Performance Measures and Segment Reporting

Certain alternative performance measures ("*APMs*"), including constant currency basis, sales, Underlying EBIT, Return on sales, Adjusting items, Underlying net finance costs, Underlying profit before tax, Underlying effective tax rate, Operating business cash flow, Free cash flow, Net debt (excluding lease liabilities), Order backlog and Order intake, are included or referred to in this Offering Memorandum. APMs are non-IFRS

measures used by BAE Systems 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. BAE Systems presents these measures to the users to enhance their understanding of how the business has performed within the year, and does not consider them to be more important than, or superior to, their equivalent IFRS measures. As each APM is defined by BAE Systems, they may not be directly comparable with equivalently-named measures in other companies and should be viewed as complementary to, rather than a substitute for, the figures determined in accordance with IFRS and other regulatory measures. An explanation of each APM's components and calculation method is set forth below, as well as for certain other financial measures presented herein.

Unless otherwise specified or the context otherwise requires, as used or presented in this Offering Memorandum:

- "*Constant currency basis*" is defined as financial information that is calculated by translating the results from entities in functional currencies other than pounds Sterling for the year ended December 31, 2022 to pounds Sterling at the average exchange rate of such currencies for the year ended December 31, 2023. This is referred to in this Offering Memorandum as "*constant currency basis*." The most significant of these other functional currencies are the U.S. dollar, the euro, the Saudi riyal and the Australian dollar. These constant currency presentations are based on an average exchange rate of U.S. dollar for pounds Sterling of $1.244 = £1.000 for the year ended December 31, 2023 (compared to the average exchange rate of $1.236 = £1.000 for the year ended December 31, 2022), an average exchange rate of euro for pounds Sterling of €1.150 = £1.000 for the year ended December 31, 2023 (compared to the average exchange rate of €1.173 = £1.000 for the year ended December 31, 2022) and an average exchange rate of Australian dollar for pounds Sterling of A$1.874 = £1.000 for the year ended December 31, 2023 (compared to the average exchange rate of A$1.778 = £1.000 for the year ended December 31, 2022).
- The presentation of sales, revenue, Underlying EBIT and operating profit by reporting segment includes the effects of intra-group sales or revenue, as applicable. Total consolidated group sales and total revenue are presented after the elimination of such effects. The presentation of sales, revenue, Underlying EBIT and operating profit by reporting segment as a percentage of total sales, revenue, Underlying EBIT and operating profit of BAE Systems, respectively, excludes (i) the elimination of intra-group sales or revenue, as applicable, and (ii) sales, revenue, Underlying EBIT or operating profit, as applicable, attributable to the HQ reporting segment.
- "*Sales*" is defined as revenue plus BAE Systems' share of revenue of equity accounted investments, excluding BAE Systems' subsidiaries' revenue from equity accounted investments. Unless in respect of reporting segments or as otherwise indicated, "*sales*" refers to any such amounts after elimination of intra-group sales. Sales is used by management to monitor the revenue of both BAE Systems' own subsidiaries and its equity accounted investments, to ensure program performance is understood and in line with expectations.

The following table presents a reconciliation of BAE Systems' and BAE Systems' reporting segments' revenue to sales for the years ended December 31, 2023 and December 31, 2022.

	Year Ended December 31, 2023				Year Ended December 31, 2022			
	Revenue	*Deduct:* Revenue from sales to equity accounted investments	*Add:* Share of revenue from equity accounted investments	Sales	Revenue	*Deduct:* Revenue from sales to equity accounted investments	*Add:* Share of revenue from equity accounted investments	Sales
	(In £ millions)							
Electronic Systems	5,456	(253)	255	5,458	5,057	(73)	73	5,057
Platforms & Services	3,842	—	80	3,922	3,598	—	90	3,688
Air	6,517	(1,405)	2,946	8,058	6,286	(1,239)	2,651	7,698
Maritime	5,391	(5)	150	5,536	4,484	(5)	119	4,598
Cyber & Intelligence	2,321	—	—	2,321	2,205	—	—	2,205
HQ	10	—	461	471	10	—	410	420
Subtotal	**23,537**	**(1,663)**	**3,892**	**25,766**	**21,640**	**(1,317)**	**3,343**	**23,666**
Deduct: Intra-Group	(459)	(23)	—	(482)	(382)	(27)	(1)	(410)
Total	**23,078**	**(1,686)**	**3,892**	**25,284**	**21,258**	**(1,344)**	**3,342**	**23,256**

- "*Revenue*" is defined as income derived from contracts for the provision of goods and services, over time or at a point in time, by BAE Systems and its subsidiary undertakings, in exchange for consideration in the ordinary course of BAE Systems' activities.
- "*Underlying EBIT*" is defined as operating profit excluding amortization of program, customer-related and other intangible assets, impairment of intangible assets, net finance costs/(income) and tax expense of equity accounted investments and Adjusting items. The exclusion of amortization of acquisition-related intangible assets is to allow consistent comparability internally and externally between BAE Systems' businesses, regardless of whether they have been grown organically or via acquisition. Underlying EBIT is 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, enabling management to monitor the performance of recurring operations over time and compare performance across BAE Systems.
- "*Operating profit*" is defined as profit for the year before net finance costs and tax expense.
- "*Return on sales*" is defined as Underlying EBIT expressed as a percentage of sales. Return on sales is a measure of operating profitability, excluding one-off events, enabling management to monitor the performance of recurring operations over time and compare performance across BAE Systems.
- "*Return on revenue*" is defined as operating profit expressed as a percentage of revenue.
- "*Adjusting items*" are defined as items of financial performance excluded from the reported underlying results which have been determined by BAE Systems' management as being material by their size or incidence and not relevant to an understanding of BAE Systems' underlying business performance. BAE Systems' 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 BAE Systems' management has determined as not being relevant to an understanding of BAE Systems' underlying business performance. See note 2 to the BAE Systems 2023 Annual Financial Statements for items comprising Adjusting items.
- "*Operating business cash flow*" is defined as net cash flow from operating activities excluding tax paid net of research and development expenditure credits received and including net capital expenditure (net of proceeds from funding of assets) and principal element of lease payments and receipts, financial investment and dividends received from equity accounted investments. Net capital expenditure is defined as proceeds from sale of property, plant and equipment and investment property, plus proceeds

from sale of non-current other investments, plus funding related to assets, less purchase of property, plant and equipment and investment property, less purchase of intangible assets, less purchase of non-current other investments, less equity accounted investment funding. Operating business cash flow is used by management as a measure of cash generated by BAE Systems' operations, which is comparable across BAE Systems, to service debt and meet tax obligations, and in turn is available for use in line with BAE Systems' capital allocation policy. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*" for a reconciliation of Operating business cash flow to net cash flow from operating activities and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Operating Business Cash Flow by Segment"* for a reconciliation of Operating business cash flow to net cash flow from operating activities by segment.

- "*Free cash flow"* is defined as Operating business cash flow, less interest paid (net of interest received) and tax paid net of research and development expenditure credits received. Free cash flow is used by management for internal liquidity analysis as a measure of cash generated by BAE Systems' operations after servicing debt and tax obligations, available for use in line with BAE Systems' capital allocation policy. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*" for a reconciliation of net cash flow from operations to Free cash flow. Free cash flow is not a liquidity measure which represents BAE Systems' residual cash flows available for discretionary spending. Additionally, the metric may not be directly comparable with equivalently named measures in other companies.

- "*Net cash flow from operating activities*" is defined in accordance with IAS 7 Statement of Cash Flows.

- "*Net debt (excluding lease liabilities)*" is defined as cash and cash equivalents, less loans and overdrafts (including debt-related derivative financial instruments). Net debt (excluding lease liabilities) allows management to monitor indebtedness of BAE Systems, to ensure BAE Systems' capital structure is appropriate and capital allocation policy decisions are suitably informed. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*" for a reconciliation of cash and cash equivalents to Net debt (excluding lease liabilities).

- "*Net finance costs*" is defined as finance costs for BAE Systems, including net interest expense on retirement benefit obligations and fair value and foreign exchange adjustments on financial instruments and investments.

- "*Underlying net finance costs*" is defined as net finance costs for BAE Systems and its share of equity accounted investments, excluding net interest income/expense on post-employment benefit obligations and fair value and foreign exchange adjustments on financial instruments. Underlying net finance costs provides a measure of finance costs associated with the operational borrowings of BAE Systems that is comparable over time.

The following table presents a reconciliation of net finance costs to Underlying net finance costs for the years ended December 31, 2023 and December 31, 2022.

	Year Ended December 31,	
	2023	2022
	(In £ millions)	
Net finance costs	247	395
Add: Net finance costs/(income) of equity accounted investments	(14)	25
Add/(Deduct): Net interest income/(expense) on post-employment benefit obligations	44	(38)
Deduct: Fair value and foreign exchange adjustments on financial instruments	(66)	(136)
Underlying net finance costs	**211**	**246**

- "*Underlying profit before tax*" is defined as Underlying EBIT including Underlying net finance costs.

The following table presents a reconciliation of Profit for the year to Underlying EBIT and Underlying profit before tax for the years ended December 31, 2023 and December 31, 2022.

	Year Ended December 31,	
	2023	2022
	(In £ millions)	
Profit for the year	1,940	1,674
Add: Tax expense	386	315
Add: Net finance costs	247	395
Operating profit	2,573	2,384
Add: Tax expense of equity accounted investments	47	50
Deduct: Net finance costs/(income) of equity accounted investments	(14)	25
Add: Amortization of program, customer-related and other intangible assets, and impairment of intangible assets	116	111
Deduct: Adjusting items	(40)	(91)
Underlying EBIT	**2,682**	**2,479**
Add: Underlying net finance costs	(211)	(246)
Underlying profit before tax	**2,471**	**2,233**

- "*Tax expense*" is defined as current and deferred tax, which is recognized in the income statement.
- "*Underlying effective tax rate*" is defined as underlying tax expense as a percentage of Underlying profit before tax. Underlying tax expense is defined as tax expense for BAE Systems and its share of equity accounted investments, excluding any tax benefit/expense related to Adjusting items, including tax rate adjustments, and other items excluded from underlying profit. The Underlying effective tax rate provides a measure of tax expense for BAE Systems, excluding one-off items, that is comparable over time.

The following table presents a reconciliation of tax expense of BAE Systems to underlying tax expense for the years ended December 31, 2023 and December 31, 2022.

	Year Ended December 31,	
	2023	2022
	(In £ millions)	
Tax expense of BAE Systems	386	315
Add: Tax expense of equity accounted investments	47	50
Add: Tax expense in respect of taxable adjusting items	(11)	—
Add: Tax expense in respect of other items excluded from underlying profit	49	54
Add: Tax rate adjustment	1	3
Underlying tax expense	**472**	**422**

- "*Order backlog*" is defined as order book, less order book in respect of orders from equity accounted investments, plus unfunded Order backlog and BAE Systems' share of Order backlog of equity accounted investments. Unfunded orders include the elements of United States multi-year contracts for which funding has not been authorized by the customer. Order backlog is used by management to assess future years' sales performance of BAE Systems' operations. Unless otherwise indicated, "Order backlog" includes BAE Systems' share of equity accounted investments' Order backlog and is after the elimination of intra-group orders.

The following table presents a reconciliation of Order book (which represents the transaction price allocated to unsatisfied and partially satisfied performance obligation as defined by IFRS 15, Revenue from Contracts with Customers) to Order backlog.

	Year Ended December 31,	
	2023	2022
	(In £ billions)	
Order book	58.0	48.9
Deduct: Order book in respect of orders from equity accounted investments	(4.0)	(4.3)
Add: Share of Order backlog of equity accounted investments	13.5	12.0
Add: Unfunded Order backlog	2.3	2.3
Order backlog	**69.8**	**58.9**

- "*Order intake*" is defined as funded orders received from customers including BAE Systems' share of order intake of equity accounted investments. Order intake is used by management to monitor the order intake of BAE Systems together with its equity accounted investments, providing insight into future years' sales performance.

Rounding

Certain financial information and percentages have been rounded, and, as a result, the sum of the numbers or percentages in a column or row of tables or in paragraphs may not conform exactly to the total figure or percentage for that column or row or paragraph.

Employee Figures

References to the number of employees of BAE Systems or of a reporting segment thereof include share of equity accounted investments, unless otherwise specified.

Exchange Rates

Unless otherwise indicated in this Offering Memorandum, the exchange rates used to translate amounts shown in U.S. dollars represent, as applicable, the average exchange rate for the relevant period or the exchange rate at period end. The exchange rates used to translate amounts for individual transactions, including business acquisitions and disposals and debt redemption, represent either (i) the spot rate on the day of the transaction, (ii) the weighted average of the relevant foreign exchange contract rates or (iii) a blended rate based on a combination of (i) and (ii).

INDUSTRY AND MARKET DATA

The global and national defense market and competitive position data in this Offering Memorandum generally have been obtained from industry publications and from surveys or studies conducted by third-party sources. There are a variety of limitations with respect to the availability, accuracy, completeness and comparability of such data. The Issuer and the Initial Purchasers cannot assure prospective investors of the accuracy and completeness of such information and the Issuer and the Initial Purchasers have not independently verified such defense market and competitive position data.

In addition, in many cases, statements made in this Offering Memorandum regarding the defense market and the position in the market of BAE Systems and its competitors are based on the internal analyses of the Issuer of market conditions, which analyses contain certain assumptions and estimates. There can be no assurance that any of these assumptions or estimates are accurate or correctly reflect the position of BAE Systems or its competitors in the defense market, and none of the internal analyses have been verified by any independent sources.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains and refers to certain forward-looking statements with respect to the financial condition, results of operations and business of the Issuer and its subsidiaries and equity accounted investments. These forward-looking statements include, but are not limited to, statements about BAE Systems' plans, objectives, beliefs, expectations and intentions and other statements contained in this Offering Memorandum that are not historical facts. Forward-looking statements are typically identified by

the words "may," "will," "will continue," "should," "would be," "believe," "seek," "anticipate," "intend," "estimate," "expect" and similar expressions. All of these forward-looking statements are based on estimates and assumptions made by BAE Systems that, although believed to be reasonable, are inherently uncertain. Therefore, you should not place undue reliance on forward-looking statements, which are based on the information currently available to BAE Systems and speak only as at the date of this Offering Memorandum. Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results to differ materially from those contemplated by such forward-looking statements. These factors include, among other things:

- the dependence of BAE Systems on government spending on defense;
- the performance on government contracts;
- the dependence of BAE Systems on the award timing and cash profile of its contracts;
- the dependence of BAE Systems on a small number of large contracts and fixed-price contracts;
- the dependence of BAE Systems on component availability, subcontractor performance and key suppliers;
- operating in international markets;
- the significant competition in international markets;
- the exposure to information technology security threats and operational technology systems and products;
- the ability to recruit and retain people with appropriate talent and skills;
- the safety risks related to BAE Systems' employees working with hazardous materials and in challenging locations;
- the safety risks inherent to the products and services of BAE Systems or its customers or suppliers;
- the ability to integrate acquired businesses successfully;
- the impact of environmental factors, including those relating to climate change;
- the failure to comply with laws and regulations of multiple governments;
- the outbreak of contagious diseases; and
- the exposure to funding risks under pension schemes.

For further information regarding factors that could affect the business and financial results of the Issuer or its subsidiaries and equity accounted investments and such forward-looking statements, see "*Risk Factors—1. Factors that may affect the Issuer's ability to fulfil its obligations under the Securities*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Outlook in BAE Systems' Markets*," "*Business—Reporting Segments—Electronic Systems—Outlook*," "*Business—Reporting Segments—Platforms & Services—Outlook*," "*Business—Reporting Segments—Air—Outlook*," "*Business—Reporting Segments—Maritime—Outlook*," "*Business—Reporting Segments—Cyber & Intelligence—Outlook*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Pension Schemes*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory—Environmental, Health and Safety ("EHS") Regulation and Liability*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Real and Intellectual Property—Real Property*," and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Real and Intellectual Property—Intellectual Property*."

The forward-looking statements speak only as at the date of this Offering Memorandum. The Issuer expressly disclaims any obligation or undertaking, and does not intend, to release publicly any updates or revisions to any forward-looking statements contained in this Offering Memorandum, to reflect any change in its expectations or any change in events, conditions or circumstances, on which any forward-looking statement contained in this Offering Memorandum is based.

OVERVIEW

The following overview is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Memorandum. Capitalized terms used but not defined in this overview are defined in the text of this Offering Memorandum. Investors should thoroughly consider this Offering Memorandum in its entirety, including the information set forth under "Available Information and Reports to Holders of Securities" and "Risk Factors," prior to an investment in the Securities. For information regarding the use of certain financial terms used in this Offering Memorandum, including APMs, investors should refer to the information set forth under "Presentation of Currency and Financial and Other Information."

BAE Systems plc (the "Issuer") is a public limited company registered in England and Wales. The Issuer is the parent holding company of the BAE Systems group of companies (which, together with the Issuer, is referred to herein as "BAE Systems").

The Issuer

Business of BAE Systems

BAE Systems is an international defense, aerospace and security company with leading positions in major defense and security markets around the world—including the United States, United Kingdom, the Kingdom of Saudi Arabia and Australia—as well as established positions in a number of other international markets. BAE Systems has a diverse portfolio of capabilities in the air, sea, land and space domains, which provides it with a comprehensive offering for BAE Systems' customers around the world, making it one of the broadest and most geographically diverse major defense companies.

As at December 31, 2023, BAE Systems employed approximately 99,800 employees and in 2023 generated sales and revenue of £25,284 million and £23,078 million, respectively, and Underlying EBIT and profit for the year of £2,682 million and £1,940 million, respectively. The issued ordinary shares of the Issuer are traded on the London Stock Exchange and the Issuer is a member of the FTSE 100 with a market capitalization of £39.2 billion as at March 15, 2024.

BAE Systems reports based on the following reporting segments:

Electronic Systems. The Electronic Systems reporting segment comprises the United States-based and United Kingdom-based electronics solutions, including electronic warfare systems, navigation systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, space electronics and electric drive propulsion systems. The reporting segment comprises six lines of businesses: Electronic Combat Solutions; Countermeasure & Electromagnetic Attack Solutions; Precision Strike & Sensing Solutions; C4ISR Systems; Controls & Avionics Solutions and Power & Propulsion Solutions. The newly acquired business from Ball Aerospace will be called Space & Mission Systems and will map within the Electronic Systems reporting segment. See "*—Recent Developments*" for more information about the acquisition of Ball Aerospace.

Sales, revenue and Underlying EBIT of the Electronic Systems reporting segment (£5,458 million, £5,456 million and £878 million, respectively) represented 22%, 23% and 31%, respectively, of BAE Systems' sales, revenue and Underlying EBIT for 2023. Sales in the air, maritime and land domains represented 87%, 3% and 10%, respectively, of Electronic Systems sales in 2023. The Electronic Combat Solutions business, Countermeasure & Electromagnetic Attack Solutions business, Precision Strike & Sensing Solutions business, C4ISR Systems business, Controls & Avionics Solutions business and Power & Propulsion Solutions business represented 29%, 14%, 15%, 22%, 16% and 4%, respectively, of Electronic Systems sales, in 2023. Defense sales and commercial sales represented 83% and 17%, respectively, of Electronic Systems sales in 2023.

Electronic Systems had approximately 17,500 employees as at December 31, 2023.

Platforms & Services. The Platforms & Services reporting segment, with operations in the United States, Sweden and the United Kingdom, 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 plants. The business also has a 49% interest in FNSS, the Turkish land systems

business. The reporting segment comprises seven lines of businesses: Combat Mission Systems; Ordnance Systems; US Ship Repair; BAE Systems Hägglunds, BAE Systems Bofors; Weapons Systems UK and FNSS.

Sales, revenue and Underlying EBIT of the Platforms & Services reporting segment (£3,922 million, £3,842 million and £354 million, respectively) represented 15%, 16% and 13%, respectively, of BAE Systems' sales, revenue and Underlying EBIT for 2023. Sales in the air, maritime and land domains represented 1%, 28% and 71%, respectively, of Platforms & Services sales in 2023. The Combat Mission Systems business, Ordnance Systems business, US Ship Repair business, BAE Systems Hägglunds business, BAE Systems Bofors business, Weapon Systems UK business and FNSS business represented 49%, 14%, 17%, 11%, 4%, 3% and 2%, respectively, of Platforms & Services sales, in 2023. Platforms sales and services sales represented 53% and 47%, respectively, of Platforms & Services sales, in 2023.

Platforms & Services had approximately 11,900 employees as at December 31, 2023.

Air. The Air reporting segment comprises BAE Systems' United Kingdom-based air activities for European and International Markets, US Programmes, development of Future Combat Air Systems and FalconWorks®, alongside its business in the Kingdom of Saudi Arabia and interests in its European joint ventures, Eurofighter and MBDA (each, as defined below). BAE Systems has a 33% interest in Eurofighter Jagdflugzeug GmbH ("*Eurofighter*"), the company that co-ordinates the design, production and upgrade of the Eurofighter Typhoon aircraft, and a 37.5% interest in the European MBDA joint venture of Airbus, BAE Systems and Leonardo ("*MBDA*"). The reporting segment comprises six lines of businesses: European and International Markets; US Programmes; Future Combat Air Systems; FalconWorks®; Kingdom of Saudi Arabia and MBDA.

Sales, revenue and Underlying EBIT of the Air reporting segment (£8,058 million, £6,517 million and £949 million, respectively) represented 32%, 28% and 34%, respectively, of BAE Systems' sales, revenue and Underlying EBIT for 2023. Sales in the air, maritime and land domains represented 92%, 5% and 3%, respectively, of Air sales in 2023. The European and International Markets business, US Programmes business, Future Combat Air Systems business, Kingdom of Saudi Arabia business and MBDA business represented 29%, 15%, 5%, 33% and 18%, respectively, of Air sales in 2023. Platforms sales and services sales represented 51% and 49%, respectively, of Air sales in 2023.

Air had approximately 26,000 employees as at December 31, 2023.

Maritime. The Maritime reporting segment comprises BAE Systems' United Kingdom-based maritime and land activities, including major submarine, ship build and support programs, as well as BAE Systems' Australian business. The reporting segment currently comprises five lines of businesses: Naval Ships; Submarines; Land UK; Australia; and Maritime Services.

Sales, revenue and Underlying EBIT of the Maritime reporting segment (£5,536 million, £5,391 million and £425 million, respectively) represented 22%, 23% and 15%, respectively, of BAE Systems' sales, revenue and Underlying EBIT for 2023. Sales in the air, maritime and land domains represented 4%, 87% and 9%, respectively, of Maritime sales in 2023. The Naval Ships business, Submarines business, Land UK business and Australia business represented 29%, 46%, 7% and 18%, respectively, of Maritime sales, in 2023. Platforms sales and services sales represented 67% and 33%, respectively, of Maritime sales, in 2023.

Maritime had approximately 27,500 employees as at December 31, 2023.

Cyber & Intelligence. The Cyber & Intelligence reporting segment comprises the United States-based Intelligence & Security business and United Kingdom-headquartered Digital Intelligence business, and covers BAE Systems' cyber security for national security, central government and government enterprises. The reporting segment comprises two lines of businesses: Intelligence & Security and Digital Intelligence. The Intelligence & Security business is made up of three United States-based business units: Air & Space Force Solutions, Integrated Defense Solutions and Intelligence Solutions.

Sales, revenue and Underlying EBIT of the Cyber & Intelligence reporting segment (£2,321 million, £2,321 million and £199 million, respectively) represented 9%, 10% and 7%, respectively, of BAE Systems' sales, revenue and Underlying EBIT for 2023. Sales in the air, maritime, land and cyber domains represented 29%, 14%, 11% and 46%, respectively, of Cyber & Intelligence sales in 2023. The Intelligence & Security

business and the Digital Intelligence business represented 70% and 30%, respectively, of Cyber & Intelligence sales, in 2023. Sales to the United States Government, the United Kingdom and other governments and other represented 68%, 30% and 2%, respectively, of Cyber & Intelligence sales in 2023.

Cyber & Intelligence had approximately 11,000 employees as at December 31, 2023.

HQ. The HQ reporting segment comprises BAE Systems' head office, together with a 49% interest in Air Astana as at December 31, 2023. See "*—Recent Developments*" for information about Air Astana's initial public offering ("*IPO*").

BAE Systems' Strengths

BAE Systems focuses on careful long-term sustainable management and governance of its business to deliver value for all its stakeholders. BAE Systems believes that it is poised for further revenue growth and profitability based on robust end markets, the value drivers of its operating model, and the strategic actions it is taking, supported by seven key advantages:

- Providing customers with world-class defense capabilities across multiple domains;
- Undertaking multi-decade programs with long-term embedded value, with an Order backlog that provides a high level of sales visibility, driven by multi-year programs;
- A growing global opportunity pipeline. BAE Systems' diverse geographic footprint supports it in pursuing opportunities across all sectors as countries around the world face a multi-faceted threat environment;
- Fostering a high-performance, innovative culture and consistently investing in research and development to build on existing capabilities and generate innovative and disruptive technologies;
- An intense focus on operational excellence, with strong, consistent program performance and operational efficiencies in efforts to expand margins and create value for BAE Systems' investors and customers;
- A strong environmental, social and governance ("*ESG*") agenda that is embedded into BAE Systems' strategic framework and underpins its purpose; and
- A value-enhancing operating model, undertaking BAE Systems' core business activities with a clear, consistent and careful capital allocation.

BAE Systems' Strategy

BAE Systems' strategy is comprised of six key long-term areas of focus to help it achieve its vision of being the premier international defense, aerospace and security company and its mission to provide a vital advantage to help its customers protect what really matters. This strategy is centered on maintaining and growing BAE Systems' core franchises and securing growth opportunities through advancing its three strategic priorities and demonstrating its "Company Behaviors" in all BAE Systems does.

BAE Systems' strategy is to:

- Sustain and grow its defense business.
- Continue to grow its business in adjacent markets.
- Develop and expand its international business.
- Inspire and develop a diverse workforce to drive success.
- Enhance financial performance and deliver sustainable growth in shareholder value.
- Advance and integrate its sustainability agenda.

The following three strategic priorities, which are embedded throughout BAE Systems, provide the link between its longer-term strategy and near-term business objectives for all of its employees:

- Driving operational excellence.

- Continuously improving competitiveness and efficiency.
- Advancing and further leveraging its technology.

Financial Results

For the year ended December 31, 2023, BAE Systems had sales and revenue of £25,284 million and £23,078 million, respectively, compared with £23,256 million and £21,258 million, respectively, for the year ended December 31, 2022. Underlying EBIT and profit for the year were £2,682 million and £1,940 million, respectively, for 2023 compared with £2,479 million and £1,674 million, respectively, for 2022. For 2023, BAE Systems had operating profit of £2,573 million, compared with £2,384 million for 2022.

Recent Developments

In February 2024, BAE Systems completed the acquisition of 100% of the share capital of Ball Aerospace, a leading provider of spacecraft, mission payloads, optical systems and antenna systems, from Ball Corporation for consideration of $5.5 billion (£4.4 billion), with an expected net present value tax benefit of approximately $750 million. Upon completion, BAE Systems drew down $4.0 billion (£3.2 billion) under the Bridge Facility (as defined below), and paid $1.5 billion (£1.2 billion) in cash from BAE Systems' existing cash resources, in initial settlement of the transaction. Headquartered in Colorado, with more than 5,200 employees, Ball Aerospace has existing customer relationships among the intelligence community, United States Department of Defense, and civilian space agencies. BAE Systems believes Ball Aerospace is well positioned across several markets: military and civil space, C4ISR, and missile and munitions. The space market exposure extends across positions in defense, intelligence, and scientific missions. BAE Systems believes Ball Aerospace's tactical solutions business is well positioned to capture expected increases in demand for missiles and munitions. The newly acquired business will be called Space & Mission Systems and will map within the Electronic Systems reporting segment.

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

At December 31, 2023, BAE Systems held a 49% shareholding in Air Astana. As a result of Air Astana's joint IPO on the London Stock Exchange, the Astana International Exchange in Kazakhstan, and the Kazakhstan Stock Exchange in February 2024, the total shareholding held by BAE Systems in Air Astana is 16.95%, with proceeds from the sale of shares of $213 million. BAE Systems will continue to equity account for the remaining investment.

The Offering

Issuer	BAE Systems plc.
Issuer LEI	8SVCSVKSGDWMW2QHOH83.
Issuer Website	https://www.baesystems.com/en/home. The information on the Issuer's website is not incorporated by reference into this Offering Memorandum.
The Offering	5.000% Notes due 2027 (the "*2027 Notes*"); 5.125% Notes due 2029 (the "*2029 Notes*"); 5.250% Notes due 2031 (the "*2031 Notes*"); 5.300% Notes due 2034 (the "*2034 Notes*"); and 5.500% Notes due 2054 (the "*2054 Notes*" and, together with the 2027 Notes, the 2029 Notes, the 2031 Notes and the 2034 Notes, the "*Securities*"). The Securities will be issued under a Fiscal and Paying Agency Agreement dated March 26, 2024 (the "*Fiscal and Paying Agency Agreement*") between the Issuer and Citibank, N.A., London Branch, as fiscal and paying agent and registrar, and will be treated as a single class for all purposes under the Fiscal and Paying Agency Agreement. The Securities are being offered in the United States only to QIBs in reliance on Rule 144A under the Securities Act and outside the United States to non-U.S. persons in reliance upon Regulation S.
Principal Amount	2027 Notes: $800,000,000 aggregate principal amount; 2029 Notes: $1,250,000,000 aggregate principal amount; 2031 Notes: $500,000,000 aggregate principal amount; 2034 Notes: $1,500,000,000 aggregate principal amount; and 2054 Notes: $750,000,000 aggregate principal amount.
Issue Price	2027 Notes: 99.591% of the principal amount, plus accrued interest from the issue date, if any; 2029 Notes: 99.687% of the principal amount, plus accrued interest from the issue date, if any; 2031 Notes: 99.786% of the principal amount, plus accrued interest from the issue date, if any; 2034 Notes: 99.471% of the principal amount, plus accrued interest from the issue date, if any; and 2054 Notes: 98.341% of the principal amount, plus accrued interest from the issue date, if any.
Stated Maturity Date	2027 Notes: March 26, 2027; 2029 Notes: March 26, 2029; 2031 Notes: March 26, 2031;

	2034 Notes: March 26, 2034; and 2054 Notes: March 26, 2054.
Interest	The 2027 Notes will bear interest at a rate of 5.000% per year from March 26, 2024, based upon a 360-day year consisting of twelve 30-day months. The 2029 Notes will bear interest at a rate of 5.125% per year from March 26, 2024, based upon a 360-day year consisting of twelve 30-day months. The 2031 Notes will bear interest at a rate of 5.250% per year from March 26, 2024, based upon a 360-day year consisting of twelve 30-day months. The 2034 Notes will bear interest at a rate of 5.300% per year from March 26, 2024, based upon a 360-day year consisting of twelve 30-day months. The 2054 Notes will bear interest at a rate of 5.500% per year from March 26, 2024, based upon a 360-day year consisting of twelve 30-day months.
Interest Payment Dates	Interest on the Securities will be payable semi-annually in arrear on March 26 and September 26 of each year, commencing September 26, 2024.
Status of Securities	The Securities will be direct, unsecured and unsubordinated obligations of the Issuer, ranking *pari passu* among themselves and with all other direct, unsecured and unsubordinated obligations (except those obligations preferred by statute or operation of law) of the Issuer.
Restrictive Covenants	The Issuer has agreed to observe certain covenants with respect to the Securities, including, among other things, limitations on liens and conditions relating to consolidation, merger and conveyance transactions. See "*Description of Securities—Certain Covenants*."
Events of Default	For a discussion of certain events that will permit acceleration of the Securities, including acceleration of certain other indebtedness of the Issuer, see "*Description of Securities—Events of Default*."
Optional Redemption	The Securities will be redeemable at the option of the Issuer at any time, in whole or in part, at a redemption price equal to the greater of (i) 100% of the outstanding principal amount of the Securities to be redeemed plus accrued but unpaid interest, if any, to the date of redemption and (ii) the sum of the present values of the Remaining Scheduled Payments (as defined herein) thereon discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate (as defined herein) plus: 15 basis points (in the case of the 2027 Notes), 15 basis points (in the case of the 2029 Notes), 15 basis points (in case of the 2031 Notes), 20 basis points (in the case of the 2034 Notes) or 20 basis points (in the case of the 2054 Notes); *provided* that on or after the applicable Par Call Date (as defined herein), the 2027 Notes, the 2029 Notes, the 2031 Notes, the

	2034 Notes and the 2054 Notes will be redeemable at the option of the Issuer, in whole or in part, at a redemption price equal to 100% of the principal amount of the Securities of such series to be redeemed plus accrued but unpaid interest on the principal amount being redeemed to, but not including, the redemption date. See "*Description of Securities—Optional Redemption*." For the avoidance of doubt, the Issuer or any of its subsidiaries may, at any time and from time to time, purchase or otherwise acquire all or some of any series of Securities in the open market or by private agreement, subject to applicable law.
Use and Estimated Amount of Net Proceeds	The amount of net proceeds to the Issuer from the Offering is estimated to be approximately $4.754 billion, after deducting discounts but before deducting any expenses associated with the Offering. The net proceeds of the Offering will be used (i) to refinance $4.0 billion in aggregate principal amount outstanding under the Bridge Loan Facility Agreement dated August 21, 2023, as amended from time to time (the "*Bridge Loan Facility Agreement*", and the term loan facility thereunder, the "*Bridge Facility*"), among, *inter alios*, BAE Systems Holdings Inc., as original borrower, the Issuer, as guarantor, and certain financial institutions as lenders, incurred to fund part of the acquisition of the United States-based Ball Aerospace business ("*Ball Aerospace*") from Ball Corporation, and (ii) for general corporate purposes, including the repayment of indebtedness. See "*Use and Estimated Amount of Net Proceeds*."
Denomination, Form and Registration of Securities	The Securities will be issued in fully registered form and only in denominations of $200,000 and integral multiples of $1,000 in excess thereof. The Securities will be issued initially as Global Securities. QIBs may elect to hold Securities purchased by them through the facilities of DTC, which will act as depositary for the Securities. Holders of Securities sold in offshore transactions in reliance on Regulation S under the Securities Act may elect to hold Global Securities through Euroclear and Clearstream. Prior to the date that is 40 days after the later of the commencement of the Offering and the closing date, beneficial interests in a Regulation S Global Security may be held only through Euroclear and Clearstream. See "*Description of Securities—Book-Entry; Delivery and Form*."
Further Issues	The Issuer may from time to time without the consent of the holders of the Securities issue additional debt securities having the same terms and conditions as the relevant series of Securities so that the further issue is consolidated and forms a single series of debt securities with the 2027 Notes, the 2029 Notes, the 2031 Notes, the 2034 Notes or the 2054 Notes, as applicable; *provided* that, if any such additional debt securities are not fungible with the applicable outstanding Securities for U.S. Federal income tax purposes, such additional debt securities will be issued as a separate Series under the Fiscal and Paying Agency Agreement and will have a separate CUSIP or similar identifying number from the Securities of a relevant Series offered hereby. The period of the resale restrictions

	applicable to any Securities previously offered and sold in reliance on Rule 144A under the Securities Act shall automatically be extended to the last day of the period of any resale restrictions imposed on any such additional Securities of the same series.
Fiscal and Paying Agent	Citibank, N.A., London Branch.
Transfer Restrictions	The Securities have not been and will not be registered under the Securities Act and may be offered or sold (1) in the United States only to QIBs in reliance upon the exemption from the registration requirement of the Securities Act provided by Rule 144A and (2) outside the United States only to non-U.S. persons in reliance upon Regulation S. See "*Transfer Restrictions*."
Governing Law	The Fiscal and Paying Agency Agreement and the Securities will be governed by, and construed in accordance with, the laws of the State of New York.
Ratings	As at the date of this Offering Memorandum, the Issuer's long-term credit ratings are Baa1 ("Stable Outlook") (Moody's), BBB+ ("Stable Outlook") (S&P) and BBB+ ("Stable Outlook") (Fitch). A rating is not a recommendation to buy, sell or hold Securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.
Listing	Application has been made for the Securities to be admitted to trading on the International Securities Market of the London Stock Exchange.
Risk Factors	Investing in the Securities involves a high degree of risk. See "*Risk Factors*" for a description of certain of the risks you should carefully consider before investing in the Securities.
Rule 144A Notes CUSIP/ISIN	2027 Notes: CUSIP: 05523R AH0 / ISIN: US05523RAH03.
	2029 Notes: CUSIP: 05523R AJ6 / ISIN: US05523RAJ68.
	2031 Notes: CUSIP: 05523R AK3 / ISIN: US05523RAK32.
	2034 Notes: CUSIP: 05523R AL1 / ISIN: US05523RAL15.
	2054 Notes: CUSIP: 05523R AM9 / ISIN: US05523RAM97.
Regulation S Notes CUSIP/ISIN	2027 Notes: CUSIP: G07540 AB6 / ISIN: USG07540AB68.
	2029 Notes: CUSIP: G07540 AC4 / ISIN: USG07540AC42.
	2031 Notes: CUSIP: G07540 AD2 / ISIN: USG07540AD25.
	2034 Notes: CUSIP: G07540 AE0 / ISIN: USG07540AE08.
	2054 Notes: CUSIP: G07540 AF7 / ISIN: USG07540AF72.

Summary Financial and Other Data

The following tables present summary consolidated financial and certain other operating data for BAE Systems and have been derived from the BAE Systems 2023 Annual Financial Statements. The BAE Systems Annual Financial Statements and related notes were audited by Deloitte LLP, independent auditors. These tables should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations,*" "*Business*" and the BAE Systems Annual Financial Statements.

The BAE Systems Annual Financial Statements are prepared in accordance with UK-adopted IFRS and include supplemental measures and APMs.

	Year Ended December 31,	
	2023	2022
	(In £ millions)	
Income Statement Data:		
Sales[1]	25,284	23,256
Revenue	23,078	21,258
Operating costs	(20,917)	(19,269)
Other income	204	215
Share of results of equity accounted investments	208	180
Operating profit	**2,573**	**2,384**
Net finance costs	(247)	(395)
Profit before tax	**2,326**	**1,989**
Tax expense	(386)	(315)
Profit for the year	**1,940**	**1,674**

	As at December 31,	
	2023	2022
	(In £ millions)	
Balance Sheet Data:		
Intangible assets	12,099	12,644
Property, plant and equipment	3,635	3,235
Right-of-use assets	1,311	1,425
Investment property	57	63
Non-current investments[2]	916	886
Inventories	1,156	976
Payables less receivables[3]	1,382	1,794
Other net financial assets and liabilities[4]	(112)	(138)
Net post-employment benefit surpluses[5]	229	646
Provisions	(568)	(587)
Net tax[6]	474	363
Net debt (excluding lease liabilities)[1]	(1,022)	(2,023)
Lease liabilities	(1,420)	(1,616)
Contract liabilities	(5,820)	(4,827)
Other payables	(1,594)	(1,441)
Non-controlling interests	(164)	(185)
Total equity attributable to equity holders of Issuer	**10,559**	**11,215**

	Year Ended December 31,	
	2023	2022
	(In £ millions, except order intake/backlog (in £ billions) and personnel numbers)	
Summarized Cash Flow Data:		
Operating business cash flow[1]	**3,218**	**2,552**
Add back: Net capital expenditure and financial investment[7]	789	519
Add back: Principal element of lease payments and receipts	282	227
Deduct: Dividends received from equity accounted investments	(134)	(94)
Deduct: Tax paid net of research and development expenditure credits received	(395)	(365)
Net cash flow from operating activities	**3,760**	**2,839**
Net cash flow from investing activities	**(541)**	**(422)**
Interest paid	(356)	(269)
Equity dividends paid	(857)	(802)
Purchase of own shares	(561)	(788)
Dividends paid to non-controlling interests	(88)	(166)
Principal element of lease payments	(292)	(236)
Cash inflow from derivative financial instruments (excluding cash flow hedges)	193	533
Cash outflow from derivative financial instruments (excluding cash flow hedges)	(389)	(205)
Net cash flow from loans	162	(400)
Net cash flow from financing activities	**(2,188)**	**(2,333)**
Net increase in cash and cash equivalents	**1,031**	**84**
Other Data:		
Number of employees at year end	99,800	93,100
Order intake[1]	37.7	37.1
Order backlog[1]	69.8	58.9

(1) See "*Presentation of Currency and Financial and Other Information*" for an explanation of the components and calculation method of this measure.

(2) Non-current investments is derived from the line items Equity accounted investments *plus* Other investments in the BAE Systems 2023 Annual Financial Statements.

(3) Payables less receivables is derived from the line items Non-current contract and other receivables *plus* Trade, contract and other receivables *less* Trade and other payables in the BAE Systems 2023 Annual Financial Statements.

(4) Other net financial assets and liabilities is derived from the line items Non-current other financial assets *plus* Current other financial assets *less* Non-current other financial liabilities *less* Current other financial liabilities excluding debt-related derivative financial instruments in the BAE Systems 2023 Annual Financial Statements.

(5) Net post-employment benefit surpluses is derived from the line items Post-employment benefit surpluses *less* Post-employment benefit obligations in the BAE Systems 2023 Annual Financial Statements.

(6) Net tax is derived from the line items Deferred tax assets *plus* Current tax assets *less* Current tax liabilities *less* Deferred tax liabilities in the BAE Systems 2023 Annual Financial Statements.

(7) Net capital expenditure and financial investment is derived from the line items Proceeds from funding related to assets *plus* Proceeds from sale of property, plant and equipment and investment property *plus* Proceeds from sale of non-current other investments *less* Purchase of property, plant and equipment and investment property *less* Purchase of intangible assets *less* Purchase of non-current other investments *less* equity accounted investment funding in the BAE Systems 2023 Annual Financial Statements.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfill its obligations under the Securities. All of these factors are contingencies which may or may not occur. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Securities are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Securities, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Securities for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Securities are exhaustive. Additional risks and uncertainties currently unknown to the Issuer, or which the Issuer currently deems immaterial, may also have an adverse effect on the business or financial condition of BAE Systems. Prospective investors should also read the detailed information set out elsewhere in this Offering Memorandum and reach their own views prior to making any investment decision.

1. Factors that may affect the Issuer's ability to fulfil its obligations under the Securities

BAE Systems is dependent on defense spending.

In 2023, 94% of BAE Systems' sales were defense-related. Levels of defense spending by governments are difficult to predict and can fluctuate depending on change of government policy, other political considerations, budgetary constraints, specific threats to national security and macro-economic conditions (including movements in oil prices). From time to time, there have been constraints on government expenditure in a number of BAE Systems' principal markets. Lower defense spending by BAE Systems' major customers could have a material adverse effect on BAE Systems' business, results of operations, financial condition and prospects.

BAE Systems' largest customers are governments.

BAE Systems has long-standing relationships and security arrangements with a number of its government customers, including its three largest customers, the governments of the United States, United Kingdom and the Kingdom of Saudi Arabia, and their agencies (who represented, as at December 31, 2023, 69% of BAE Systems' revenues). It is important that these relationships and arrangements are maintained.

In the defense and security industries, governments can typically modify contracts for their convenience or terminate them at short notice. Furthermore, governments from time to time review their terms of trade and underlying policies and seek to impose such new terms and policies when entering into new contracts. Most long-term U.S. government contracts, for example, are funded annually or incrementally and are subject to cancellation if funding appropriations for subsequent periods are not made.

Further, BAE Systems' performance on its contracts with some government customers is subject to financial audits and other reviews which can result in adjustments to prices and costs.

Deterioration in BAE Systems' principal government relationships resulting in the failure to obtain contracts or expected funding appropriations, adverse changes in the terms of its arrangements with those customers or their agencies, or the termination of contracts could have a material adverse effect on BAE Systems' business, results of operations, financial condition and prospects.

BAE Systems is dependent on the award timing and cash profile of its contracts.

BAE Systems' profits and cash flows are dependent, to a significant extent, on the receipt and timing of the award of defense contracts and the profile of cash receipts thereunder.

Amounts receivable under BAE Systems' defense contracts can be substantial and, therefore, the timing of, or failure to receive, awards and associated cash advances and milestone payments could materially affect BAE Systems' profits and cash flows for the periods affected, thereby reducing cash available to meet BAE Systems' capital allocation priorities, potentially resulting in the need to arrange external funding and impacting its investment grade credit rating. This in turn could have a material adverse effect on BAE Systems' business, results of operations, financial condition and prospects.

BAE Systems has many contracts, including a number of large contracts and fixed-price contracts.

As a major defense, aerospace and security company, BAE Systems executes long-term high-value contracts for the provision of complex, strategically important products and services for its customers. For example, in 2023, 51% of BAE Systems' sales were generated by its 16 largest programs and, as at December 31, 2023, BAE Systems had 12 programs with an Order backlog in excess of £1 billion.

A significant portion of BAE Systems' revenue is derived from fixed-price contracts. Actual costs may exceed the projected costs. Assumptions on future rates of inflation on which the fixed prices are agreed may prove to be inaccurate and, since these contracts can extend over many years, it can be difficult to predict the ultimate outturn costs.

It is important that BAE Systems delivers on its projects within tight tolerances of quality, time and cost performance in a reliable, predictable and repeatable manner. The failure by BAE Systems to anticipate technical problems or deliver on its contractual commitments could result in (among other things) the loss, expiration, suspension, cancellation or termination of any one of its large contracts, which could have a material adverse effect on BAE Systems' business, results of operations, financial condition, prospects or reputation. The failure to estimate accurately and control costs on fixed-price contracts could have a material adverse effect on BAE Systems' business, results of operations, financial condition and prospects.

BAE Systems is dependent upon component availability, subcontractor performance and key suppliers.

BAE Systems is dependent upon the delivery of services and materials by suppliers and the assembly of components and subsystems by subcontractors used in its products in a timely and satisfactory manner, on satisfactory commercial terms and in full compliance with applicable terms and conditions. This can be exacerbated where BAE Systems is dependent on either one or a limited number of suppliers. Some of BAE Systems' suppliers or subcontractors may be impacted by the economic environment (including inflationary pressures and material shortages) which could impair their ability to meet their obligations to BAE Systems and to supply on satisfactory commercial terms.

A failure by one or more of BAE Systems' suppliers to provide the agreed-upon materials, components or products or perform the agreed-upon services, on a timely basis, at the agreed price, according to specifications (including compliance with regulatory requirements) or at all may adversely affect BAE Systems' ability to perform its obligations, result in additional costs or delays, require BAE Systems to transition work to other companies (resulting in further additional costs and delay) and/or result in penalties under, or the termination of, customer contracts. This impact is heightened where a supplier is a sole supplier or one of a small number of suppliers.

Additionally, BAE Systems could be adversely affected by actions, or issues experienced, by BAE Systems' suppliers which are outside its control, such as misconduct and reputational issues involving BAE Systems' suppliers, which could subject BAE Systems to liability or adversely affect its ability to compete for contracts. Any of the foregoing could have a material adverse effect on BAE Systems' business, results of operations, financial condition, prospects and reputation.

BAE Systems operates in international markets.

BAE Systems is an international company conducting business in a number of regions, including the United States, Australia and the Middle East. International sales and operations are sensitive to: social and political changes impacting the business environment; economic downturns and inflation; political instability, armed conflict and civil disturbances; the imposition of capital controls; the introduction of burdensome taxes or tariffs; changes to export control, tax and other government policy and regulations in the United Kingdom, United States and all other relevant jurisdictions; and the inability to obtain or maintain the necessary export licenses and other trade restrictions. For example, the risk of BAE Systems' inability to obtain and maintain the necessary export licenses for BAE Systems' business in the Kingdom of Saudi Arabia could affect BAE Systems' provision of capability to the country. Any of these factors could have a material adverse effect on BAE Systems' business, results of operations, financial condition and prospects.

Given the international nature of its business, BAE Systems is exposed to volatility arising from movements in currency exchange rates, particularly in respect of the US dollar, euro, Saudi riyal and Australian

dollar. Significant fluctuations in exchange rates to which BAE Systems is exposed could cause volatility in its financial results reported in pounds sterling and could have a material adverse effect on BAE Systems' business, results of operations, financial condition and prospects.

BAE Systems is subject to significant competition in international markets.

The international markets in which BAE Systems operates are highly competitive and BAE Systems' business depends upon its ability to win and contract for high-quality new programs in these markets. BAE Systems is dependent upon United States and United Kingdom government support in relation to a number of its business opportunities in export markets.

Furthermore, BAE Systems' competitors may also develop new technologies or offerings, novel support models or more efficient ways to produce existing products that could cause BAE Systems' existing products or services to become obsolete or that could gain market acceptance before BAE Systems' own products or services.

If BAE Systems is unable to compete adequately and/or obtain new business in the international markets in which it operates, there may be a material adverse effect on its business, results of operations, financial condition and prospects.

BAE Systems could be negatively impacted by threats to the security of its information technology and operational technology systems and products.

As a major defense, aerospace and security company, it is critical that BAE Systems' information technology and operational technology ("*IT & OT*") infrastructure, as well as the products and services it sells, are cyber resilient and the proprietary, classified, confidential or otherwise protected information, intellectual property and personal data held and processed on them are appropriately secured.

Cyber security threats are continuous and evolving, and vary from attacks common to most industries, including those originating both externally and internally, to those from more advanced and persistent, highly organised adversaries, including nation states. The war in Ukraine has also increased Russian-aligned hacktivist activity against pro-Ukraine nations and their defense industries.

The cyber security threats faced by BAE Systems include (but are not limited to): an attack impacting the availability of BAE Systems' IT & OT infrastructure and systems and/or those of its customers, partners and suppliers; unlawful attempts to gain access to BAE Systems' proprietary, classified, confidential or otherwise protected information, intellectual property and personal data, and that held or generated by BAE Systems on behalf of its customers, partners and suppliers; and compromise of products and services for the purposes of sabotage or to disable or deny their use and/or alter their performance characteristics.

BAE Systems might also be exposed to cyber security risks through an attack on BAE Systems' supply chain. Given the nature and scope of cyber-attacks, it is possible that BAE Systems is unable to defend itself against all cyber-attacks, that unknown vulnerabilities could be exploited or that BAE Systems may otherwise be unable to mitigate customer losses and other potential liabilities (including potential liabilities related to privacy and intellectual property).

BAE Systems could potentially be subject to: (a) production downtimes; (b) operational delays; (c) other detrimental impacts to its operations or ability to provide products and services to customers; (d) the compromise, misappropriation, destruction or corruption of BAE Systems' proprietary, classified, confidential or otherwise protected information, intellectual property and personal data, and that held or generated by BAE Systems on behalf of its customers, partners and suppliers; (e) security breaches; (f) other manipulation or improper use of BAE Systems' or third-party systems, networks or products; and/or (g) financial losses from remedial actions, loss of business, or potential liability, penalties, fines and/or damages. Any of these could have a material adverse effect on BAE Systems' business, results of operations, financial condition, prospects and reputation.

BAE Systems' strategy is dependent on its ability to recruit and retain people with appropriate talent and skills.

Competition for the people BAE Systems needs to deliver its strategy, including those with innovative technological capabilities, is high. Competition may be intensified by nationality and regulatory restrictions

(including the requirement for security clearances for certain roles), and exacerbated by macroeconomic, industry and labour market conditions more generally.

The loss of key employees or inability to attract the appropriate people on a timely basis could adversely impact BAE Systems' ability to deliver its strategy, meet its business plan and deliver on its contractual commitments, which accordingly could have a material adverse effect on BAE Systems' business, results of operations, financial condition and prospects.

Employees work with hazardous materials and in challenging locations.

Given the nature of BAE Systems' business, employees work in challenging locations, perform high-risk activities and at times use hazardous materials. Furthermore, many of the activities that BAE Systems undertakes are in high-hazard industries with inherent risk of harm, such as heavy industrial production including shipbuilding. The risks associated with BAE Systems' activities and working environments can cause harm to its people and those affected by its operations.

There could be significant impacts if BAE Systems fails to meet the necessary standards to adequately mitigate against health and safety risks. BAE Systems may face criminal and civil prosecution in connection with health and safety incidents, which could result in substantial penalties and fines. Furthermore, BAE Systems could be prevented from operating, due to employees being unavailable for work, investigations being conducted or if a regulatory approval or certification is withdrawn, potentially leading to contractual penalties due to loss of productivity or inability to deliver on contractual commitments. Any of these factors could have a material adverse effect on BAE Systems' business, results of operations, financial condition, prospects and reputation.

BAE Systems' products and services, and those of its customers or suppliers, inherently pose a safety risk.

BAE Systems designs, develops, manufactures and maintains highly complex and specialized products and services. By their very nature, many of BAE Systems' products and services are hazardous and technical, mechanical and other failures may occur from time to time, whether as a result of a manufacturing or design defect, ineffective maintenance, incorrect usage, poorly executed integration with a third party's products or services or through some other cause. In addition, the safety of BAE Systems' products could be compromised as a result of cyber-attacks, such as those that seize control and result in misuse or unintended use of BAE Systems' products, or other intentional acts.

The impact of a catastrophic product, service or system failure or similar safety incident affecting BAE Systems', its customers' or its suppliers' products or services could be significant and could result in injuries or death, property damage, loss of strategic capabilities, loss of intellectual property, environmental harm, reputational damage or other significant effects. It could also lead to a loss of equipment, product recalls and product liability and warranty claims, other service, repair and maintenance costs, significant damages and other costs (including fines and other remedies), regulatory and environmental liabilities and a reduction in demand for BAE Systems' products and services. Any of the foregoing could have a material adverse effect on BAE Systems' business, results of operations, financial condition, prospects and reputation.

The anticipated benefits of acquisitions may not be achieved.

BAE Systems considers investment in value-enhancing acquisitions where market conditions are right and where they deliver on its strategy. Whether BAE Systems realizes the anticipated benefits from these transactions depends upon the successful integration of the acquired businesses as well as their post-acquisition performance in the markets in which they operate.

There are a number of risks and uncertainties which may arise in these transactions, including (but not limited to): (a) the risks involved in entering new markets; (b) diversion of management attention and BAE Systems' resources to integration efforts; (c) unidentified issues not discovered in due diligence; (d) the performance of underlying products, capabilities or technologies; and (e) failure of the acquired businesses to perform in line with expectations. Any of these factors could have a material adverse effect on BAE Systems' business, results of operations, financial condition and prospects. In particular, the potential for an impairment of goodwill and other assets could arise.

BAE Systems may be impacted by environmental factors, including those relating to climate change.

BAE Systems is subject to comprehensive environmental laws, regulations and permitting requirements in each of the countries in which it operates, including those relating to the impacts of climate change. Such laws and regulations impose standards with respect to air emissions, wastewater discharges, the use, handling and storage of hazardous materials and waste, remediation of soil and groundwater contamination and the prevention of pollution. Increasingly, environmental legislation is seeking to encourage a reduction in greenhouse gas emissions. These laws, regulations and/or permitting requirements may be interpreted in different ways, conflict and/or change from time to time (as may any related interpretations and guidance).

BAE Systems may also be impacted by environmental factors, including physical risks arising from climate change, such as extreme weather events, for example flooding and storms, and scarcity of water and other resources. In addition, BAE Systems may be impacted by climate change transition risks resulting from the process of adjusting to a low carbon economy. Associated with this are potential risks around (a) BAE Systems' ability to attract and retain future talent; (b) the technology evolution and innovation required to respond to future customer lower-emissions requirements; (c) energy-related taxes; and (d) the increased costs of compliance with energy-related schemes.

Environmental factors, including those relating to climate change, have the potential to materially impact BAE Systems' business and operations. Increasing changes in environmental laws and regulations can expose BAE Systems to increasing unplanned capital and operating costs associated with compliance, remediation and protection of the environment. Breaches of these laws and regulations can result in substantial costs, including fines, penalties or other sanctions, investigations and clean-up costs, and third-party claims for property damage or personal injury as well as the termination of permits. Extreme weather events can impact BAE Systems' operational sites as well as those of its suppliers. The shift to a low carbon economy has the potential to increase the cost of business as BAE Systems transitions to lower-emissions technologies and deals with the disposal of its legacy assets.

BAE Systems is subject to risk from a failure to comply with laws and regulations.

BAE Systems operates in a highly regulated environment, across many jurisdictions and is therefore subject to a variety of legal, regulatory and litigation risks. These risks relate to (among other things) trade controls, intellectual property rights, data protection and security, contract-related claims, government contracts (including audits and reviews of those contracts), taxes, environmental matters, sanctions, product safety and reliability, health and safety, employment matters, competition laws and laws governing improper business practices (such as money laundering, false accounting, anti-bribery and corruption, and anti-boycott laws).

These laws and regulations may be interpreted in different ways, conflict and/or change from time to time (as may any related interpretations and guidance). For example, export restrictions could become more stringent and political factors or changing international circumstances could result in BAE Systems being unable to obtain or maintain necessary export licenses. Changes in laws and regulations (or the interpretation thereof) could result in higher compliance costs and impact customer or supplier contracts. Uncertainty relating to laws and regulations may also affect how BAE Systems conducts its business and could limit its ability to enforce its rights.

A breach of applicable legislation and/or regulations by BAE Systems, its employees, sales representatives, marketing advisers or others working on its behalf could result in significant fines, penalties or other damages and/or the suspension or debarment of BAE Systems from government contracts or the suspension of BAE Systems' export privileges.

If customers or other third parties were harmed by the conduct of members of BAE Systems, this may also give rise to legal proceedings, including class actions. Other legal disputes may also arise between members of BAE Systems and third parties relating to matters such as breaches or enforcement of legal rights or obligations arising under contracts, statutes or common law. Adverse findings in any such matters may result in members of BAE Systems being liable to third parties or may result in rights not being enforced or not being enforced in the manner intended or desired. Any of the foregoing could have a material adverse effect on BAE Systems' business, results of operations, financial condition, prospects and reputation.

The outbreak of contagious diseases may have an adverse effect on BAE Systems' business, financial condition and results of operations.

An outbreak of a contagious disease could occur which could introduce constraints on both BAE Systems' operations and those of its supply chain. Contagious diseases, and the measures taken to control them, can have a material adverse effect on BAE Systems' business, results of operations, financial condition and prospects.

Areas of BAE Systems' business that could be impacted include a decrease in spending by BAE Systems' customers; an increase in taxation by governments; the failure to obtain awards for contracts; the inability of BAE Systems to execute its contractual obligations on time and within planned budgets; the inability to adequately staff and manage the business; and a lack of availability of funding.

An aggregate funding deficit could arise in BAE Systems' defined benefit pension schemes.

The assets held by BAE Systems' defined benefit pension schemes (which, as at December 31, 2023, were £24.0 billion) could prove to be insufficient to meet the anticipated liabilities of the schemes, resulting in a funding deficit. Such a funding deficit could be caused by a number of factors including insufficient investment returns and greater than expected member longevity.

If a funding deficit were to arise in any of the schemes, BAE Systems may be required to make deficit repair contributions to those schemes, thereby reducing cash available to meet BAE Systems' other capital allocation priorities. This could have a material adverse effect on BAE Systems' business, results of operations, financial condition and prospects.

See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Accounting Policies and Key Sources of Estimation Uncertainty—Post-Employment Benefit Obligations"* and *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Pension Schemes."*

2. Risks related to the nature of the Securities

The Issuer is a holding company with no revenue-generating operations of its own.

The Issuer is a holding company and does not directly conduct any business operations. The business of BAE Systems is carried out through several operating subsidiaries and joint ventures. Therefore, holders of Securities will not have any direct claim on any of the income generated from BAE Systems' business operations.

Because the Issuer does not have significant business operations of its own, the Issuer will depend upon operating subsidiaries to provide the funds necessary to pay the principal of, and interest on, the Securities. These operating subsidiaries have not guaranteed the Securities, and have no obligation, contingent or otherwise, to pay amounts due under the Securities or to make funds available for these payments, whether in the form of loans, dividends or otherwise. Payments from the operating subsidiaries to the Issuer might not be able to be made in some circumstances, due to corporate law or contractual or other legal restrictions.

Holders of Securities will have a direct claim based on the Securities against the Issuer, but will not have a direct claim based on the Securities against any operating subsidiaries. The right of holders of Securities to receive payments under the Securities will be structurally subordinated to all liabilities of the operating subsidiaries. In the event of a bankruptcy, liquidation, reorganization or similar proceeding relating to a subsidiary, the right of holders of Securities to participate in a distribution of the assets of such subsidiary will rank behind such subsidiary's creditors (including trade creditors) and preferred stockholders (if any), except to the extent that the Issuer has direct claims against such subsidiary.

BAE Systems may incur substantially more debt in the future.

BAE Systems has outstanding debt and other financial obligations. BAE Systems' increased indebtedness may have the effect, among other things, of reducing its flexibility to respond to changing business and economic conditions. The terms of the Securities do not limit the amount of indebtedness BAE Systems may incur and do not impose any financial covenants. BAE Systems may incur substantial additional indebtedness

in the future, including in connection with future acquisitions, some of which may be secured by some or all of BAE Systems' assets. Any incurrence of additional indebtedness could exacerbate the related risks that BAE Systems now faces.

A holder's rights may be inferior to the rights of holders of debt securities under the terms of the documents governing BAE Systems' other indebtedness.

The Issuer may from time to time without the consent of the holders of Securities issue further notes having the same terms and conditions as any Series of Securities. The Issuer may also issue one or more series of other debt under other agreements or indentures that may be entered into from time to time. The Issuer may also issue series of debt securities that provide holders of those debt securities with rights superior to the rights already granted or that may be granted in the future to holders of another series. Investors in the Securities should read carefully the specific terms of each Series of Securities under the heading "*Description of Securities*" in this Offering Memorandum.

A holder's right to receive payments may be adversely affected by the Securities being unsecured obligations of the Issuer and subordinated to secured obligations on insolvency.

The Securities will be unsecured obligations of the Issuer. Holders of secured obligations of the Issuer will have claims that are prior to the claims of holders of the Securities to the extent of the value of the assets securing those other obligations. The Securities issued by the Issuer will rank *pari passu* with all other existing and future direct, unsecured and unsubordinated obligations of the Issuer (except those obligations preferred by statute or operation of law), and will effectively rank junior to any existing and future secured indebtedness of the Issuer to the extent of the value of the assets securing those other obligations. If the Issuer defaults on the Securities or after any distribution of assets or payment in any foreclosure, dissolution, insolvency, winding-up, liquidation, reorganization or other bankruptcy proceeding (other than on a solvent basis), then, to the extent that the Issuer has granted security over its assets, the assets that secure its debts will be used to satisfy the obligations under that secured debt before the Issuer can make payment on the Securities. There may only be limited assets available to make payments on the Securities in the event of an acceleration of the Securities. If there is not enough collateral to satisfy the obligations of the secured debt, then the remaining amounts on the secured debt would share equally with all unsubordinated unsecured indebtedness and holders of the Securities may receive less, ratably, than holders of secured obligations.

The Securities will initially be held in book-entry form and therefore investors in the Securities must rely on the procedures of relevant clearing systems to exercise any rights and remedies.

Unless and until Securities in definitive registered form, or definitive registered Securities, are issued in exchange for book-entry interests, owners of book-entry interests will not be considered owners or holders of Securities. DTC, or its nominee, will be the registered holder of the Global Securities (as defined in "*Description of Securities—Book-Entry; Delivery and Form*") for the benefit of its participants. After payment to the registered holder, BAE Systems will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, owners of book-entry interests must rely on the procedures of DTC, and if such owners are not participants in DTC, on the procedures of the participants through which such owners own their interest, to exercise any rights and obligations of a holder of the applicable Securities. See "*Description of Securities—Book-Entry; Delivery and Form*."

Unlike the holders of the Securities themselves, owners of book-entry interests will not have any direct rights to act upon BAE Systems' solicitations for consents, requests for waivers or other actions from holders of the Securities. Instead, owners of book-entry interests will be permitted to act only to the extent they have received appropriate proxies to do so from DTC, or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable owners of book-entry interests to vote on any matters on a timely basis.

Similarly, upon the occurrence of an event of default, unless and until definitive registered Securities are issued in respect of all book-entry interests, owners of book-entry interests will be restricted to acting through DTC. The procedures to be implemented through DTC may not be adequate to ensure the timely exercise of rights under the Securities. See "*Description of Securities—Book-Entry; Delivery and Form*."

An investment in the Securities may involve currency-related risks.

The Issuer will pay principal and interest on the Securities in U.S. dollars (the "*Specified Currency*"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated primarily in a currency or currency unit (the "*Investor's Currency*") other than the Specified Currency. These risks include possible significant changes in rates of exchange between the Investor's Currency and the Specified Currency, and the imposition or modification of foreign exchange controls or other conditions by applicable governmental entities. These risks generally depend on factors over which BAE Systems has no control, such as economic and political events and the supply of and demand for the relevant currencies in the global markets.

A holder's actual yield on the Securities may be reduced from the stated yield by transaction costs.

When the Securities are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the then current prices of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Securities. For instance, credit institutions as a rule charge their clients for their own commissions which are either fixed minimum commissions or pro rata commissions depending on the order value. To the extent that additional domestic or foreign parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, holders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties.

A holder's effective yield on the Securities may be diminished by the tax impact on that holder of its investment in the Securities.

Payments of interest on the Securities, or profits realized by the holder upon the sale or repayment of the Securities, may be subject to taxation in its home jurisdiction or in other jurisdictions in which it is required to pay taxes. However, the tax impact on a particular holder may differ from the situation described for holders generally. Certain tax consequences of the United Kingdom and the United States relating to the purchase and ownership of the Securities are described under the heading "*Taxation*."

BAE Systems may redeem the Securities at its option, which may adversely affect the return on the Securities.

BAE Systems may redeem the Securities, in whole or in part, at its option at any time or from time to time at the applicable redemption prices described in this Offering Memorandum. During any period when BAE Systems may elect to redeem any Securities, the market value of those Securities generally will not rise substantially above the price at which they can be redeemed. Prevailing interest rates at the time BAE Systems redeems the Securities may be lower than the interest rate on the Securities. As a result, holders of the Securities may not be able to reinvest the redemption proceeds in a comparable security at an interest rate equal to or higher than the interest rate on the Securities. See "*Description of Securities—Optional Redemption*" for a more detailed description of the conditions under which BAE Systems may redeem the Securities.

The Issuer's credit ratings may not reflect all risks of investment in the Securities, and changes in the Issuer's credit ratings may adversely affect the value of the Securities.

Any credit ratings assigned or that will be assigned to the Securities are limited in scope, and do not address all material risks relating to an investment in the Securities, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of such rating may be obtained from such rating agency. There can be no assurance that such credit ratings will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the applicable rating agencies, if, in such rating agency's judgment, circumstances so warrant.

Agency credit ratings are not a recommendation to buy, sell or hold any security. Each agency's rating should be evaluated independently of any other agency's rating. Actual or anticipated changes or downgrades in the Issuer's credit ratings, including any announcement that its ratings are under further review for a downgrade, could affect the market value of the Securities and increase the Issuer's corporate borrowing costs.

An increase in interest rates could result in a decrease in the relative value of the Securities.

In general, as market interest rates rise, notes bearing interest at a fixed rate generally decline in value because the premium, if any, over market interest rates will decline. Consequently, if market interest rates increase after purchasing the Securities, the market value of the Securities may decline. BAE Systems cannot predict the future level of market interest rates.

3. Factors which are material for the purpose of assessing the market risks associated with the Securities

There is no prior market for the Securities and the trading market for the Securities may have limited liquidity or may be volatile.

The Securities are new securities with no established trading market and the Issuer cannot assure holders of the Securities that any market will develop, or, if it does develop, that it will continue to exist. Although application has been made to the London Stock Exchange for the Securities to be admitted to trading on the International Securities Market of the London Stock Exchange, there can be no assurance that the Securities will be approved for listing or that such listing will be maintained. If a market for the Securities were to develop, prevailing interest rates, inflation rates, currency exchange rates and economic and market conditions could affect the price of the Securities. This could cause the Securities to trade at prices that may be lower than their principal amount or their initial offering price. As a result, the Issuer cannot assure investors in the Securities as to the liquidity of any trading market for the Securities.

The Issuer does not intend to register the Securities for resale or to exchange a new series of registered securities for the Securities offered pursuant to this Offering Memorandum.

The Securities have not been registered under the Securities Act, and the Issuer has no obligation or intention subsequently to register or exchange registered securities for the Securities. Accordingly, the Securities can only be offered or sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Therefore, a holder of Securities may be required to bear the risk of its investment for an indefinite period. For a discussion of certain restrictions on resale and transfer, see "*Transfer Restrictions.*"

4. Other risks

Investors in the Securities may have limited recourse against the independent auditor.

See "*Independent Auditors*" for a description of the independent auditor's reports to the members of BAE Systems plc dated February 20, 2024 and February 22, 2023 on the BAE Systems 2023 Annual Financial Statements and BAE Systems 2022 Annual Financial Statements, respectively. In accordance with guidance issued by The Institute of Chartered Accountants in England and Wales, each of the independent auditor's reports included in this Offering Memorandum incorporates language that states that: "This report is made solely to [BAE Systems plc]'s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to [BAE Systems plc]'s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than [BAE Systems plc] and [BAE Systems plc]'s members, as a body, for our audit work, for this report, or for the opinions we have formed." The independent auditor's reports are included on pages F-3 and F-80 of this Offering Memorandum.

Investors in the Securities should understand that in making these statements the independent auditors confirmed that they do not accept or assume any liability to parties (such as the purchasers of the Securities) other than BAE Systems plc and BAE Systems plc's members as a body, as applicable, with respect to the reports and to the independent auditor's audit work and opinions. The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act or in a report filed under the Exchange Act. If a U.S. court (or any other court) were to give effect to such limiting language, the recourse that investors in the Securities may have against the independent auditor based on its report or the consolidated financial statements to which it relates could be limited.

CAPITALIZATION

The following table presents the share capital and reserves and indebtedness of BAE Systems as at December 31, 2023. This table does not give effect to events after this date, including the Ball Aerospace acquisition or the incurrence of debt under the Bridge Loan Facility related thereto, the Air Astana IPO or the Malloy Aeronautics acquisition. See note 34 to the BAE Systems 2023 Annual Financial Statements. In addition, this table does not give effect to this offering and the use of proceeds from this offering. See "*Use and Estimated Amount of Net Proceeds*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*."

	As at December 31, 2023
	(In £ millions)
Share Capital and Reserves:	
Issued share capital–equity[1]	81
Issued share capital–non-equity[1]	—
Share premium	1,253
Other reserves[2]	6,403
Retained earnings	2,822
Total equity attributable to equity holders of BAE Systems plc	10,559
Non-controlling interests	164
Total equity	10,723
Indebtedness and Other Borrowing:[3][4][5][6]	
Long-term loans guaranteed by the Issuer	1,560
Long-term loans not guaranteed by the Issuer	2,872
Total long-term loans	4,432
Short-term loans and overdrafts[7]	679
Long-term lease liabilities	1,273
Short-term lease liabilities	147
Total capitalization[8]	17,254

(1) The following table presents the share capital of BAE Systems at December 31, 2023.

	Issued	
	Number	Nominal Value
		(In £)
Equity: Ordinary shares of £0.025 each	3,239 million	81 million
Non-Equity: Special share of £1.00	1	1

(2) Other Reserves

	(In £ millions)
Merger reserve	4,589
Statutory reserve[A]	202
Revaluation reserve	10
Capital redemption reserve	9
Hedging reserve	(64)
Translation reserve	1,657
Other reserves	**6,403**

(A) Under Section 4 of the British Aerospace Act of 1980, the statutory reserve may only be applied in paying up unissued shares of BAE Systems to be allotted to members of BAE Systems as fully paid bonus shares.

(3) Except as set out in the table, BAE Systems did not have outstanding at December 31, 2023 any loan capital (either issued or created but unissued), term loans or other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments or commitments under leases (other than short-term leases, low-value leases and leases of intangible assets). At December 31, 2023, BAE Systems was committed to future undiscounted lease payments of £68 million in respect of leases which had not yet commenced.

(4) All debt is unsecured and not guaranteed by any third party.

(5) The carrying amount of loans and overdrafts at December 31, 2023 excludes debt-related derivative financial instruments assets of £22 million presented as other financial assets, net on BAE Systems' balance sheet.

(6) Excludes $4.0 billion drawn under the Bridge Loan Facility on February 16, 2024, which together with $1.5 billion in cash from BAE Systems' existing cash resources was applied in initial settlement of the Ball Aerospace acquisition. BAE Systems intends to refinance the Bridge Loan Facility with a portion of the proceeds from this offering.

(7) Includes £627 million in bonds issued by BAE Systems Holding Inc. and guaranteed by the Issuer. There were no overdraft balances as at December 31, 2023.

(8) Total equity *plus* Total long-term loans *plus* Short-term loans *plus* Long-term lease liabilities *plus* Short-term lease liabilities.

USE AND ESTIMATED AMOUNT OF NET PROCEEDS

The net amount of proceeds to the Issuer from the Offering is estimated to be approximately $4.754 billion, after deducting discounts but before deducting any expenses associated with the Offering. The net proceeds of the Offering will be used (i) to refinance $4.0 billion in aggregate principal amount outstanding under the Bridge Loan Facility Agreement incurred to fund part of the acquisition price of Ball Aerospace and (ii) for general corporate purposes, including the repayment of indebtedness.

Certain of the Initial Purchasers or their affiliates have lending relationships with the Issuer and its subsidiaries, including under the Bridge Facility and will therefore receive a portion of the net proceeds of the Offering. See also "*Plan of Distribution.*"

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of BAE Systems should be read in conjunction with the BAE Systems 2023 Annual Financial Statements, and the other financial information included elsewhere in this Offering Memorandum. For information regarding the definitions and use of certain APMs used in the following discussion and analysis investors should refer to the information set forth under "Presentation of Currency and Financial and Other Information."

Overview

General

BAE Systems is an international defense, aerospace and security company with leading positions in major defense and security markets around the world—including the United States, United Kingdom, the Kingdom of Saudi Arabia and Australia—as well as established positions in a number of other international markets. BAE Systems has a diverse portfolio of capabilities in the air, sea, land and space domains, which provides it with a comprehensive offering for BAE Systems' customers around the world, making it one of the broadest and most geographically diverse major defense companies.

Acquisitions, Divestitures and Sales During the Period

In March 2022, BAE Systems completed the acquisition of Bohemia Interactive Simulations Group ("*BISim*") for consideration of $200 million (£151 million). 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 defense applications. BISim forms part of the Cyber & Intelligence reporting segment.

On October 28, 2022, BAE Systems completed the sale of its financial crime detection business from within the Digital Intelligence business in BAE Systems' Cyber & Intelligence reporting segment to SymphonyAI.

BAE Systems regularly examines the options for its business and reviews its portfolio to ensure it remains aligned to BAE Systems' strategy. In accordance with its capital allocation policy, BAE Systems will consider investment in value-enhancing acquisitions where market conditions are right and where they deliver on its strategy.

Currency Exchange Rate Fluctuations

BAE Systems' business is exposed to a number of foreign currencies, the most significant being the U.S. dollar, the euro, the Saudi riyal and the Australian dollar. BAE Systems' objective is to reduce its exposure to transactional volatility in earnings and cash flows from movements in foreign currency exchange rates.

BAE Systems is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, BAE Systems' policy is to hedge all material firm transactional currency exchange rate exposures. BAE Systems aims, where possible, to apply hedge accounting treatment for all derivatives that hedge material foreign currency exposures.

BAE Systems is also 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. BAE Systems does not hedge the translation effect of exchange rate movements on the income statements or balance sheets of foreign subsidiaries and equity accounted investments that it regards as long-term investments.

Recent Developments

In February 2024, BAE Systems completed the acquisition of 100% of the share capital of Ball Aerospace, a leading provider of spacecraft, mission payloads, optical systems and antenna systems, from Ball Corporation for consideration of $5.5 billion (£4.4 billion), with an expected net present value tax benefit of approximately $750 million. Upon completion, BAE Systems drew down $4.0 billion (£3.2 billion) under the

Bridge Facility, and paid $1.5 billion (£1.2 billion) in cash from BAE Systems' existing cash resources, in initial settlement of the transaction. Headquartered in Colorado, with more than 5,200 employees, Ball Aerospace has existing customer relationships among the intelligence community, United States Department of Defense, and civilian space agencies. BAE Systems believes Ball Aerospace is well positioned across several markets: military and civil space, C4ISR, and missile and munitions. The space market exposure extends across positions in defense, intelligence, and scientific missions. BAE Systems believes Ball Aerospace's tactical solutions business is well positioned to capture expected increases in demand for missiles and munitions. The newly acquired business will be called Space & Mission Systems and will map within the Electronic Systems reporting segment.

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

At December 31, 2023, BAE Systems held a 49% shareholding in Air Astana. As a result of Air Astana's joint IPO on the London Stock Exchange, the Astana International Exchange in Kazakhstan, and the Kazakhstan Stock Exchange in February 2024, the total shareholding held by BAE Systems in Air Astana is 16.95%, with proceeds from the sale of shares of $213 million. BAE Systems will continue to equity account for the remaining investment.

Dividends

The board of directors of BAE Systems plc (the "*Board of Directors*") proposed a final dividend for 2023 of 18.5p per ordinary share. The dividend proposed amounts to approximately £599 million, although the final payment is likely to be lower as a result of the impact of share repurchases. The dividend, which is subject to shareholder approval, will be paid on June 3, 2024 to shareholders registered on April 19, 2024. The payment of this dividend will not have any tax expense consequences for BAE Systems.

Share Buyback Programs

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

In July 2022, the Board of Directors approved a new share buyback program (the "*2022 share buyback program*") of up to £1.5 billion over the next three years under the same terms as the 2021 share buyback program. During 2022, 82,997,065 shares were repurchased under the 2022 share buyback program for a total price, including transaction costs, of £664 million. In total during 2022, 107,250,130 shares were repurchased under the 2021 and 2022 share buyback programs for a total price, including transaction costs, of £796 million.

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

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

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

In August 2023, the Board of Directors approved a further share buyback program of up to £1.5 billion, which is expected to commence after completion of the 2022 share buyback program and conclude within three years of its commencement.

Outlook in BAE Systems' Markets

BAE Systems sees long-term growth and significant opportunities in BAE Systems' United States, United Kingdom, European, Middle Eastern, Australian and Asia Pacific businesses. In 2023, global supply chain disruptions and high inflation continued, though these pressures are starting to recede. While governments continue to face global economic and fiscal pressures, commitment to defense spending in BAE Systems' major markets remains robust. During 2023, geopolitical instability has increased and, as one of the world's largest defense contractors, according to market data for 2022, BAE Systems has continued to play a leading role in supporting its government customers in the elevated threat environment. Most of the countries where BAE Systems operates have either announced budget increases or are planning increased spending to address the elevated threat environment. The heightened threat environment and more sophisticated technology are leading to increased government cyber spending in markets including the United States, United Kingdom and Australia, and BAE Systems believes it is well placed to support its customers in these markets.

BAE Systems maintains leading positions in major defense and security markets around the world—including the United States, United Kingdom, the Kingdom of Saudi Arabia and Australia. The United States continues to be the single largest defense market in the world. BAE Systems is a top-ten defense prime contractor in the United States, according to market data for 2022. As the largest defense company in the United Kingdom, according to market data for 2022, BAE Systems has strong and enduring relationships with the United Kingdom Ministry of Defence and BAE Systems' domestic supply chains. As the largest defense company in Australia, according to market data for 2022, BAE Systems has a strong presence across all domains and is growing as the country's defense budget increases. The Kingdom of Saudi Arabia continues to be a leading military power in the Middle East and one of the largest defense markets globally.

BAE Systems also maintains established positions in a number of other international markets. In Europe, BAE Systems is meeting the increased demand for advanced military equipment across all domains, as countries are transitioning away from older-generation systems and recapitalizing with modern, more advanced air-based, land-based and sea-based systems. In Canada, BAE Systems has a long history of supporting the Canadian Armed Forces. BAE Systems also continues to support other customers in Oman, Kuwait and Qatar. In the wider Asia-Pacific region, BAE Systems is a supplier to a number of armed forces, both directly and through joint ventures.

Operational Performance

BAE Systems' Electronic Systems segment continued to experience strong demand across its customer base for electronic systems, as evidenced by its 2023 order generation. The Electronic Systems segment continued to manage supply chain constraints effectively in 2023 and saw stability and easing in some areas. The Electronic Systems segment supported existing customers on key electronic warfare and precision guided munition programs, while pursuing and maturing new opportunities. In its commercial businesses, with airline traffic and business travel increasing, there is stronger demand for Original Equipment Manufacturer (OEM) deliveries and aftermarket services. Clean air regulations continue to drive the transportation industry towards alternative energy sources, like the segment's propulsion solutions.

In response to a changing global landscape that is prioritizing defense spending to enhance and replenish capabilities, the Platforms & Services segment remains focused on meeting increased customer demand for its products and services, including munitions, tracked combat vehicles, artillery systems and support services. In the United States, its Combat Mission Systems team is producing at heightened volumes across multiple programs, drawing on its manufacturing network and engineering capability spanning the United States, including expanded operations at its York, Pennsylvania, site to enable increased production of armored multi-purpose vehicles ("*AMPVs*") and amphibious combat vehicles ("*ACVs*") to match customer requirements. The team continues to support critical vehicle modernization programs, and the AMPV entered the full-rate production phase during the second half of 2023 as the next-generation replacement for the M113. The BAE Systems Hägglunds team continued to build its order book with a large order for the CV90 MkIV infantry fighting vehicles in seven different variants from the Czech Republic. Ongoing build and upgrades continue for the current fleet of CV90s for a number of nations. BAE Systems Hägglunds has also seen a renewed interest in Arctic operations, leading to additional sales of its BvS10 all-terrain family of combat vehicles. Additionally, the team secured a strong partner to bring the BvS10 to the Indian market. In the Platforms & Services segment, support services operations, modernization and maintenance activities

continue in its United States shipyards for the United States Navy's non-nuclear fleet. The segment secured a ten-year contract, with a ceiling value of $8.8 billion (£7.1 billion), to continue operating the United States Army's Holston Army Ammunition Plant, and continues to operate and modernize the Radford Army Ammunition Plant into 2026.

The Air segment continues to work with its customers to support their existing platforms and provide new enhanced capabilities. Deliveries of Typhoon to Qatar continue, alongside support to the in-service fleet. In the Kingdom of Saudi Arabia, BAE Systems' support for Typhoon has been extended for a further five-year term. In the US Programmes division, BAE Systems is focused on delivery execution across all production lines with 162 F-35 aft fuselages completed in 2023. The formation of the new FalconWorks® organization and ongoing progress on the future combat air activities are important to future growth as BAE Systems invests in its people, facilities and technologies.

Within the Maritime segment, major maritime platform programs continue to progress, with sea trials commencing for HMS Anson, the fifth Astute Class submarine, as well as the start of construction of both the third Dreadnought Class submarine, HMS Warspite, and the fourth Type 26 frigate, HMS Birmingham. The Hunter class frigate program in Australia has achieved key milestones and BAE Systems continues to meet customer delivery and support requirements in both Munitions and Maritime Services. Ongoing investments in BAE Systems' facilities and its people will help ensure it can support increasing customer demand and, with the future potential of AUKUS, the enhanced trilateral security partnership between Australia, the United Kingdom, and the United States, BAE Systems believes that the segment is well positioned for future growth.

The Intelligence & Security business in the Cyber & Intelligence segment performed well in 2023, supporting government customers across the United States Department of Defense, federal agencies and civilian organizations with innovative, mission-enabling solutions. BAE Systems continues to focus on cultivating a strong pipeline of qualified business opportunities across its United States-based business units—Air & Space Force Solutions, Integrated Defense Solutions, and Intelligence Solutions. In Digital Intelligence, BAE Systems has stepped up its investment in the business for future growth. During the year, it opened a new site in Manchester to broaden its footprint and enable the business to access the wider labor market. BAE Systems has also invested in talent recruitment and development through training academies to generate skillsets which are in short supply.

Changes in Accounting Policies and Estimates

There are no standards, interpretations and amendments to existing standards that became effective on January 1, 2023 that have had a material impact on BAE Systems. There are no accounting policy changes which are expected to have a significant impact on BAE Systems with effect from January 1, 2024. See Note 1 to the BAE Systems 2023 Annual Financial Statements.

Results of Operations for the Year Ended December 31, 2023 Compared with the Year Ended December 31, 2022

The following table presents BAE Systems' reporting segments' sales, revenue, Underlying EBIT and operating profit for the years ended December 31, 2023 and December 31, 2022.

	Year Ended December 31, 2023				Year Ended December 31, 2022			
	Sales[(1)]	Revenue[(1)]	Underlying EBIT[(1)]	Operating profit[(1)]	Sales[(1)]	Revenue[(1)]	Underlying EBIT[(1)]	Operating profit/(loss)[(1)]
	(In £ millions)							
Electronic Systems	5,458	5,456	878	806	5,057	5,057	838	747
Platforms & Services	3,922	3,842	354	373	3,688	3,598	326	322
Air	8,058	6,517	949	948	7,698	6,286	849	809
Maritime	5,536	5,391	425	423	4,598	4,484	356	352
Cyber & Intelligence	2,321	2,321	199	179	2,205	2,205	232	291
HQ	471	10	(123)	(156)	420	10	(122)	(137)
Subtotal	**25,766**	**23,537**	**2,682**	**2,573**	**23,666**	**21,640**	**2,479**	**2,384**
Deduct: Intra-Group	(482)	(459)	—	—	(410)	(382)	—	—
Total	**25,284**	**23,078**	**2,682**	**2,573**	**23,256**	**21,258**	**2,479**	**2,384**

(1) See "*Presentation of Currency and Financial and Other Information*" for an explanation of the components and calculation method of this measure.

Certain APMs, including constant currency basis, sales, Underlying EBIT, Return on sales, Adjusting items, Underlying net finance costs, Underlying profit before tax, Underlying effective tax rate, Operating business cash flow, Free cash flow, Net debt (excluding lease liabilities), Order backlog and Order intake are also included or referred to herein. For information regarding the definitions and use of certain APMs used in the following discussion and analysis investors should refer to the information set forth under *"Presentation of Currency and Financial and Other Information."*

Sales

Sales is used by management to monitor the revenue of both BAE Systems' own subsidiaries and its equity accounted investments, to ensure program performance is understood and in line with expectations. Sales is defined as revenue plus BAE Systems' share of revenue of equity accounted investments, excluding BAE Systems' subsidiaries' revenue from equity accounted investments. The definition is consistent with the sales performance measure disclosed in note 2 to the BAE Systems 2023 Annual Financial Statements on a segmental basis.

Sales increased by £2,028 million (8.7%) to £25,284 million in 2023 from £23,256 million in 2022, a 9% increase on a constant currency basis. The growth in sales was driven by strong program performance across all sectors. In particular, the Maritime reporting segment accounted for nearly 47% of the overall increase in BAE Systems' sales. A key feature of this sales growth within the Maritime segment was the acceleration of activities on Dreadnought, which accounted for approximately 25% of the overall BAE Systems sales growth and contributed to a 22% increase in sales within the Maritime segment on a constant currency basis.

Revenue

Revenue is defined as income derived from contracts for the provision of goods and services, over time or at a point in time, by BAE Systems and its subsidiary undertakings, in exchange for consideration in the ordinary course of BAE Systems' activities.

Revenue increased by £1,820 million to £23,078 million in 2023 from £21,258 million in 2022, an 8.6% increase on a reported currency basis. The growth in revenue was driven by strong program performance across all sectors, reflective of the same drivers behind the increase in sales for the year excluding the impact of MBDA in the Air reporting segment.

Underlying EBIT

Underlying EBIT is 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, enabling management to monitor the performance of recurring operations over time and compare performance across BAE Systems. Underlying EBIT is defined as operating profit excluding amortization of program, customer-related and other intangible assets, impairment of intangible assets, net finance costs/(income) and tax expense of equity accounted investments and adjusting items. The exclusion of amortization of acquisition-related intangible assets is to allow consistent comparability internally and externally between BAE Systems' businesses, regardless of whether they have been grown organically or via acquisition.

Adjusting items are defined as items of financial performance excluded from the reported underlying results which have been determined by BAE Systems' management as being material by their size or incidence and not relevant to an understanding of BAE Systems' underlying business performance. BAE Systems' 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 BAE Systems' management has determined as not being relevant to an understanding of BAE Systems' underlying business performance.

Underlying EBIT increased by £203 million (8.2%) to £2,682 million in 2023, compared with £2,479 million in 2022, or 9% on a constant currency basis, reflecting growth in Underlying EBIT at all segments other than Cyber & Intelligence due to additional investment in the business in space and multi-domain networking. Margins were steady as improvements in the Air and Platforms & Services reporting segments offset the margin headwind presented by the higher submarines activity, which trades at a regulated profit. In 2023, Adjusting items totaled a net gain of £40 million, mainly comprising a £60 million gain on a U.S. pension annuity buy-out, partially offset by £13 million in costs related to the Ball Aerospace acquisition in Electronic Systems, and £7 million in costs related to current and historical business acquisitions in Cyber & Intelligence and HQ. In 2022, Adjusting items totaled a net a gain of £91 million, comprising a £94 million gain on the disposal of the financial crime detection business in Digital Intelligence and a £13 million gain related to past service cost on the pension schemes, offset by £16 million of costs related to current and historical business transactions. Return on sales was 10.6% in 2023 and 10.7% in 2022.

Operating Profit

Operating profit is defined as profit for the year before net finance costs and tax expense. This measure includes finance costs and tax expense of equity accounted investments.

Operating profit increased by £189 million to £2,573 million in 2023 from £2,384 million in 2022, an increase of 7.9% on a reported currency basis. On an operating segment basis this reflected the same drivers as Underlying EBIT. Return on revenue was 11.1% in 2023 and 11.2% in 2022.

Amortization of Program, Customer-Related and Other Intangible Assets

Amortization of program, customer-related and other intangible assets increased by £1 million in 2023 to £111 million, from £110 million in 2022.

Impairment of Intangible Assets

Impairment of intangible assets totaled £5 million in 2023 compared with £1 million in 2022.

Underlying Net Finance Costs

Underlying net finance costs provides a measure of finance costs associated with the operational borrowings of BAE Systems that is comparable over time. Underlying net finance costs is defined as net finance costs for BAE Systems and its share of equity accounted investments, excluding net interest income/expense on post-employment benefit obligations and fair value and foreign exchange adjustments on financial instruments.

Underlying net finance costs for BAE Systems and its share of equity accounted investments decreased to £211 million in 2023, compared to £246 million in 2022. Of this, costs of £231 million related to BAE Systems, as compared to costs of £230 million in 2022, and income of £20 million related to BAE Systems' share of equity accounted investments, as compared to costs of £16 million in 2022. The improvement in Underlying net finance costs largely reflected the increase in interest rates applied to surplus cash during the year.

Net Finance Costs

Net finance costs decreased to £247 million in 2023 from £395 million in 2022, a decrease of £148 million. Excluding the £35 million improvement in Underlying net finance costs, all other net finance costs recorded a gain of £113 million. This was largely the result of the £41 million net interest income on BAE Systems' pension surplus, compared to a net interest expense of £37 million on the pension deficit position at the start of 2022. The balance of the improvement was the result of foreign exchange gains on BAE Systems' U.S. dollar-denominated borrowings, largely being offset by losses on the remeasurement of financial instruments principally held to manage BAE Systems' exposure to interest rate fluctuations.

Underlying Effective Tax Rate and Underlying Tax Expense

The Underlying effective tax rate is defined as underlying tax expense as a percentage of Underlying profit before tax. Underlying tax expense is defined as tax expense for BAE Systems and its share of equity accounted investments, excluding any tax benefit/expense related to adjusting items, including tax rate adjustments and other items excluded from underlying profit. The underlying effective tax rate provides a measure of tax expense for BAE Systems, excluding one-off items, that is comparable over time.

The Underlying effective tax rate was 19% in 2023 and 2022. The Underlying effective tax rate in 2023 is based on Underlying profit before tax (including equity accounted investments) of £2,471 million compared to £2,233 million in 2022.

Underlying tax expense was £472 million in 2023, reflecting the higher underlying pre-tax profits, compared with underlying tax expense of £422 million in 2022.

Effective Tax Rate and Tax Expense

Tax expense as defined in IFRS was £386 million in 2023, reflecting an effective tax rate of 16.6%, compared with £315 million and 15.8%, respectively, in 2022, reflective of the increase in the United Kingdom's corporation tax rate in 2023 and BAE Systems' pre-tax profits. The 2023 effective tax rate in 2023 is based on profit before tax of £2,326 million compared to £1,989 million in 2022.

Order Intake

Order intake is used by management to monitor the order intake of BAE Systems together with its equity accounted investments, providing insight into future years' sales performance, and is defined as funded orders received from customers including BAE Systems' share of order intake of equity accounted investments.

Order intake increased by £0.6 billion (1.6%) to £37.7 billion in 2023 from £37.1 billion in 2022. The three largest orders driving the order intake in the year were the funding of £3.95 billion awarded by the United Kingdom Ministry of Defence for the next phase of the United Kingdom's next-generation nuclear-powered attack submarine program, SSN-AUKUS, in the Maritime reporting segment, and £2.4 billion for the continued Delivery Phase 3 activity on the Dreadnought Class submarine program in the Maritime reporting segment, as well as the renewal of the Government-to-Government Typhoon support services in the Kingdom of Saudi Arabia for a further five years through to the end of 2027, valued at £3.7 billion, in the Air reporting segment.

Order Backlog

Order backlog is used by management to assess future years' sales performance of BAE Systems' operations, and is defined as order book, less order book in respect of orders from equity accounted investments, plus unfunded order backlog and BAE Systems' share of order backlog of equity accounted

investments. Unfunded orders include the elements of United States multi-year contracts for which funding has not been authorized by the customer.

Order backlog increased by £10.9 billion (18.5%) to £69.8 billion in 2023 from £58.9 billion in 2022. The Air reporting segment recorded the highest Order backlog at December 31, 2023, reflecting significant orders in MBDA and from the Kingdom of Saudi Arabia during the year. The Order backlog in the Maritime reporting segment also remains high, reflecting the submarine and ship build programs.

Reporting Segments

Electronic Systems

In 2023, the Electronic Systems reporting segment had Underlying EBIT of £878 million on sales of £5,458 million, representing a £40 million (4.8%) increase in Underlying EBIT from £838 million and a £401 million (7.9%) increase in sales from £5,057 million in 2022. Underlying EBIT increased 5% on a constant currency basis and sales increased 9% on a constant currency basis, led by continued recovery in the commercial aviation business across both civil aviation and power and propulsion, along with gains in electronic combat systems. Operating profit of £806 million on revenue of £5,456 million in 2023 represented a £59 million (7.9%) increase in operating profit from £747 million and a £399 million (7.9%) increase in revenue from £5,057 million in 2022.

Return on sales decreased to 16.1% in 2023 from 16.6% in 2022 while return on revenue remained stable at 14.8% in 2023 and 2022. The decrease in Return on sales reflected lower pension recoveries in the United States, partially offset by an increase in higher margin commercial activity. The Electronic Systems reporting segment generated an operating business cash inflow of £811 million in 2023, up from an inflow of £650 million in 2022, reflecting improved working capital management, and a cash inflow from operating activities of £961 million in 2023, up from an inflow of £860 million in 2022.

Order intake and Order backlog for the Electronic Systems reporting segment (in each case, including share of equity accounted investments) were £6.7 billion and £8.9 billion, respectively, as at December 31, 2023, compared to £5.4 billion and £8.1 billion, respectively, as at December 31, 2022.

Platforms & Services

In 2023, the Platforms & Services reporting segment had Underlying EBIT of £354 million on sales of £3,922 million, representing a £28 million (8.6%) increase in Underlying EBIT from £326 million and a £234 million (6.3%) increase in sales from £3,688 million in 2022. Sales increased 8% on a constant currency basis. The BAE Systems Hägglunds business accounted for almost two thirds of the segment's growth, with significant gains also recorded in the US Ship Repair business. Operating profit of £373 million on revenue of £3,842 million in 2023 represented a £51 million (15.8%) increase in operating profit from £322 million and a £244 million (6.8%) increase in revenue from £3,598 million in 2022.

Return on sales increased to 9.0% in 2023 from 8.8% in 2022 while return on revenue increased to 9.7% from 8.9%. As with the increase in Underlying EBIT, the growth in Return on sales reflected the strong operational performance in the BAE Systems Hägglunds and US Ship Repair businesses in 2023. The Platforms & Services reporting segment generated an operating business cash inflow of £426 million in 2023, down from an inflow of £525 million in 2022, largely reflecting the timing of funding from customers and capital expenditure, predominantly in US Ship Repair, and a cash inflow from operating activities of £624 million in 2023, down from an inflow of £633 million in 2022.

Order intake and Order backlog for the Platforms & Services reporting segment (in each case, including share of equity accounted investments) were £7.7 billion and £11.5 billion, respectively, as at December 31, 2023, compared to £5.7 billion and £8.1 billion, respectively, as at December 31, 2022. Significant awards in the year include the Czech Republic award for 246 CV90 MkIV infantry fighting vehicles worth $2.2 billion (£1.8 billion).

Air

In 2023, the Air reporting segment had Underlying EBIT of £949 million on sales of £8,058 million, representing a £100 million (11.8%) increase in Underlying EBIT from £849 million and a £360 million (4.7%)

increase in sales from £7,698 million in 2022. Sales increased 4% on a constant currency basis. The growth in Underlying EBIT in 2023 reflected the higher sales and risk retirement. The Air reporting segment saw increased activity in MBDA and higher air support volumes, while the future combat air program continued to gain pace with activity more than doubling in 2023. Operating profit of £948 million on revenue of £6,517 million in 2023 represented a £139 million (17.2%) increase in operating profit from £809 million and a £231 million (3.7%) increase in revenue from £6,286 million in 2022.

Return on sales increased to 11.8% in 2023 from 11.0% in 2022, reflecting good operational performance and risk retirement, while return on revenue increased to 14.5% from 12.9%. The Air reporting segment generated an operating business cash inflow of £1,669 million in 2023, up from an inflow of £1,140 million in 2022, reflecting the timing of customer advances and down payments from recent awards, and a cash inflow from operating activities of £1,808 million in 2023, up from an inflow of £1,202 million in 2022.

Order intake and Order backlog for the Air reporting segment (in each case, including share of equity accounted investments) were £11.0 billion and £27.2 billion, respectively, as at December 31, 2023, compared to £14.0 billion and £24.4 billion, respectively, as at December 31, 2022. Significant orders include agreement of a further five-year Salam Typhoon support contract, valued at £3.7 billion, as well as multiple awards in MBDA across both the import and export markets.

Maritime

In 2023, the Maritime reporting segment had Underlying EBIT of £425 million on sales of £5,536 million, representing a £69 million (19.4%) increase in Underlying EBIT from £356 million, following a year of strong sales growth, and a £938 million (20.4%) increase in sales from £4,598 million in 2022. Sales were up 22% on a constant currency basis, due to accelerated funding on the Dreadnought program. Operating profit of £423 million on revenue of £5,391 million in 2023 represented a £71 million (20.2%) increase in operating profit from £352 million and a £907 million (20.2%) increase in revenue from £4,484 million in 2022.

Return on sales remained stable at 7.7% in 2023, from 7.7% in 2022, while return on revenue decreased to 7.8% in 2023, from 7.9% in 2022. Margins reflected the regulated profit environment on the Dreadnought program. The Maritime reporting segment generated an operating business cash inflow of £291 million in 2023, up from an inflow of £235 million in 2022 and a cash inflow from operating activities of £629 million in 2023, up from an inflow of £418 million in 2022. Operating business cash flow is after capital investment in shipbuilding facilities in Glasgow and the Munitions business in Glascoed.

Order intake of £10.1 billion, primarily driven by the award of £3.95 billion for the next phase of SSN-AUKUS as well as additional funding of £2.4 billion for the continued activity on Dreadnought, pushed Order backlog for the Maritime reporting segment to £21.3 billion as at December 31, 2023 (in each case, including share of equity accounted investments), compared to order intake and Order backlog of £9.7 billion and £17.2 billion, respectively, as at December 31, 2022.

Cyber & Intelligence

In 2023, the Cyber & Intelligence reporting segment had Underlying EBIT of £199 million on sales of £2,321 million, representing a £33 million (14.2%) decrease in Underlying EBIT from £232 million and a £116 million (5.3%) increase in sales from £2,205 million in 2022. Sales increased 6% on a constant currency basis. Both the United Kingdom and United States businesses saw increased operations in 2023. Sales growth was 9% on a constant currency basis after adjusting for the divestment of the financial crime detection business in 2022. The United States Intelligence & Security business grew 10%, primarily as a result of increased classified, sustainment and systems integration work, while outside the United States, BAE Systems saw a sharp increase in National Security cyber sales. Underlying EBIT was down 14% on a constant currency basis, following additional investment in the year in space and multi-domain networking, and higher recruitment and facilities costs. Operating profit of £179 million on revenue of £2,321 million in 2023 represented a £112 million (38.5%) decrease in operating profit from £291 million and a £116 million (5.3%) increase in revenue from £2,205 million in 2022.

Return on sales decreased to 8.6% in 2023 from 10.5% in 2022, while return on revenue decreased to 7.7% from 13.2%, for the reasons stated above. The Cyber & Intelligence reporting segment generated an operating

business cash inflow of £204 million in 2023, up from an inflow of £154 million in 2022 and a cash inflow from operating activities of £261 million in 2023, up from an inflow of £191 million in 2022.

Order intake and Order backlog for the Cyber & Intelligence reporting segment (in each case, including share of equity accounted investments) of £2.5 billion and £2.0 billion, respectively, as at December 31, 2023, compared to £2.4 billion and £2.1 billion, respectively, as at December 31, 2022. Order backlog has remained steady against the prior year, with a ratio of order intake to sales of 1.1.

HQ

In 2023, the HQ reporting segment had Underlying EBIT loss of £123 million on sales of £471 million, representing a £1 million (0.8%) decrease in Underlying EBIT loss from £122 million and a £51 million (12.1%) increase in sales from £420 million in 2022. Operating loss of £156 million on revenue of £10 million in 2023 represented a £19 million (13.9%) decrease in operating loss from £137 million and no change in revenue from £10 million in 2022.

The HQ reporting segment generated an operating business cash outflow of £183 million in 2023, down from an outflow of £152 million in 2022 and a cash outflow from operating activities of £128 million in 2023, down from an outflow of £100 million in 2022.

Liquidity and Capital Resources

The following table presents a reconciliation of Operating business cash flow and Free cash flow to net cash flow from operating activities as included in the BAE Systems 2023 Annual Financial Statements and the components of Net debt (excluding lease liabilities) as at and for the years ended December 31, 2023 and December 31, 2022.

	As at and for the Year Ended December 31,	
	2023	2022
	(In £ millions)	
Operating business cash flow[1]	**3,218**	**2,552**
Add: Net capital expenditure and financial investment[2]	789	519
Add: Principal element of lease payments and receipts	282	227
Deduct: Dividends received from equity accounted investments	(134)	(94)
Deduct: Tax paid net of research and development expenditure credits received	(395)	(365)
Net cash flow from operating activities	**3,760**	**2,839**
Net capital expenditure and financial investment[2]	(789)	(519)
Principal element of finance lease receipts	10	9
Dividends received from equity accounted investments	134	94
Interest received	126	32
Acquisitions and disposals[3]	(22)	(38)
Net cash flow from investing activities	**(541)**	**(422)**
Interest paid	(356)	(269)
Equity dividends paid	(857)	(802)
Purchase of own shares	(561)	(788)
Dividends paid to non-controlling interests	(88)	(166)
Principal element of lease payments	(292)	(236)
Cash inflow from matured derivative financial instruments (excluding cash flow hedges)	193	533
Cash outflow from matured derivative financial instruments (excluding cash flow hedges)	(389)	(205)

	As at and for the Year Ended December 31,	
	2023	2022
	(In £ millions)	
Net cash flow from loans	162	(400)
Net cash flow from financing activities	**(2,188)**	**(2,333)**
Net increase in cash and cash equivalents	**1,031**	**84**
Cash and cash equivalents	**4,067**	**3,107**
Debt-related derivative financial instruments (net)	22	112
Loans–non-current	(4,432)	(5,189)
Loans and overdrafts–current	(679)	(53)
Net debt (excluding lease liabilities)[1]	**(1,022)**	**(2,023)**
Net cash flow from operating activities	**3,760**	**2,839**
Deduct: Net capital expenditure and financial investment[2]	(789)	(519)
Deduct: Principal element of lease payments and receipts	(282)	(227)
Add: Dividends received from equity accounted investments	134	94
Deduct: Interest paid, net of Interest received[4]	(230)	(237)
Free cash flow[1]	**2,593**	**1,950**

(1) See "*Presentation of Currency and Financial and Other Information*" for an explanation of the components and calculation method of this APM.

(2) Net capital expenditure and financial investment is derived from the line items Proceeds from funding related to assets *plus* Proceeds from sale of property, plant and equipment and investment property *plus* Proceeds from sale of non-current other investments *less* Purchase of property, plant and equipment and investment property *less* Purchase of intangible assets *less* Purchase of non-current other investments *less* equity accounted investment funding in the BAE Systems 2023 Annual Financial Statements.

(3) Acquisitions and disposals is derived from the line items Purchase of subsidiary undertakings and equity accounted investments, net of cash and cash equivalents acquired *plus* Cash flow in respect of business disposals, net of cash and cash equivalents disposed in the BAE Systems 2023 Annual Financial Statements.

(4) Interest paid, net of interest received is derived from the line items Interest paid *less* Interest received in the BAE Systems 2023 Annual Financial Statements.

Operating Business Cash Flow by Segment

	Year Ended December 31, 2023						
	(In £ millions)						
	Electronic Systems	Platforms & Services	Air	Maritime	Cyber & Intelligence	HQ	Total
Operating business cash flow	811	426	1,669	291	204	(183)	**3,218**
Deduct: Dividends received from equity accounted investments	(8)	—	(112)	(7)	—	(7)	(134)
Add back: Net capital expenditure, lease principal amounts and financial investment	158	198	251	345	57	62	1,071
Tax paid net of research and development expenditure credits received	—	—	—	—	—	—	(395)
Net cash flow from operating activities	**961**	**624**	**1,808**	**629**	**261**	**(128)**	**3,760**

	Year Ended December 31, 2022						
	(In £ millions)						
	Electronic Systems	Platforms & Services	Air	Maritime	Cyber & Intelligence	HQ	Total
Operating business cash flow	650	525	1,140	235	154	(152)	**2,552**
Deduct: Dividends received from equity accounted investments	(6)	—	(84)	(4)	—	—	(94)
Add back: Net capital expenditure, lease principal amounts and financial investment	216	108	146	187	37	52	746
Tax paid net of research and development expenditure credits received	—	—	—	—	—	—	(365)
Net cash flow from operating activities	**860**	**633**	**1,202**	**418**	**191**	**(100)**	**2,839**

Operating Business Cash Flow

Operating business cash flow is used by management as a measure of cash generated by BAE Systems' operations, which is comparable across BAE Systems, to service debt and meet tax obligations, and in turn available for use in line with BAE Systems' capital allocation policy. Operating business cash flow is defined as net cash flow from operating activities excluding tax paid net of research and development expenditure credits received and including net capital expenditure (net of proceeds from funding of assets) and lease principal amounts, financial investment and dividends from equity accounted investments.

Operating business cash flow increased by £666 million (26.1%) to £3,218 million in 2023 from £2,552 million in 2022.

Net Cash Flow from Operating Activities

Net cash flow from operating activities is defined in accordance with IAS 7 *Statement of Cash Flows*.

Net cash flow from operating activities increased by £921 million (32.4%) to £3,760 million in 2023 from £2,839 million in 2022. In addition to the increased profitability of BAE Systems, there was a net inflow of approximately £1 billion from customer advances.

Net Cash Flow from Investing Activities

Net cash flow from investing activities was an outflow of £541 million, as compared to £422 million in 2022. BAE Systems received cash of £134 million from dividends received from equity accounted investments in 2023, compared to £94 million in 2022, offset by an increased cash outflow of £272 million in relation to capital expenditure investment in property, plant and equipment and intangible assets. This is reflective of the additional investments within BAE Systems' sites to support future program delivery, such as the shipbuilding facilities in Glasgow to support Type 26 construction, munitions sites in both the United Kingdom and United States and construction of the modern shiplift and land-level repair complex at BAE Systems' Jacksonville, Florida shipyard.

Net Cash Flow from Financing Activities

Net cash outflow from financing activities was £2,188 million in 2023, a decrease of £145 million from £2,333 million in 2022. Cash returns to shareholders, through dividends and share repurchases, decreased £172 million to £1,418 million in 2023. Although dividends increased, the value of share repurchases was lower. In 2023, there was a cash inflow from draw-down of loans of £162 million, from the private placement to fund the shiplift at BAE Systems' Jacksonville, Florida shipyard. In 2022, there was a cash outflow of £400 million in respect of bond repayments which were due.

In 2023, there was cash outflow from derivative financial instruments (excluding cash flow hedges) of £389 million (compared with £205 million in 2022), which was offset by cash inflow from derivative financial instruments (excluding cash flow hedges) of £193 million (compared with £533 million in 2022), reflective of hedging against foreign exchange movements on the U.S. dollar-denominated borrowings.

Foreign exchange translation primarily arises in respect of BAE Systems' U.S. dollar-denominated cash holdings.

Liquidity

BAE Systems had cash and cash equivalents as at December 31, 2023 of £4,067 million, compared with £3,107 million as at December 31, 2022. Cash and cash equivalents are held primarily for the repayment of debt securities, pension funding when required, payment of the 2023 final dividend, funding of further share buybacks under the up to £1.5 billion program announced in July 2022 and management of working capital. Gross cash on hand, together with the committed revolving credit facility ("*RCF*") of £2 billion, is available to meet general corporate funding requirements. In 2023, BAE Systems entered into a new five-year RCF, with two one-year extension options, taking the expected maturity of the facility to 2030. The RCF provides standby funding for draw downs and for BAE Systems' U.S. Dollar Commercial Paper Program. The RCF remained undrawn throughout 2023. BAE Systems had no Commercial Paper in issue under its Commercial Paper Program as at the date of this Offering Memorandum.

The net proceeds of the Offering will be used (i) to refinance $4.0 billion in aggregate principal amount outstanding under the Bridge Loan Facility Agreement incurred to fund part of the acquisition price of Ball Aerospace and (ii) for general corporate purposes, including the repayment of indebtedness.

As at December 31, 2023, BAE Systems had total contracted cash outflows on current and non-current loans and overdrafts of £7,204 million, which mature between 2024 and 2050. No more than £1,013 million of such liabilities mature in any given year and BAE Systems' contracted cash outflows on loans and overdrafts maturing in 2024 are £825 million.

BAE Systems continues to conduct ongoing risk assessments in relation to its business operations and liquidity.

BAE Systems adopts a conservative approach to the investment of its surplus cash, which is deposited for short periods with financial institutions with investment-grade credit ratings. A credit limit is allocated to each institution taking account of its market capitalization, credit rating and credit default swap price. The cash and cash equivalents balance as at December 31, 2023 of £4,067 million was invested with 42 different financial institutions. The cash and cash equivalents of BAE Systems are invested in non-speculative financial instruments which are usually highly liquid, such as short-term deposits.

The maturity of contracted cash outflows on loans and overdrafts of BAE Systems is as follows:

	As at December 31,	
	2023[1]	2022[1]
	£ millions	
Less than one year	825	199
Between one and five years	1,585	2,377
Later than five years	4,794	4,893
Loans and overdrafts–current and non-current	**7,204**	**7,469**

(1) See note 15 to the BAE Systems 2023 Annual Financial Statements.

BAE Systems' non-current borrowings as at December 31, 2023 are as follows:

	As at December 31, 2023
	£ millions
$750 million 3.85% bond, repayable 2025	587
$500 million 7.5% bond, repayable 2027	392
$1,300 million 3.4% bond, repayable 2030	1,013
$1,000 million 1.9% bond, repayable 2031	778
$400 million 5.8% bond, repayable 2041	311
$550 million 4.75% bond, repayable 2044	423
$1,000 million 3% bond, repayable 2050	770
$200 million 5.5% private placement, repayable 2050	158
Total	**4,432**

Total current and non-current loans and overdrafts were £5,111 million as at December 31, 2023, compared with £5,242 million as at December 31, 2022. Non-current loans decreased during the year as the $800 million 3.8% bond due for repayment in 2024 is now classified as a current loan, partially offset by the drawdown of the $200 million private placement to fund the Jacksonville, Florida, shiplift, which is repayable in 2050.

BAE Systems believes that its current cash balances, together with its existing credit lines and other available sources of liquidity, and expected cash flow from its operating activities will be sufficient for the foreseeable future to fund its working capital requirements and operations, permit anticipated capital expenditures and make required payments of principal and interest on its debt.

Net Debt (Excluding Lease Liabilities)

Net debt (excluding lease liabilities) allows management to monitor indebtedness of BAE Systems, to ensure BAE Systems' capital structure is appropriate and capital allocation policy decisions are suitably informed and is defined as cash and cash equivalents, less loans and overdrafts (including debt-related derivative financial instruments). Net debt (excluding lease liabilities) decreased to £1,022 million as at December 31, 2023 from £2,023 million as at December 31, 2022, primarily as a result of strong Free cash flow performance, partially offset by shareholder returns through dividends and share repurchases.

Capital Structure

BAE Systems funds its operations through a mixture of equity funding and debt financing, including bank and capital market borrowings. BAE Systems' material borrowings are arranged by the central treasury department and funds raised are lent onward to operating subsidiaries as required. Surplus cash held by the businesses over and above balances required for working capital management is loaned to BAE Systems' centralized treasury department.

A $800 million 3.8% bond is due to be repaid in the second half of 2024. It remains BAE Systems' intention to ensure the business is funded conservatively and to be proactive in accessing the bank and capital markets in achieving this aim.

Capital Expenditure

Capital expenditure increased during the year ended December 31, 2023, primarily funded by cash from business operations, and included capital expenditure investment in the Digital Intelligence business, in shipbuilding facilities in Glasgow and the munitions business in Glascoed. BAE Systems' capital expenditures are targeted to ensure its systems and facilities are modern, deliver an effective working environment and provide the capacity needed to support BAE Systems' growth outlook. Total cash flow relating to capital expenditure and financial investment was an outflow of £957 million, offset by an inflow of £168 million for a

net cash outflow of £789 million in 2023, compared to an outflow of £701 million, offset by an inflow of £182 million for a net cash outflow of £519 million in 2022.

Insurance

BAE Systems operates a policy of partial self-insurance, with the majority of cover placed in the external market. BAE Systems continues to monitor its insurance arrangements to ensure the quality and adequacy of cover. BAE Systems is committed to the protection of its assets, which include human resources, intellectual and physical property, and financial resources, through an effective risk management process, underpinned where appropriate by insurance. For example, BAE Systems holds cyber insurance and political risk insurance for contracts where considered appropriate with regard to the level of risk involved.

Credit Rating

Three credit rating agencies, Moody's, S&P and Fitch, publish credit ratings for BAE Systems.

As at the date of this Offering Memorandum, BAE Systems' long-term credit ratings provided by these agencies were as follows:

Rating agency	Rating	Outlook	Category
Moody's	Baa1	Stable	Investment grade
S&P	BBB+	Stable	Investment grade
Fitch	BBB+	Stable	Investment grade

The Board of Directors continues to view the maintenance of an investment-grade credit rating as important to the efficient operation of BAE Systems' activities.

Pension Schemes

BAE Systems operates pension arrangements for its qualifying employees in the United Kingdom, the United States and other countries. This includes a number of funded defined benefit plans in the United Kingdom and the United States, where the assets are held in separate trustee-administered funds. BAE Systems also operates a number of non-pension post-retirement benefit plans, under which certain employees are eligible to receive benefits after retirement or on leaving BAE Systems, the majority of which relate to the provision of medical benefits to retired employees of BAE Systems' subsidiaries in the United States.

The funding positions of BAE Systems' defined benefit pension plans are monitored on a regular basis. As at the latest triennial actuarial valuations of BAE Systems' United Kingdom defined benefit pension plans, all were in surplus and are estimated to have remained so since, such that there was (as at the date of this Offering Memorandum) no United Kingdom technical provisions deficit and no United Kingdom deficit recovery contributions payable.

Each defined benefit plan pursues an investment strategy designed to provide a high probability that the scheme will be able to satisfy its liabilities as they fall due, even under a range of plausible downside scenarios. To further reduce the risk of deficits arising in the future, the schemes' trustees, in conjunction with BAE Systems, have continued to take action to hedge major risk factors such as inflation and interest rate risk, and longevity risk.

BAE Systems made total contributions to its pension plans of £274 million in 2023, compared to £267 million in 2022, including those amounts funded by equity accounted investments of £30 million and £23 million, respectively.

The performance of BAE Systems' pension schemes and any deficit recovery plans is regularly reviewed by both BAE Systems and the trustees of the plans, taking actuarial and investment advice as appropriate. The results of these reviews are discussed with the Board of Directors and appropriate action is taken.

In the United Kingdom, growth of defined benefit pension liabilities mitigated as new employees have been offered membership of defined contribution rather than defined benefit plans since 2012.

BAE Systems is aware of the ongoing *Virgin Media v NTL Pension Trustees Ltd and others* case and that there is a potential for the outcome of the case to have an impact on BAE Systems' United Kingdom pension schemes. The potential impact on the United Kingdom schemes is not yet known but continues to be assessed. The case affects defined benefit schemes that provided contracted-out benefits before April 6, 2016 based on meeting the reference scheme test. Where scheme rules were amended, potentially impacting benefits accrued from April 6, 1997 to April 6, 2016, schemes needed the actuary to confirm that the reference scheme test was still being met by providing written confirmation under Section 37 of the Pension Schemes Act 1993. In the Virgin Media case, the judge ruled that alterations to the scheme rules were void and ineffective because of the absence of written actuarial confirmation required under Section 37 of the Pension Schemes Act 1993. The case has been taken to The Court of Appeal, with the hearing set for June 2024.

Additional details concerning BAE Systems' retirement benefit plans are provided in note 24 to the BAE Systems 2023 Annual Financial Statements. See "*Accounting Policies and Key Sources of Estimation Uncertainty—Post-employment benefit obligations.*"

Accounting Policies and Key Sources of Estimation Uncertainty

BAE Systems' material accounting policies are outlined in the BAE Systems Annual Financial Statements. Not all of these material accounting policies require management to make difficult, subjective or complex judgments or estimates.

The following is intended to provide an understanding of those policies that management considers critical because of the level of complexity, judgment or estimation involved in their application and their impact on the consolidated financial statements. These judgments involve assumptions or estimates in respect of future events, which can vary from what is anticipated. However, the Board of Directors believes that the consolidated financial statements in the BAE Systems Annual Financial Statements reflect appropriate judgments and estimates, and provide a true and fair view of BAE Systems' financial performance and position.

Revenue and Profit Recognition

BAE Systems accounts for revenue in accordance with IFRS 15 *Revenue from Contracts with Customers*. For most of BAE Systems' contracts, revenue and associated margin are recognized 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 BAE Systems' project managers, engineers and finance and commercial professionals. Material changes in these estimates could affect the profitability of individual contracts. Revenue and cost estimates are reviewed and updated at least quarterly, or more frequently as determined by events or circumstances.

The long-term nature of many of BAE Systems' contracts means that judgments 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. BAE Systems continues to work closely and collaboratively with its key customers to deliver effectively on its contracts and commitments. However, the volume, scale, complexity and long-term nature of its programs mean that potential sensitivities would be wide-ranging and not practicable to calculate. Owing to the potential future impact of current uncertainties, BAE Systems' estimates and assumptions related to revenue recognition could be impacted by issues such as reduced productivity as a result of operational disruption, production delays and increased costs as a result of disruption to the supply chain, changing working practices to move towards BAE Systems' net zero ambitions, or where there is uncertainty as to the recovery from customers of program costs incurred.

Additional details are in note 1 to the BAE Systems 2023 Annual Financial Statements.

Post-Employment Benefit Obligations

Defined benefit pension plan accounting valuations are prepared by independent actuaries. The liabilities of the pension schemes are valued based on a number of actuarial assumptions.

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

Additional details are in note 24 to the BAE Systems 2023 Annual Financial Statements.

Treasury Policy

BAE Systems' treasury activities are overseen by the Treasury Review Management Committee ("*TRMC*"). Two Executive Directors are members of the TRMC, including BAE Systems' Chief Financial Officer who chairs the TRMC. The TRMC also has representatives with legal and tax expertise.

BAE Systems operates a centralized treasury department that is accountable to the TRMC for managing treasury activities in accordance with the treasury policies approved by the Board of Directors.

Other key policies are to:

- manage the exposure to interest rate fluctuations on borrowings through varying the proportion of fixed rate debt relative to floating rate debt with derivative instruments, including interest rate and cross-currency swaps;
- maintain adequate undrawn committed borrowing facilities;
- reduce BAE Systems' exposure to transactional volatility in earnings and cash flows from movements in foreign currency exchange rates;
- monitor and control counterparty credit risk and credit limit utilization; and
- maintain a balance between the continuity, flexibility and cost of debt funding through the use of borrowings from a range of markets with a range of maturities, currencies and interest rates, reflecting BAE Systems' risk profile.

Within this policy framework the treasury department's principal responsibilities are to manage:

- BAE Systems' core funding and liquidity;
- exposure to interest rate movements;
- exposure to foreign currency movements; and
- BAE Systems' relationship with debt capital market investors, banks and rating agencies.

The treasury department transacts with a number of counterparty banks and financial institutions, and adopts a systematic approach to the control and monitoring of counterparty credit risk. BAE Systems has a credit limit system to manage actively its exposure to treasury counterparties. The cash and cash equivalents balance at December 31, 2023 of £4,067 million was invested with 42 different financial institutions. A credit limit is allocated to each institution taking account of its market capitalization, credit rating and credit default swap price. These limits are regularly monitored and updated. The cash and cash equivalents are invested in non-speculative financial instruments which are usually highly liquid, such as short-term deposits.

BAE Systems, through its internal audit department, monitors compliance against the principal policies and guidelines (including the utilization against credit limits) and any exceptions found are reported to the TRMC.

Further disclosure on financial risk management is set out in note 15 to the BAE Systems 2023 Annual Financial Statements.

BUSINESS

Background

The Issuer was incorporated on December 31, 1979 and is the parent holding company of the BAE Systems group of companies. In November 1999, the Issuer (then known as British Aerospace Public Limited Company) merged with the Marconi Electronic Systems business of The General Electric Company, and the resulting entity was renamed BAE Systems plc. Since 1999, through a series of acquisitions and disposals, BAE Systems has transformed itself from a group focused primarily on the manufacture of military and commercial aircraft in the United Kingdom to become a premier international defense, aerospace and security company with leading positions in major defense and security markets around the world—including the United States, the United Kingdom, the Kingdom of Saudi Arabia and Australia—as well as established positions in a number of other international markets. BAE Systems has a diverse portfolio of businesses in the air, sea, land, cyber and space domains based on well-established market positions, providing both complex, high-technology products and programs, and differentiated technical services and support across six reporting segments: Electronic Systems, Platforms & Services, Air, Maritime, Cyber & Intelligence and HQ. As at December 31, 2023, BAE Systems employed approximately 99,800 people and in 2023 generated sales and revenue of £25,284 million and £23,078 million, respectively, and Underlying EBIT and profit for the year of £2,682 million and £1,940 million, respectively.

In addition to organic growth since 1999, BAE Systems made a series of acquisitions which have established BAE Systems' United States business as a major defense company in the United States defense market, the largest defense market in the world. This started in September 2000 with the $510 million acquisition of Lockheed Martin Controls Systems, a designer and producer of flight control systems and full authority digital engine controls followed by the acquisition of Lockheed Martin Aerospace Electronic Systems for a cash cost of approximately $1,670 million, in November 2000. BAE Systems has continued to grow this business in the Electronic Systems sector through a series of smaller acquisitions and organic growth. In the United States land market, BAE Systems completed the acquisition of United Defense Industries, Inc., a leading producer of military ground combat vehicles and a supplier of artillery systems, naval weapon systems and missile launchers and precision munitions, for a total consideration of approximately $3,794 million, in June 2005 and the acquisition of Armor Holdings, Inc., a manufacturer of tactical wheeled vehicles and survivability technologies for a total consideration of £1,696 million ($3,430 million), in July 2007. BAE Systems' business in the Platforms & Services segment also includes the heritage Atlantic Marine, Bofors and Hägglunds businesses. In the United States technology services area, BAE Systems acquired L-1 Identity Solutions for total consideration of approximately $303 million, in February 2011. In May 2020, BAE Systems acquired the Raytheon Airborne Tactical Radios business and, in July 2020, BAE Systems acquired the Collins Aerospace Military Global Positioning System business, which form part of the Electronics Systems reporting segment. BAE Systems acquired BISim in 2022, developers of high-fidelity, cost-effective training and simulation software products and components to meet the growing demand for defense applications. BISim forms part of the Cyber & Intelligence reporting segment. BAE Systems completed its largest ever acquisition in February 2024 of Ball Aerospace, a leading provider of spacecraft, mission payloads, optical systems and antenna systems. This acquisition will enable BAE Systems to accelerate its growth in the expanding space market.

Outside the United States, BAE Systems has completed a series of acquisitions in the cyber market. BAE Systems completed the acquisition of Detica, an Irish developer of intelligence and analytical systems for commercial and government clients, for consideration of £543 million, in September 2008, followed by the acquisition of Norkom Group plc, an Irish financial software company specializing in regulatory compliance and financial crime detection products, for consideration of €209 million, in January 2011. BAE Systems also completed the acquisition of stratsec.net Pty Limited, an Australian information security consulting and testing company, in January 2011, followed by the acquisition of ETI A/S, a Danish digital telecommunications security provider, for consideration of $223 million, in March 2011. In February 2014, Detica was re-named Applied Intelligence (now included in the Digital Intelligence business) and has integrated a number of acquisitions and converged their products and services into a single portfolio. Further acquisitions outside the United States in recent years in the Cyber & Intelligence segment include the small bolt-on acquisition in August 2020 of Techmodal, a United Kingdom-based data consultancy and digital services company, which

was integrated into the Digital Intelligence business. Also forming part of the Digital Intelligence business is Eurostep, a secure data sharing company headquartered in Sweden, which BAE Systems acquired in 2023.

BAE Systems drives innovation through the research labs embedded in its business sectors, including FASTLabs™ in the United States and Red Ochre Labs in Australia and via the FalconWorks® organization in its Air segment. These hubs are aimed at delivering bold breakthrough technologies to keep BAE Systems' customers ahead of the challenges they face. These hubs also foster collaborative partnerships with academia and other organizations aimed at bringing greater levels of creative and diverse thinking into BAE Systems.

BAE Systems regularly examines the options for its business and reviews its portfolio to ensure it remains aligned to BAE Systems' strategy. In accordance with its capital allocation policy, BAE Systems will consider investment in value-enhancing acquisitions where market conditions are right and where they deliver on its strategy. This includes investing in smaller, technology-based acquisitions in strategic markets, such as the acquisitions in 2019 of Riptide Autonomous Solutions, a developer of unmanned underwater vehicles; Prismatic Ltd, a developer of a solar electric unmanned aerial vehicles, in 2019; Pulse Power and Measurement Limited, an independent developer and manufacturer of high-end electronics, in 2021; the acquisition of In-Space Missions in 2021, a United Kingdom-based satellite company, that provides additional Low Orbit capability, complementing BAE Systems' offering in secure communications and tracking, telemetry and control; and the acquisition of Malloy Aeronautics, a designer and supplier of all-electric uncrewed aerial systems to both civil and military customers, in 2024.

BAE Systems' Strengths

BAE Systems focuses on careful long-term sustainable management and governance of its business to deliver value for all its stakeholders. BAE Systems believes that it is poised for further revenue growth and profitability based on robust end markets, the value drivers of its operating model, and the strategic actions it is taking, supported by seven key advantages:

- Providing customers with world-class defense capabilities across multiple domains;
- Undertaking multi-decade programs with long-term embedded value, with an Order backlog that provides a high level of sales visibility, driven by multi-year programs;
- A growing global opportunity pipeline. BAE Systems' diverse geographic footprint supports it in pursuing opportunities across all sectors as countries around the world face a multi-faceted threat environment;
- Fostering a high-performance, innovative culture and consistently investing in research and development to build on existing capabilities and generate innovative and disruptive technologies;
- An intense focus on operational excellence, with strong, consistent program performance and operational efficiencies in efforts to expand margins and create value for BAE Systems' investors and customers;
- A strong ESG agenda that is embedded into BAE Systems' strategic framework and underpins its purpose; and
- A value-enhancing operating model, undertaking BAE Systems' core business activities with a clear, consistent and careful capital allocation.

BAE Systems' Strategy

BAE Systems' strategy is comprised of six key long-term areas of focus to help it achieve its vision of being the premier international defense, aerospace and security company and its mission to provide a vital advantage to help its customers protect what really matters. This strategy is centered on maintaining and growing BAE Systems' core franchises and securing growth opportunities through advancing its three strategic priorities and demonstrating its "Company Behaviors" in all BAE Systems does.

BAE Systems' strategy is to:

- Sustain and grow its defense business.

- Continue to grow its business in adjacent markets.
- Develop and expand its international business.
- Inspire and develop a diverse workforce to drive success.
- Enhance financial performance and deliver sustainable growth in shareholder value.
- Advance and integrate its sustainability agenda.

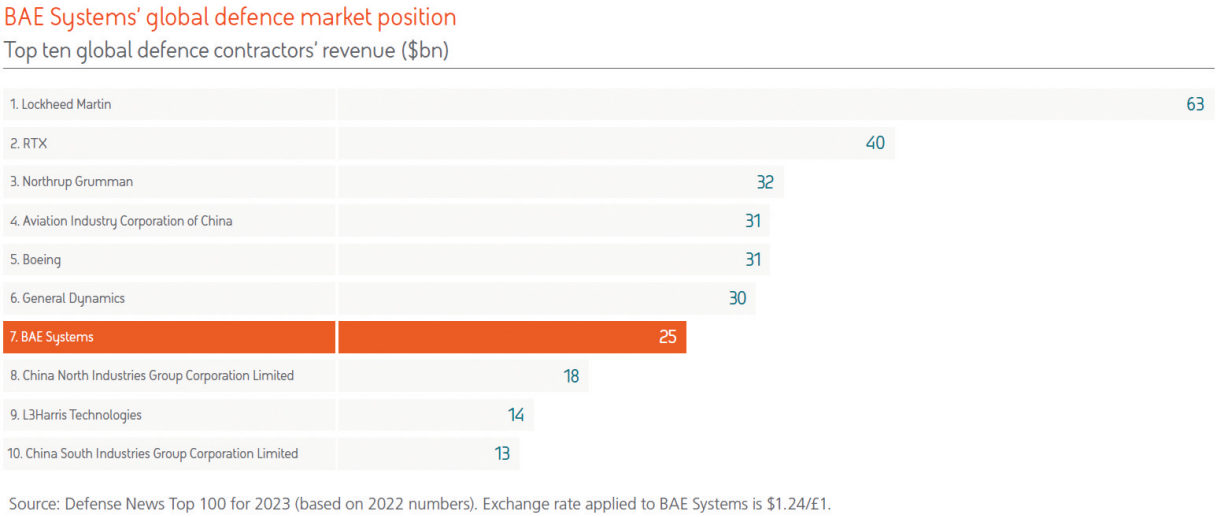
The following three strategic priorities provide the link between its longer-term strategy and near-term business objectives for all of its employees:

- Driving operational excellence.
- Continuously improving competitiveness and efficiency.
- Advancing and further leveraging its technology.

Principal Markets

BAE Systems maintains leading positions in major defense and security markets around the world, including in the United States, United Kingdom, the Kingdom of Saudi Arabia and Australia, which accounted for 42%, 26%, 11% and 4%, respectively, of BAE Systems' sales in the year ended December 31, 2023. In particular, BAE Systems has built strong positions aligned with its core defense platforms to support BAE Systems' customers in its principal markets who have shown a significant and sustained commitment to their defense and security, and support for their allies. BAE Systems has established strong and enduring relationships in these markets and is recognized as playing a key role in the industrial capability of each of these countries. Other international markets accounted for 17% of BAE Systems' sales in the year ended December 31, 2023.

In 2023, BAE Systems was one of the world's largest and most geographically diverse global defense and security companies, according to privately commissioned research. The following chart illustrates BAE Systems' global market position among defense companies:



Source: Defense News Top 100 for 2023 (based on 2022 numbers). Exchange rate applied to BAE Systems is $1.24/£1.

Global Defense Markets

BAE Systems' strategy is focused on providing a vital advantage to its customers around the world through advanced technologies, innovation and agility, global industrial capacity, and responsiveness.

BAE Systems, as one of the broadest and most geographically diverse major defense companies, believes its diverse portfolio of capabilities in the air, sea, land, cyber and space domains provides it with a comprehensive offering for its customers around the world. BAE Systems' diversity of capabilities, products and programs means it is not heavily reliant on a small number of key programs or franchises. Additionally,

BAE Systems' Order backlog of £69.8 billion as at December 31, 2023 includes major programs that BAE Systems believes are well positioned to extend beyond their current funded backlog for many years, and in some cases, multiple decades. BAE Systems' market positions and capabilities are aligned with global defense priorities and customers' requirements across multiple domains.

BAE Systems continues to evolve and respond to the geopolitical and technological trends shaping its customers' defense and security priorities now and in the future. BAE Systems believes its demonstrated strength in complex engineering, developing cutting-edge technologies and seeking innovative solutions enables it to respond to requirements for greater agility, global reach, and advanced technology products and services. In response to significantly elevated global tensions and the acute threat environment, many countries around the world continue to announce defense and security budget increases. The need to re-stock and upgrade equipment is highly relevant to BAE Systems' portfolio and presents opportunities around the world.

In relation to BAE Systems' market positions and future performance, the major risks would be in relation to political changes in alliances, defense spending outlook and defense export control regimes. At the operational level, performance of products and services and adherence to delivery schedules could impact BAE Systems' market positions with customers and competitor pricing or new entrants could also have an impact. See "*Risk Factors.*"

Across multiple global defense markets, BAE Systems moved forward on significant long-term strategic programs SSN-AUKUS and the Global Combat Air Programme ("*GCAP*"), in 2023. In 2021, leaders of Australia, the United Kingdom, and the United States announced the creation of an enhanced trilateral security partnership called "*AUKUS*." AUKUS is intended to strengthen the ability of each government to support security and defense interests, building on longstanding and ongoing bilateral ties. In 2023, further announcements were made as part of the AUKUS trilateral agreement that the United Kingdom will operate the next-generation nuclear-powered attack submarine program, known as SSN-AUKUS, with funding of £3.95 billion awarded from the United Kingdom Ministry of Defence. The submarines built as part of the SSN-AUKUS program will be the largest, most powerful and technologically advanced attack submarines the Royal Navy has ever operated and will eventually replace the Astute class, which BAE Systems builds at its site in Barrow-in-Furness, Cumbria.

In December 2023, ministers from Italy, Japan and the United Kingdom signed an international treaty to develop an innovative stealth fighter under GCAP, which was formed in 2022, and confirmed that the joint GCAP government headquarters will be based in the United Kingdom. Following the industry collaboration agreement announced in September 2023, as the United Kingdom's industry lead, BAE Systems continues to work closely with its partners Mitsubishi Heavy Industries in Japan, and Leonardo in Italy, to determine the future joint business construct, which will also be headquartered in the United Kingdom. The governments of the United Kingdom, Italy and Japan had previously announced their intention to work together to build on the progress of the Team Tempest partnership under GCAP in 2022.

United States and Canada

The United States continues to be the single largest defense market in the world. BAE Systems is a top-ten defense prime contractor in the United States, according to market data for 2022, and in Canada BAE Systems has a long history of supporting the Canadian Armed Forces. Together, the countries represented a $848 billion defense market (based on 2023 total defense budgets), according to Janes Defence Budgets.

Existing programs in the United States and Canada defense market include electronic warfare, precision strike, C4ISR, intelligence & security, combat vehicles, US ship repair, munitions, space and Canadian Surface Combatant programs. BAE Systems has identified opportunities in the following areas in the United States and Canada defense market: precision munitions, combat vehicles, munitions restocking, electrification—ground and air, space, autonomy and cyber, United States foreign military sales and maritime support.

United Kingdom

As the largest defense company in the United Kingdom, according to market data for 2022, BAE Systems has strong and enduring relationships with the United Kingdom Ministry of Defence, and with its domestic

supply chains. The United Kingdom represented a $68 billion defense market (based on 2023 total defense budgets), according to Janes Defence Budgets.

Existing programs in the United Kingdom defense market include the Astute and Dreadnought submarine build, SSN-AUKUS submarine design and future build, naval ship build and support, Typhoon build and support, F-35 (aft fuselage) and support, GCAP/Tempest, Digital Intelligence, munitions and MBDA programs. BAE Systems has identified opportunities in the following areas in the United Kingdom defense market: domestic and export partnerships, space, autonomy and cyber, munitions restocking and sustainable technologies.

Europe

The Europe defense market includes NATO countries (including Sweden, which has recently become a NATO member) and Ukraine, but excludes the United Kingdom. Together, these countries represented a $330 billion defense market (based on 2023 total defense budgets), according to Janes Defence Budgets. In Europe, BAE Systems is meeting the increased demand for advanced military equipment across all domains, as countries are transitioning away from older-generation systems and recapitalizing with modern, more advanced air-based, land-based and sea-based systems. BAE Systems has a considerable presence in Europe through its Swedish combat vehicle and artillery business, its role on Eurofighter, its 37.5% shareholding in the European MBDA Joint Venture and its content on United States foreign military sales.

Existing programs in the Europe defense market include Eurofighter, MBDA, combat vehicles/artillery (CV90, BvS10, ARCHER), United States foreign military sales, precision munitions and GCAP programs. BAE Systems has identified opportunities in the following areas in the Europe defense market: precision munitions, combat vehicles/artillery, United States foreign military sales—electronic systems, combat vehicles, artillery and precision weapons, MBDA domestic and exports and Eurofighter domestic and exports.

Middle East

The Middle East defense market includes Egypt, Kuwait, Oman, Qatar, Kingdom of Saudi Arabia and the United Arab Emirates. Together, these countries represented a $148 billion defense market (based on 2023 total defense budgets), according to Janes Defence Budgets. The Kingdom of Saudi Arabia continues to be a leading military power in the Middle East and one of the largest defense markets globally. BAE Systems has a long-established position in the Middle East. In the Kingdom of Saudi Arabia, BAE Systems provides operational capability support to the Kingdom's air and naval forces through United Kingdom-Saudi Arabian government-to-government programs.

Existing programs in the Middle East defense market include support to the Kingdom of Saudi Arabia, Qatar Typhoon and Hawk, Kuwait and Oman programs. Under the Saudi British Defence Co-operation Programme, BAE Systems delivers contracts for the provision of manpower, logistics support, technical training, training aircraft (including Hawk) and upgrades to Tornado aircraft. In the Middle East defense market, BAE Systems has identified opportunities in the following areas: Typhoon, support and training, upgrades and defense infrastructure programs and cyber intelligence.

Asia Pacific

The Asia Pacific defense market includes Australia, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. Together, these countries represented a $265 billion defense market (based on 2023 total defense budgets), according to Janes Defence Budgets. BAE Systems is the largest defense company in Australia, according to market data for 2022, has a strong presence across all domains in Australia and is growing as the country's defense budget increases. In the wider Asia Pacific region, BAE Systems is a supplier to a number of armed forces, both directly and through joint ventures.

Existing programs in the Asia Pacific defense market include the Hunter Class Frigate, GCAP, United States foreign military sales, fast jet support, ship support and C4ISR programs. BAE Systems has identified opportunities in the following areas in the Asia Pacific defense market: SSN-AUKUS—pillar 1 and 2, GCAP,

United States foreign military sales—electronic systems, United States foreign military sales—combat vehicles/artillery/precision weapons, MBDA exports, cyber intelligence and Australian defense exports.

Reporting Segments

BAE Systems reports based on the following segments: Electronic Systems, Platforms & Services, Air, Maritime, Cyber & Intelligence and HQ.

The following table presents BAE Systems' and BAE Systems' reporting segments' sales and revenue for the years ended December 31, 2023 and December 31, 2022.

	Year Ended December 31, 2023				Year Ended December 31, 2022			
	Sales[1]	% of Total Sales[1]	Revenue[1]	% of Total Revenue[1]	Sales[1]	% of Total Sales[1]	Revenue[1]	% of Total Revenue[1]
	(In £ millions, except percentages)							
Electronic Systems	5,458	22%	5,456	23%	5,057	22%	5,057	23%
Platforms & Services	3,922	15%	3,842	16%	3,688	16%	3,598	17%
Air	8,058	32%	6,517	28%	7,698	33%	6,286	29%
Maritime	5,536	22%	5,391	23%	4,598	20%	4,484	21%
Cyber & Intelligence	2,321	9%	2,321	10%	2,205	9%	2,205	10%
HQ	471		10		420		10	
Subtotal	**25,766**		**23,537**		**23,666**		**21,640**	
Deduct: Intra-Group	(482)		(459)		(410)		(382)	
Total	**25,284**		**23,078**		**23,256**		**21,258**	

(1) See "*Presentation of Currency and Financial and Other Information*" for an explanation of the components and calculation method of this measure.

Order Backlog by Reporting Segment

A summary of the total Order backlog as at December 31, 2023 for each of BAE Systems' reporting segments is set forth in the table below:

Reporting Segment	As at December 31, 2023
	(in £ billions)
Electronic Systems	8.9
Platforms & Services	11.5
Air	27.2
Maritime	21.3
Cyber & Intelligence	2.0
HQ	—
Deduct: Intra-Group	(1.1)
Total Order Backlog	**69.8**

Order backlog represents funded and unfunded unexecuted customer orders including BAE Systems' share of Order backlog of equity accounted investments. Unfunded orders include the elements of United States multi-year contracts for which funding has not been authorized by the customer.

Electronic Systems

Electronic Systems, with approximately 17,500 employees as at December 31, 2023, comprises the United States-based and United Kingdom-based electronic solutions, including electronic warfare systems, navigation

systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, space electronics and electric drive propulsion systems.

The reporting segment comprises six lines of businesses: Electronic Combat Solutions; Countermeasure & Electromagnetic Attack Solutions; Precision Strike & Sensing Solutions; C4ISR Systems; Controls & Avionics Solutions and Power & Propulsion Solutions. The newly acquired business from Ball Aerospace will be called Space & Mission Systems and will map within the Electronic Systems reporting segment.

Sales, revenue and Underlying EBIT of the Electronic Systems reporting segment (£5,458 million, £5,456 million and £878 million, respectively) represented 22%, 23% and 31%, respectively, of BAE Systems' sales, revenue and Underlying EBIT for 2023. Sales in the air, maritime and land domains represented 87%, 3% and 10%, respectively, of Electronic Systems sales in 2023. The Electronic Combat Solutions business, Countermeasure & Electromagnetic Attack Solutions business, Precision Strike & Sensing Solutions business, C4ISR Systems business, Controls & Avionics Solutions business and Power & Propulsion Solutions business represented 29%, 14%, 15%, 22%, 16% and 4%, respectively, of Electronic Systems sales in 2023. Defense sales and commercial sales represented 83% and 17%, respectively, of Electronic Systems sales in 2023.

Electronic Combat Solutions

Electronic Combat Solutions designs, builds and supports integrated electronic warfare systems for platform prime and government customers, and is a trusted mission systems provider for all three electronic warfare missions: electronic attack, electronic protection and electronic support. Key programs include:

- F-35 Lightning II, on which BAE Systems has delivered over 1,400 electronic warfare systems through year-end 2023 and is supporting Block 4 modernization efforts under multiple contracts; and
- A series of F-15 aircraft programs including the Eagle Passive Active Warning Survivability System for the United States Air Force, which completed design verification and qualification testing enabling initial operational test and evaluation by the United States Air Force.

Due to the sensitive nature of electronic combat systems and technology, many of BAE Systems' Electronic Combat Solutions programs are classified.

Countermeasure & Electromagnetic Attack Solutions

Countermeasure & Electromagnetic Attack Solutions provides next-generation threat detection, countermeasure, and attack solutions that deliver full-spectrum electronic warfare capabilities to enhance mission survivability. Key programs include the Common Missile Warning System and Compass Call, which is focused on the cross-decking of prime mission equipment to the new EA-37B aircraft while sustaining and upgrading the existing EC-130H fleet. Under the Compass Call program, the first of ten EA-37B aircraft were delivered to the United States Air Force for formal combined developmental and operational testing.

Precision Strike & Sensing Solutions

Precision Strike & Sensing Solutions designs and manufactures state-of-the-art systems and technology that enable BAE Systems' customers to execute their precision strike missions. Key programs include:

- The Advanced Precision Kill Weapon System ("*APKWS*®") laser-guidance kit program that continues to execute under an indefinite delivery, indefinite quantity contract and recently demonstrated new capabilities for critical mission sets in support of United States and allied forces; and
- A portfolio of M-Code GPS receivers providing flexible, efficient, and reliable navigation and guidance solutions for airborne systems, precision munitions, handheld receivers, and embedded applications, including 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.

C4ISR Systems

C4ISR Systems provides actionable intelligence through innovative technical solutions for airborne persistent surveillance, secure communication, identification systems, signals intelligence, underwater and surface warfare solutions, and space resiliency. Key programs include:

- the Data Link Solutions Joint Venture with Rockwell Collins, Inc., through which BAE Systems was selected by the United States Navy to provide BAE Systems' Firenet™ small form factor Multi-functional Information Distribution System Joint Tactical Radio Systems, which enables in-network communication for smaller platforms, building on BAE Systems' portfolio of next-generation full-spectrum communication systems;
- Defense Advanced Research Project Agency funded programs to develop new technology allowing advanced automated signals processing—vital for navigation, target detection and communication—on much smaller platforms than is currently possible; and
- BAE Systems' Geospatial eXploitation Products™ software from the Advanced GEOINT Systems team, comprising advanced imagery exploitation, analytics, and data fusion software tools, was selected by a customer in the Asia Pacific region as a key component of its large-scale geospatial intelligence implementation.

Controls & Avionics Solutions

Controls & Avionics Solutions develops and produces electronics for military and commercial aircraft, including fly-by-wire flight controls, full authority digital engine controls, power management solutions, cabin management systems and mission computers. Key programs include:

- Supply of engine controls for General Electric;
- Supply of flight control electronics for Boeing and other manufacturers;
- A collaboration with Heart Aerospace to define the battery system for Heart's ES-30 regional electric airplane; and
- An advanced energy storage system for Eve Air Mobility's electric vertical take-off and land aircraft.

Power & Propulsion Solutions

Power & Propulsion Solutions delivers propulsion and power management performance with innovative electrification products and solutions that advance vehicle mobility, efficiency and capability. BAE Systems is a recognized provider of electric drive systems for low and zero emission propulsion systems with an extensive installed base on urban transit buses. BAE Systems is leveraging its existing product portfolio and advancing sustainable vehicle mobility, efficiency and capability for a range of applications in public transit, maritime, air and military markets. Key products include hybrid and fully electric drive systems, such as the Gen3 electric drive system, which was selected for North America's largest battery electric bus award to power up to 1,229 Nova Bus battery electric buses for transportation organizations in Quebec, Canada.

Outlook

BAE Systems believes that its Electronic Systems segment remains positioned for growth in the medium term, as it continues to address current and evolving priority programs from its strong franchise positions and long standing commitment to research and development. BAE Systems maintains a diverse portfolio of defense and commercial products and capabilities for United States and international customers, and expects to benefit from applying innovative technology solutions to defense customers' existing and changing requirements, building on its significant roles on F-35 Lightning II, F-15 upgrades, M-Code GPS upgrades and classified programs, as well as a number of precision weapon products.

Over the longer term, BAE Systems believes that it is poised to build on its technology strengths in emerging areas of demand, including precision weaponry, space resilience, hyper-velocity projectiles, autonomous platforms, and the development of multi-domain capabilities. In its commercial portfolio, BAE Systems continues to leverage its electric drive propulsion capabilities to address growing demand for low and

zero emission solutions across an increasing number of civil platforms, with opportunities to migrate these technologies to defense applications. BAE Systems continues to invest in its people, research and development and facilities to ensure capacity and resources are in place to capitalize on the positive outlook across its defense and commercial markets. The acquisition of Ball Aerospace will provide further access to the growing space domain, C4ISR and missile and munitions markets.

Platforms & Services

Platforms & Services, with approximately 11,900 employees as at December 31, 2023, and operations in the United States, Sweden and the United Kingdom, 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 ammunition plants.

The reporting segment comprises seven lines of businesses: Combat Mission Systems; Ordnance Systems; US Ship Repair; BAE Systems Hägglunds; BAE Systems Bofors; Weapons Systems UK and FNSS (the Turkish land systems business in which BAE Systems holds a 49% interest).

Sales, revenue and Underlying EBIT of the Platforms & Services reporting segment (£3,922 million, £3,842 million and £354 million, respectively) represented 15%, 16% and 13%, respectively, of BAE Systems' sales, revenue and Underlying EBIT for 2023. Sales in the air, maritime and land domains represented 1%, 28% and 71%, respectively, of Platforms & Services sales in 2023. The Combat Mission Systems business, Ordnance Systems business, US Ship Repair business, BAE Systems Hägglunds business, BAE Systems Bofors business, Weapon Systems UK business and FNSS business represented 49%, 14%, 17%, 11%, 4%, 3% and 2%, respectively, of Platforms & Services sales in 2023. Platforms sales and services sales represented 53% and 47%, respectively, of Platforms & Services sales in 2023.

Combat Mission Systems

Combat Mission Systems focuses on a portfolio of tracked combat vehicles, amphibious vehicles, naval weapons, artillery systems, advanced weapons and precision munitions for the United States military and international customers. Key programs include:

- Production of ACVs for the United States Marine Corps and international customers;
- Production and upgrades of AMPVs and AMPV technical support for the United States Army;
- Production and upgrades of M109A7 self-propelled howitzers;
- Production and upgrades of Bradley Fighting Vehicles, including multiple contracts for the continued production of the Bradley A4, extending production into 2026; and
- Production and sustainment of M88 HERCULES recovery vehicles for the United States Army.

Ordnance Systems

Ordnance Systems is the operator of the United States Army's Holston and Radford facilities under government-owned, contractor-operated agreements, and focuses on explosives, propellants and facility modernization. Key activities include the management, operation and modernization of the United States Army's Holston and Radford ammunition plants that produce energetics for insensitive munitions and propellant grains.

US Ship Repair

US Ship Repair is a major provider of non-nuclear ship repair, modernization, overhaul and conversions to the United States Navy and other government and commercial maritime customers across three United States sites on the Atlantic and Pacific coasts.

Construction started on a modern shiplift and land-level repair complex at BAE Systems' Jacksonville, Florida, shipyard, expected to be operational in early 2025. In response to lower demand for Pacific-coast ship repair services throughout 2023, BAE Systems scaled back the workforce at its San Diego shipyard by nearly 500 positions.

BAE Systems Hägglunds

BAE Systems Hägglunds focuses on the tracked vehicle market for Swedish and international customers. Key programs include:

- Design, manufacture and support of the CV90 and BvS10 combat vehicles in Sweden and across other international markets, including:
  - A contract with the Czech Republic to produce 246 CV90 MkIV infantry fighting vehicles in seven different variants, which will be developed and delivered through an industrial partnership with Czech industry to meet the requirements of the Czech Ministry of Defense;
  - A strategic partnership with Norway's Ritek AS to produce two new CV90 variants for the Swedish Armed Forces;
  - A contract with the Slovakian Army for CV90 infantry fighting vehicles; and
  - A contract with Germany for an additional 227 ultra-mobile, protected, all-terrain BvS10s, extending deliveries through to 2030, following the joint procurement agreement between Sweden, Germany and the United Kingdom; and
- A contract with the United States Army for Beowulf unarmored all-terrain vehicles to support Arctic operations.

BAE Systems Bofors

BAE Systems Bofors provides advanced land and maritime weapons and precision-guided munitions. Key programs include ARCHER, a mobile howitzer, which the United Kingdom Government selected for its interim mobile artillery solution requirement through a government-to-government agreement with Sweden.

Weapon Systems UK

Weapon Systems UK is a provider of land-based artillery systems, sustainment and services, primarily for the M777 towed ultra-lightweight howitzer. Key activities include:

- Delivery of M777 support services for the United States, Australia and Canada; and
- A contract from the United States Army to produce M777 superstructures for spares and repairs through the foreign military sales process, effectively bringing the M777 towed lightweight howitzer back into production.

FNSS

FNSS, the Turkish land systems business in which BAE Systems holds a 49% interest, produces and upgrades tracked and wheeled military vehicles for Turkish and international customers.

Outlook

BAE Systems continues to focus on increased long-term demand from the United States and international customers. The uplift in European and allied countries' defense spending is in addition to its strong Order backlog on key franchise programs, including the AMPV, M109A7 self-propelled howitzer, Bradley upgrades, M88 HERCULES recovery vehicle and the United States Marine Corps' ACV. BAE Systems believes there is a strong pipeline of future business opportunities for the CV90 and BvS10 from BAE Systems' Hägglunds business, as well as for artillery systems and munitions from its Bofors business. BAE Systems continues to manage and operate the United States Army's Radford and Holston ammunition plants, and focus on key modernization activities. BAE Systems expects to maintain its strong position on naval guns, missile launch programs, and submarine programs, as well as United States Navy ship repair and modernization activities where the business has invested in capitalized infrastructure and its facilities in key home ports.

Air

Air, with approximately 26,000 employees as at December 31, 2023, comprises BAE Systems' United Kingdom-based air activities for European and International Markets, US Programmes, development of

Future Combat Air Systems and FalconWorks®, alongside its businesses in the Kingdom of Saudi Arabia and its interests in its European joint ventures: Eurofighter and MBDA.

The Air reporting segment currently comprises six lines of businesses: European and International Markets; US Programmes; Future Combat Air Systems; FalconWorks®; Kingdom of Saudi Arabia and MBDA.

Sales, revenue and Underlying EBIT of the Air reporting segment (£8,058 million, £6,517 million and £949 million, respectively) represented 32%, 28% and 34%, respectively, of BAE Systems' sales, revenue and Underlying EBIT for 2023. Sales in the air, maritime and land domains represented 92%, 5% and 3%, respectively, of Air sales in 2023. The European and International Markets business, US Programmes business, Future Combat Air Systems, Kingdom of Saudi Arabia business and MBDA business represented 29%, 15%, 5%, 33% and 18%, respectively, of Air sales in 2023. Platforms sales and services sales represented 51% and 49%, respectively, of Air sales in 2023.

European and International Markets

The European and International Markets line of business comprises BAE Systems' United Kingdom-based business for the production of Typhoon combat aircraft, support, training and upgrades for Typhoon and Hawk, support and upgrades for Tornado, and development of next-generation combat air technologies and defense information systems. BAE Systems is the United Kingdom shareholder in Eurofighter, the joint venture for the Typhoon program. This business is responsible for all activity associated with BAE Systems' responsibilities to Eurofighter.

Typhoon manufacturing is currently underpinned by orders from Qatar, Germany and Spain, which provide continuity of production. Activity on the Qatar Typhoon and Hawk programs continued with ten further Typhoon deliveries in 2023 with a total of 18 aircraft now in service with the Qatar Emiri Air Force.

BAE Systems also provides support to Typhoon operational capability, including maintenance, support and training for Typhoon aircraft in service with air forces in the United Kingdom, Kingdom of Saudi Arabia, Qatar and Oman. The Royal Air Force of Oman elected not to renew the current support arrangements for its Typhoon fleet. Discussions around BAE Systems' role in providing a level of support to the Royal Air Force of Oman continue. BAE Systems also has contracts to support Hawk aircraft across 14 countries.

BAE Systems continues to expand of the capabilities of the Typhoon aircraft with the E-Scan radar and to develop new technologies aligned with the United Kingdom Combat Air Strategy and capabilities required for GCAP. BAE Systems secured a further £535 million of funding in 2023 for European Common Radar System Mk2 Radar development for the Typhoon weapon system.

US Programmes

The US Programmes line of business comprises BAE Systems' United Kingdom-based F-35 Lightning II manufacture, engineering development and support activity. As a key partner, BAE Systems collaborates with the F-35 program's prime contractor, Lockheed Martin, to deliver around 15% of each aircraft (excluding propulsion), playing a major role in the development, production and sustainment of each jet, including the design and manufacture of the aft-fuselage and empennage sub-assemblies in the United Kingdom.

BAE Systems is focused on delivery execution across all production lines with 162 F-35 aft fuselages completed in 2023. Production levels are at full-rate and expected to be maintained for over a decade, based on a program of record of more than 3,000 aircraft. In addition, BAE Systems secured the Lightning Air System National Capability Enterprise (LANCE) contract in March 2023, which extends BAE Systems' leadership of United Kingdom F-35 support at RAF Marham until the end of 2027.

Future Combat Air Systems

BAE Systems develops future air system capabilities, including joint investment with the United Kingdom Government and industry in a next-generation combat air system under the Tempest program, which was launched in 2018 in support of the United Kingdom Combat Air Strategy. The Tempest program is progressing, with the development of a new flying combat air demonstrator, set to fly within the next

four years. The program is focused on key technology areas of flight simulation, aerodynamic engine testing, and crew escape. BAE Systems and its partners are currently working on more than 60 technology demonstrations under an initial Concept and Assessment Phase contract. In December 2023, ministers from Italy, Japan and the United Kingdom signed an international treaty to develop an innovative stealth fighter under GCAP and confirmed that the joint GCAP government headquarters will be based in the United Kingdom.

BAE Systems received further investment in 2023 of approximately £800 million from the United Kingdom Ministry of Defence to advance the concepting and technology of the next-generation combat aircraft to 2025.

FalconWorks®

The FalconWorks® organization, formed in 2023 to lead on developing and bringing to market new products and technologies in the Air segment, is leading the development and testing of the BAE Systems PHASA-35® platform, with successful stratospheric flight trials taking place in June 2023. PHASA-35® is a novel, ultra-light weight, solar-electric High Altitude Pseudo Satellite (HAPS) Unmanned Aerial System (UAS) which provides an alternative to conventional sensing and communications systems.

BAE Systems and Malloy Aeronautics (which was acquired by BAE Systems on January 31, 2024) have collaborated on demonstrating the heavy lift capability of the T-600 heavy lift uncrewed air system and, in 2023, announced that it had successfully carried and released a 200kg inert Sting Ray training variant torpedo during a large NATO exercise, known as REPMUS (Robotic Experimentation and Prototyping with Marine Uncrewed Systems). Following its acquisition by BAE Systems in January 2024, Malloy Aeronautics will form part of FalconWorks®, the advanced research and technology development business within the Air segment.

Kingdom of Saudi Arabia

In the Kingdom of Saudi Arabia, BAE Systems provides operational capability support to the Kingdom of Saudi Arabia's air and naval forces through United Kingdom-Saudi Arabian government-to-government programs. The Saudi British Defence Co-operation Programme and Salam Typhoon Program each provide for multi-year contracts between the governments.

In 2023, BAE Systems agreed with the Saudi Arabian Government to continue to provide Salam Typhoon support services for a further five years through to the end of 2027. Under the Saudi British Defence Co-operation Programme, BAE Systems has contracts for the provision of manpower, logistics support, technical training, training aircraft (including Hawk) and upgrades to Tornado aircraft to provide an enhanced and modernized fleet for the Royal Saudi Air Force.

MBDA

MBDA is a leading global prime contractor of missiles and missile systems across the air, maritime and land domains. BAE Systems holds a 37.5% interest in the European MBDA Joint Venture.

MBDA secured significant orders through 2023, in particular in air defense, maritime and land domains. These include production of medium-range ASTER B1 & B1NT missiles for use across the Italian and French armed forces, and from the Polish Armament Agency to supply Launchers and Common Anti-Air Module Missiles for Poland's PILICA+ Air Defence upgrade program. The contract is the largest European short-range Air Defense acquisition program in NATO. MBDA also won orders for SAMP/T NG new generation ground-based air defense systems for the Italian Air Force, and for the Mid-Life Upgrade of the air defense systems of the French and Italian Horizon class frigates.

MBDA is also supporting GCAP and signed a collaboration agreement with Mitsubishi Electric to work towards a weapons and effectors solution in support of the design of the GCAP core platform.

Outlook

BAE Systems will continue to focus on ensuring that deliveries of Typhoon aircraft and support are made in line with agreed customer milestones. Future Typhoon production and support sales are underpinned by existing contracts and discussions continue to secure potential further contract awards for Typhoon.

Production of the rear fuselage assemblies for the F-35 has reached full rate levels and is expected to be sustained at approximately 150 to 160 aft fuselages to be completed annually. The business plays a significant role in the F-35 sustainment program in support of Lockheed Martin and BAE Systems expects that support volumes will increase as the number of jets in service continues to increase.

In the Kingdom of Saudi Arabia, the In-Kingdom Industrial Participation program continues to make good progress consistent with BAE Systems' long-term strategy, whilst supporting the Kingdom's National Transformation Plan and Vision 2030. BAE Systems' in-Kingdom support business is expected to remain stable underpinned by long-standing contracts that are expected to be renewed every five years, while BAE Systems continues to support development of a Future Combat Air Partnership between the Kingdom of Saudi Arabia and the United Kingdom.

MBDA has a strong Order backlog and development programs continue to improve the long-term capabilities of the business in air, land and sea domains. MBDA continues to be well placed to benefit from increased defense spending in Europe and internationally.

The United Kingdom Future Combat Air System is a key element of the United Kingdom Combat Air Strategy which enables long-term planning and investment in a key strategic part of the business, which BAE Systems believes ensures that BAE Systems has a long-term combat aircraft design, development and manufacturing capability.

Maritime

Maritime, with approximately 27,500 employees as at December 31, 2023, comprises BAE Systems' United Kingdom-based maritime and land activities, including major submarine, ship build and support programs, as well as BAE Systems' Australian business.

The reporting segment currently comprises five lines of businesses: Naval Ships; Submarines; Land UK; Australia and Maritime Services.

Sales, revenue and Underlying EBIT of the Maritime reporting segment (£5,536 million, £5,391 million and £425 million, respectively) represented 22%, 23% and 15%, respectively, of BAE Systems' sales, revenue and Underlying EBIT for 2023. Sales in the air, maritime and land domains represented 4%, 87% and 9%, respectively, of Maritime sales in 2023. The Naval Ships business, Submarines business, Land UK business and Australia business represented 29%, 46%, 7% and 18%, respectively, of Maritime sales in 2023. Platforms sales and services sales represented 67% and 33%, respectively, of Maritime sales in 2023.

Maritime programs include the construction of seven Astute Class submarines for the Royal Navy, as well as the design and production of the Royal Navy's four Dreadnought Class submarines and eight Type 26 frigates. The Maritime portfolio also includes in-service support, including the delivery of training services and providing worldwide engineering support to the Royal Navy's Portsmouth-based flotilla on behalf of the United Kingdom Ministry of Defence, as well as the design and manufacture of combat systems, torpedoes and radars.

Naval Ships

The Naval Ships business is responsible for the construction of eight Type 26 frigates for the United Kingdom Royal Navy. The first four City Class Type 26 frigates are under construction, with the first Type 26 expected to be delivered in the mid-2020s. The steel cut ceremony for the fourth Type 26 frigate, HMS Birmingham, took place in April 2023. HMS Glasgow is docked at Scotstoun is progressing through the key stages of outfit, test and commissioning, while HMS Cardiff is being prepared to enter the water for the first time in 2024. Following steel cut in June 2021, HMS Belfast continues steelwork construction.

BAE Systems also provides the warship design for the Canadian Surface Combatant program.

BAE Systems continues investing in its facilities to better enable BAE Systems to deliver on its customer commitments and secure the long-term future for complex shipbuilding in Glasgow. Construction of a new ship assembly hall in Govan is well underway, and the new Applied Shipbuilding Academy in Scotstoun is planned to open in 2024.

Submarines

The Submarines business is responsible for the design and production of the Royal Navy's Dreadnought and Astute Class submarines. BAE Systems is a member of the Dreadnought Alliance, working alongside partners Rolls-Royce and the Submarine Delivery Agency to deliver the Dreadnought program. BAE Systems designs and manufactures four Dreadnought Class nuclear-powered submarines to carry the United Kingdom's Trident ballistic missiles.

The first four Astute Class submarines are in operational service with the Royal Navy, while the fifth Astute class submarine, HMS Anson, left BAE Systems' Submarines site in Barrow-in-Furness, during February 2023 to begin sea trials with the Royal Navy. HMS Anson joins HMS Astute, HMS Ambush, HMS Artful and HMS Audacious at their operational base, HM Naval Base, Clyde, in Faslane. The remaining submarines in the Astute class, Agamemnon and Agincourt, are at an advanced stage of construction, and the final boat is expected to enter service in the mid-2020s.

Construction of the first three boats in the Dreadnought class is underway at Barrow-in-Furness, Cumbria, with construction beginning on the third submarine, HMS Warspite, in September 2022. Production on the Dreadnought program is expected to continue into the 2030s. BAE Systems secured an order of £2.4 billion for the continued Delivery Phase 3 activity on the Dreadnought Class submarine program.

In addition, in March 2023, further announcements were made as part of the AUKUS trilateral agreement between Australia, the United Kingdom and the United States. Australia and the United Kingdom will operate SSN-AUKUS as their submarines of the future, with funding of £3.95 billion awarded to BAE Systems from the United Kingdom Ministry of Defence for the next phase of the United Kingdom's next-generation nuclear-powered attack submarine program. Early design and mobilization activities are underway on the SSN-AUKUS program, which will deliver a replacement for the Astute class.

Land UK

Land UK's munitions business designs, develops and manufactures a comprehensive range of munitions products for a number of customers including its main customer, the United Kingdom Ministry of Defence. Rheinmetall BAE Systems Land Limited ("*RBSL*"), BAE Systems' United Kingdom-based joint venture with Rheinmetall, specializes in the design, manufacture and support of military vehicles used by the United Kingdom Army and international customers. Land UK also develops and manufactures cased-telescoped weapons through its CTA International joint venture.

BAE Systems' new 15-year contract with the United Kingdom Ministry of Defence, the Next Generation Munitions Solution, commenced on January 1, 2023. The Land UK business secured additional orders for the supply of munitions to the United Kingdom Ministry of Defence, to significantly increase the production of vital defense stocks. Development and investment activity across BAE Systems' munitions business continues, with over £200 million invested, including two new machining lines in Washington (Tyne and Wear).

In RBSL, manufacture of the Mechanised Infantry Vehicle (Boxer) for the British Army commenced in March 2023 as planned, while the Challenger 3 program achieved its Critical Design Review and is progressing towards delivery of prototype platforms.

Australia

In Australia, the business primarily delivers upgrade and support programs for customers in the defense and commercial sectors across the air, maritime and land domains. This includes the Jindalee Operational Radar Network (JORN) upgrade. The business is also delivering the Hunter Class Frigate Program. Services contracts include the provision of sustainment, training solutions and upgrades.

In March 2023, Australia, the United Kingdom, and the United States announced the pathway for Australia to acquire nuclear-powered submarines as part of the AUKUS program. The three nations will deliver a trilaterally-developed submarine, based on the United Kingdom's next-generation Astute replacement design. Australia and the United Kingdom will operate SSN-AUKUS, as it will be known, incorporating technology from all three nations to ensure commonality across the fleets.

The Hunter Class Frigate Program in Australia has achieved key production milestones and continues to make strong progress towards a production contract for Batch 1. In 2023, construction commenced on the first schedule protection block at Osborne Naval Shipyard in South Australia and the program successfully completed the preliminary design review. This block, along with three others, will be capable of being used in the first Hunter frigate. Alongside this, upgrade and sustainment of Australia's Anzac class frigates continues at pace with the sixth ship, HMAS Stuart, delivered to the Royal Australia Navy for sea trials. The impact of the Australian Surface Combatant Review outcomes on future sustainment of Anzac class frigates is being assessed.

Construction has also commenced on facilities at BAE Systems' Williamtown site to support F-35 maintenance activities. Additionally, the Australian business has long-term sustainment and upgrade activities in maritime, air, wide-area surveillance, missile defense and electronic systems.

In 2023, BAE Systems unveiled Strix™, a vertical take-off and landing uncrewed aerial system and RAZER, a low cost precision guided munition. Both are being designed in Australia and are intended for domestic and export markets. BAE Systems also showcased the Guided Missile Frigate, an evolution of the Hunter Class.

Maritime Services

The Maritime portfolio offers in-service support, including the delivery of training services and providing worldwide engineering support to the Royal Navy's Portsmouth-based surface flotilla on behalf of the United Kingdom Ministry of Defence, as well as the design and manufacture of torpedoes and radars.

In June 2023, BAE Systems was awarded a 10-year contract to support the Royal Navy's three main radar systems. Under the contract, BAE Systems engineers will provide maintenance support and upgrades to existing radars, alongside technology upgrades to systems already in use and those being installed on the new Type 26 frigates currently under construction in Glasgow.

Outlook

BAE Systems' Submarines business is executing across Astute, Dreadnought and SSN-AUKUS. Investment continues in the facilities at BAE Systems' Barrow-in-Furness, Cumbria, shipyard to provide the capabilities to deliver these long-term programs.

In the United Kingdom, shipbuilding sales are underpinned by the manufacture of Type 26 frigates and BAE Systems' capabilities across warship support, underwater weapons, radar and maritime training.

The Australian Defence Strategic Review confirmed the acquisition of conventionally armed, nuclear-powered submarines as part of the SSN-AUKUS program and the Australian Government's commitment to continuous naval shipbuilding. BAE Systems believes its Australian business is well positioned to respond to future opportunities this creates. Additionally, the Australian business has long-term sustainment and upgrade activities in maritime, air, wide-area surveillance, missile defense and electronic systems.

As the United Kingdom Ministry of Defence's long-term strategic partner for munitions supply, BAE Systems continues to focus its operations in support of the United Kingdom Ministry of Defence and the United Kingdom's NATO allies, as well as other customers. To support this, investment continues across BAE Systems' facilities and infrastructure alongside recruitment activities to support increased demand.

Cyber & Intelligence

Cyber & Intelligence, with approximately 11,000 employees as at December 31, 2023, comprises the United States-based Intelligence & Security business and United Kingdom-headquartered Digital Intelligence business, and covers BAE Systems' cyber security activities for national security, central government and government enterprises.

The reporting segment comprises two lines of businesses: Intelligence & Security and Digital Intelligence.

Sales, revenue and Underlying EBIT of the Cyber & Intelligence reporting segment (£2,321 million, £2,321 million and £199 million, respectively) represented 9%, 10% and 7%, respectively, of BAE Systems'

sales, revenue and Underlying EBIT for 2023. Sales in the air, maritime, land and cyber domains represented 29%, 14%, 11% and 46%, respectively, of Cyber & Intelligence sales in 2023. The Intelligence & Security business and the Digital Intelligence business represented 70% and 30%, respectively, of Cyber & Intelligence sales in 2023. Sales to the United States Government, the United Kingdom and other governments and other represented 68%, 30% and 2%, respectively, of Cyber & Intelligence sales in 2023.

Intelligence & Security

The United States-based Intelligence & Security line of business provides comprehensive and strategic support to customers' missions around the world. The sector serves a diverse customer base, including government customers across the United States Department of Defense, federal agencies and civilian organizations. The Intelligence & Security line of business currently operates in three business units: Air & Space Force Solutions; Integrated Defense Solutions and Intelligence Solutions.

The Air & Space Force Solutions business unit provides the United States Air Force, United States Space Force and combatant commands with innovative systems engineering and integration solutions to modernize, maintain, test, and cyber-harden aircraft, radars, missile systems, mission applications and information systems that detect, deter and dissuade national security threats. Activities include:

- PHASA-35®, BAE Systems' High Altitude Pseudo Satellite (HAPS) platform in collaboration with the Air segment; the United States Army Space and Missile Defense Command awarded Intelligence & Security a contract that provides opportunities over a five-year period to undertake military utility demonstrations through the integration of sensor payloads operating on board the PHASA-35® aircraft; and
- Continued support of the Integration Support Contract ("*ISC*") program with the United States Air Force under a contract extension received in January 2023, which followed the protest of the ISC 2.0 18-year contract awarded to BAE Systems in June 2022. The United States Air Force recently informed BAE Systems that it was not selected for the ISC 2.0 award, and after a debrief and thorough evaluation of the decision, the Intelligence & Security business filed a protest with the United States Government Accountability Office ("*GAO*"). BAE Systems will continue to support the ISC program as it awaits the GAO decision.

The Integrated Defense Solutions business unit provides the United States Navy, United States Army and United States Air Force and federal/civilian agencies with systems engineering, integration and sustainment services for critical weapons systems, C5ISR and cyber security that enhance mission effectiveness. BAE Systems' solutions are deployed across platforms and networks in the air, maritime, land and cyber domains. Key program awards include:

- A contract to support weapon systems on United States and United Kingdom submarine classes; and
- A contract with the United States Army for operations, maintenance and management of its Defense Supercomputing Resource Center.

The Intelligence Solutions business unit provides innovative mission-enabling solutions and services to intelligence and federal/civilian agencies, as well as the provision of cost-effective synthetic training and simulation software products and components for global defense applications. Key activities include task orders to support critical mission operations for a government customer and the Wargaming Capability ("*WGC*") program, which conducted a successful operational demonstration test event of BAE Systems' wargaming system in June 2023. The event consisted of test case and scenario execution demonstrating a broad range of wargaming activities and resulted in a successful pass from the United States Marine Corps. The success of this test event allows the WGC team to continue moving forward to a production-ready capability with anticipated initial operating capability in 2025.

The Intelligence & Security team maintains a strong pipeline of qualified business opportunities and is seeing an increase in demand driven by global security threats, even with some delays in Department of Defense procurements.

To continue to address the growing modelling & simulation and synthetic training markets, Pitch Technologies was realigned from Platforms & Services to the Intelligence & Security business in 2023. The

addition of Pitch Technologies to this business builds on the 2022 acquisition of BISim as BAE Systems addresses the increased demand for innovative and cost-effective training and simulation software products. In December 2023, Germany's Bundeswehr acquired a BISim VBS4 enterprise license. The enterprise license provides the Bundeswehr with full access to BISim's easy-to-use, whole-earth virtual and constructive desktop trainer and simulation.

Digital Intelligence

The United Kingdom-headquartered Digital Intelligence business provides cyber, intelligence and security expertise to help protect nations, businesses and citizens. BAE Systems' services, solutions and products span customers in law enforcement, national security, central government and government enterprises, critical national infrastructure, telecommunications, military and space. Key programs include:

- A program for the United Kingdom Home Office to develop data analysis technology designed to help protect the United Kingdom's border, part of BAE Systems' digital transformation work with United Kingdom Government to connect and secure civil networks; and
- The Azalea™ program, to develop and build low earth orbit satellites for the defense market.

Outlook

BAE Systems' Intelligence & Security line of business maintains a strong pipeline of qualified business opportunities and is seeing an increase in demand driven by global security threats, even with some delays in Department of Defense procurements. BAE Systems believes its United States Government services sector in Intelligence & Security is robust, with the opportunity for mid-term growth, though market conditions remain highly competitive and continue to shift in response to government priorities.

The modelling, simulation and synthetic training environment markets in the United States and internationally support a positive outlook for BAE Systems' BISim and Pitch Technologies teams, and BAE Systems continues to expand its wargaming capabilities to new markets and customers.

In Digital Intelligence, where BAE Systems believes its capabilities are well aligned to United Kingdom defense, security and digital budgets, it continues to recruit talent and invest in its people through its training academies and a new facility in Manchester, England.

In the space domain, BAE Systems' Digital Intelligence business is focusing on delivering its Azalea™ program to develop and build Low Earth Orbit satellites for the defense market.

HQ

The HQ reporting segment, with approximately 5,900 employees as at December 31, 2023, comprises the head office activities, together with a 49% interest in Air Astana as at December 31, 2023. See "*—Recent Developments*" for information about Air Astana's IPO.

Research and Development

BAE Systems is engaged in leading edge R&D programs, with a focus on electronic systems, platforms and its investments in cyber security. BAE Systems' R&D activities cover a wide range of programs, and include technological innovations and techniques to improve the manufacturing and service of products. BAE Systems focuses on technology innovation and engineering excellence, prioritizing and investing in next-generation R&D programs to deliver competitive solutions to meet its customers' needs, now and in the future.

Application of this research is managed through business-focused research and development programs. BAE Systems and its partners fund strategic R&D across the business and customers fund directly much of the near-term product development work undertaken by BAE Systems.

BAE Systems spent £2.3 billion on R&D in 2023, as compared to £2.0 billion in 2022, of which £0.3 billion and £0.3 billion in 2023 and 2022, respectively, was funded by BAE Systems. In 2023, a significant part of R&D investments was focused on building on existing, leading capabilities and generating new innovative and disruptive technologies.

Regulatory

General

As a defense company, BAE Systems is subject to various laws and regulations that are particular to the defense industry in the United Kingdom, the United States and other countries. These include restrictions on sales, export and sharing of technology and the disclosure of information. In addition, where applicable, BAE Systems' acquisitions, disposals and/or joint ventures have been subject to review by the competition authorities in the relevant jurisdictions.

Like other companies that derive a substantial portion of their sales from contracts for defense-related products, BAE Systems is subject to business risks that include changes in governmental appropriations, national defense and export control policies and regulations and availability of government funds. These factors and other risks could materially adversely affect BAE Systems' business with governments in the future.

See also "*Risk Factors—1. Factors that may affect the Issuer's ability to fulfil its obligations under the Securities—BAE Systems is dependent on defense spending*," "*Risk Factors—1. Factors that may affect the Issuer's ability to fulfil its obligations under the Securities—BAE Systems' largest customers are governments" and "Risk Factors—1. Factors that may affect the Issuer's ability to fulfil its obligations under the Securities—BAE Systems is subject to risk from a failure to comply with laws and regulations.*"

BAE Systems is subject to various national security requirements, which are an important part of how it operates as a defense company and meets the needs of its customers, and its governance.

United Kingdom

As a consequence of the merger between British Aerospace and the former Marconi Electronics Systems businesses in 1999, BAE Systems gave certain undertakings to the United Kingdom Secretary of State for Trade and Industry (now the Secretary of State for Business, Energy and Industrial Strategy). In February 2007, BAE Systems was released from the majority of these undertakings and the remainder have been superseded and varied by a new set of undertakings. Compliance with the undertakings is monitored by a compliance officer. Due to the nature of its activities, the United Kingdom Government holds a Special Share in BAE Systems, ensuring that BAE Systems cannot be non-British controlled.

United States

BAE Systems, BAE Systems (Holdings) Limited, BAE Systems, Inc. and BAE Systems Holdings Inc. entered into a Special Security Agreement dated January 5, 2023 with the United States Department of Defense regarding the management of BAE Systems, Inc. in order to comply with the United States Government's national security requirements. The Special Security Agreement addresses national security matters relating to the ownership and control of BAE Systems' United States defense businesses. Through the Special Security Agreement, BAE Systems' governance structure is augmented by the BAE Systems, Inc. board, which is populated by experienced individuals drawn principally from the United States armed forces and intelligence community, and also former members of the United States Congress.

Government Contracts

Some government contracts, including United States and United Kingdom Government contracts, are, by their terms, subject to termination by the contracting government either for its convenience or default by the contractor. United States and United Kingdom government contracts typically provide for payment upon termination for items delivered to and accepted by the government, and, if termination is for convenience, may provide for payment of fair compensation of work performed plus the costs of settling and paying claims by terminated subcontractors, and for payment of other settlement expenses. If a contract is terminated for default, it may provide for the following consequences: (i) the contractor is paid an amount agreed upon for completed and partially completed products and services already accepted by the government, (ii) the government is not liable for the contractor's costs with respect to unaccepted items, and the government is entitled to repayment of advance payments and progress payments, if any, and/or (iii) the contractor may be liable for costs incurred by the government in procuring undelivered items from another source or for the

government's costs and expenses in rectifying contract deliverables in order that they comply with the contract. It should be noted however that each contract is specific to its facts and therefore the contractual terms can and do vary from market norms in specific cases. In addition, while contracts with other international government customers will typically contain analogous provisions, there may be differences in approach to termination and the consequences of termination.

In addition to the right of governments to terminate contracts, government contracts, particularly in the United States, are conditional upon the continuing appropriation of funds by legislative bodies. Most notably, funds for United States Government contracts are often appropriated for particular projects on a fiscal year basis, even though contract performance may take many years to complete. Consequently, at the outset of a major United States program, the contract may be partially funded, and additional monies are normally committed to the contract by the procuring agency only as appropriations are made by the relevant legislative body for future fiscal years.

See also "*Risk Factors—1. Factors that may affect the Issuer's ability to fulfil its obligations under the Securities—BAE Systems is dependent on defense spending*" and "*Risk Factors—1. Factors that may affect the Issuer's ability to fulfil its obligations under the Securities—BAE Systems' largest customers are governments.*"

Environmental, Health and Safety ("EHS") Regulation and Liability

BAE Systems is subject to comprehensive EHS laws and regulations in each of the countries in which it operates. Such laws and regulations impose standards with respect to air emissions, wastewater discharges, the use, handling and storage of hazardous wastes and materials, remediation of soil and ground water contamination and the prevention of pollution. Violations of and/or liabilities under such laws and regulations can result in substantial costs, including fines, penalties or other sanctions, investigation and cleanup costs, and third-party claims for property damage or personal injury. Although EHS requirements are most highly developed and restrictive in the United Kingdom, continental Europe, the United States and Australia, such requirements are developing rapidly in other countries as well. Increasing EHS regulation exposes BAE Systems to increasing capital and operating costs associated with compliance, remediation and protection of human health and the environment.

BAE Systems has a long history of industrial operations and may incur liability for the cost of investigation and cleanup if contamination is discovered at one of its current or former facilities, in some circumstances even if such contamination was caused by a prior owner or other third party. BAE Systems also may incur liability if contamination is discovered at a landfill or other locations where it may have sent wastes for disposal, even where historic disposal practices were conducted in accordance with all applicable requirements at the time of disposal. BAE Systems and its subsidiaries have been identified as responsible parties for investigation and remediation costs at certain contaminated sites, including at and/or in the vicinity of current and former sites. Based upon currently available information about the nature and extent of the contamination, as well as the likely participation of other responsible parties, BAE Systems does not believe that the cost of the environmental cleanup for these sites will have a material adverse effect on its financial condition. See note 25 to the BAE Systems 2023 Annual Financial Statements for further details.

See also "*Risk Factors—1. Factors that may affect the Issuer's ability to fulfil its obligations under the Securities—BAE Systems' products and services, and those of its customers or suppliers, inherently pose a safety risk*," "*Risk Factors—1. Factors that may affect the Issuer's ability to fulfil its obligations under the Securities—BAE Systems may be impacted by environmental factors, including those relating to climate change*" and "*Risk Factors—1. Factors that may affect the Issuer's ability to fulfil its obligations under the Securities—BAE Systems is subject to risk from a failure to comply with laws and regulations*."

Employees

At December 31, 2023, BAE Systems' workforce amounted to approximately 99,800 employees. The United States, United Kingdom, the Kingdom of Saudi Arabia and Australia had 31%, 46%, 7% and 6%, respectively, of BAE Systems' total employees in 2023, with 10% of BAE Systems' total employees in other locations. At December 31, 2023, in the United Kingdom, approximately 55% of staff were members of trade unions and 71% were covered by collective bargaining agreements and, in the United States and Australia, BAE Systems had approximately 12% and 20%, respectively, of employees covered by a collective bargaining agreement.

The following table shows BAE Systems' number of employees by reporting segment as at December 31, 2023.

Employees by Reporting Segment[(1)]	As at December 31, 2023
Electronic Systems	17,500
Platforms & Services	11,900
Air	26,000
Maritime	27,500
Cyber & Intelligence	11,000
HQ	5,900
Total Employees	**99,800**

(1) Including share of equity accounted investments.

BAE Systems has adopted various share-based incentive plans for directors, management and employees. These plans are described in note 29 to the BAE Systems 2023 Annual Financial Statements. BAE Systems also operates pension plans for its qualifying employees in the United Kingdom, the United States and other countries. See note 24 to the BAE Systems 2023 Annual Financial Statements.

Real and Intellectual Property

Real Property

BAE Systems owns or leases approximately 3.4 million square meters of buildings in the United Kingdom, the United States and Australia and approximately 9,000 acres of land in the United Kingdom, the United States and Australia. BAE Systems believes that its main facilities are adequate for its present needs and, as supplemented by planned improvements and construction, are expected to remain adequate for the foreseeable future.

Intellectual Property

The use of intellectual property rights enables BAE Systems to prevent competitors from exploiting protected technologies and imitating protected brands. BAE Systems' Operational Framework mandates a policy to protect BAE Systems' intellectual property (including patents, copyrights and trademarks) through appropriate use and observance of intellectual property law, so that returns made from the investment in research and development and technological innovation and commercial and business innovations are adequately safeguarded.

BAE Systems does not believe that the loss of any single patent or trademark would have a material adverse effect on its operations or financial condition. In addition, it is BAE Systems' policy to ensure that the resources associated with the protection and exploitation of intellectual property are deployed efficiently and in a manner that seeks to obtain the appropriate level of protection for such assets.

Legal Proceedings

BAE Systems is involved in a number of claims and arbitrations that have arisen in the ordinary course of business. BAE Systems believes that it has made adequate provisions to cover current or contemplated general and specific litigation risks. See note 25 to the BAE Systems 2023 Annual Financial Statements for further details. Reflecting the inherent uncertainty within many legal proceedings, the timing and amount of the outflows could differ significantly from the amount provided.

BAE Systems is not, and, during the 12 months preceding the date of this Offering Memorandum, has not been, involved in any governmental, legal or arbitration proceeding (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer or BAE Systems.

Board of Directors, Chair and Chief Executive of the Issuer

The Board of Directors presently consists of thirteen directors, three of whom are executives of the Issuer and ten of whom (including the Chair) serve in a non-executive capacity.

The Board of Directors is scheduled to meet seven times each year currently, with additional meetings called on an ad hoc basis. All directors receive regular information on BAE Systems' operational and financial performance. Among other things, each year the Board of Directors formally reviews BAE Systems' business plan, strategy, management resources, investor relations, ESG matters and risk management. The Board of Directors has agreed to a schedule of matters that are reserved to it for decision.

The Board of Directors has established five principal standing committees: the Audit Committee, the Environmental, Social and Governance Committee, the Innovation and Technology Committee, the Nominations Committee and the Remuneration Committee.

The Audit Committee is responsible for reviewing in detail the effectiveness of BAE Systems' risk management and internal control systems. Additionally, among other things, the Audit Committee makes recommendations to the Board of Directors on the appointment of the auditors, reviews all significant issues concerning the financial statements and is also responsible for assessing audit independence and effectiveness.

The Environmental, Social and Governance Committee is responsible for setting BAE Systems' priorities and objectives relating to ESG matters, with a particular focus on health and safety, ethics and responsible business conduct, responsible trading principles, diversity and inclusion, stakeholder and workforce engagement and supplier conduct. In addition, the Environmental, Social and Governance Committee provides oversight, input and assurance of BAE Systems' sustainability agenda and progress, including approving ESG-related objectives and targets that form part of the executive incentives.

The Innovation and Technology Committee is responsible for overseeing the application of science, engineering, and technology and the successful exploitation of BAE Systems' intellectual property and know-how in pursuit of its business and commercial goals. The Innovation and Technology Committee also reviews the allocation and prioritization of research and development funding and strategic workforce development regarding necessary scientific, engineering and technological skills.

The Nominations Committee is responsible for matters relating to the engagement of new directors. This includes identifying and nominating candidates for both Executive and Non-Executive directorship vacancies for the Board of Directors' approval and overseeing the development of a diverse pipeline of succession, taking into account a balance of skills, experience and knowledge.

The Remuneration Committee is responsible for setting, among other things, the remuneration and benefits payable to the Executive Directors. This includes approving any annual and long-term incentive plans-based remuneration and selecting and weighing performance metrics used for such plans. The Remuneration Committee also sets the remuneration of the Chair.

Name	Age	Position
Cressida Hogg CBE	54	Chair
Executive Directors		
Dr. Charles Woodburn CBE	53	Chief Executive
Brad Greve	56	Chief Financial Officer
Tom Arseneault	60	President & Chief Executive Officer of BAE Systems, Inc.
Non-Executive Directors		
Nick Anderson	63	Non-Executive Director
Crystal E. Ashby	62	Non-Executive Director
Angus Cockburn	60	Non-Executive Director
Dame Elizabeth Corley CBE	67	Non-Executive Director
Dr. Jane Griffiths	68	Non-Executive Director
Dr. Ewan Kirk	63	Non-Executive Director
Stephen Pearce	60	Non-Executive Director
Nicole Piasecki	61	Non-Executive Director and Senior Independent Director
Lord Mark Sedwill GCMG, FRGS	59	Non-Executive Director

The Board of Directors initially appoints directors, who serve until the next Annual General Meeting ("*AGM*"), at which time the Issuer's Articles of Association require the new directors to retire and seek election. The Non-Executive Directors are usually appointed for an initial three-year term that, subject to review, may be extended subsequently for further such terms. All directors are subject to annual election or re-election at the AGM.

Executive Directors

Dr. Charles Woodburn CBE, Chief Executive. Dr. Woodburn was appointed as Chief Executive on July 1, 2017, having originally been appointed to the Board of Directors as Chief Operating Officer in May 2016. He is an experienced business leader with over 27 years' experience in the defense and aerospace, and oil and gas industries. Prior to joining BAE Systems, Dr. Woodburn was Chief Executive Officer of Expro Group, before which he spent 15 years with Schlumberger Limited holding a number of senior management positions in Asia, Australia, Europe and the United States. Dr. Woodburn is a trustee and Chair of the charity Movement to Work. He is a Fellow of the Royal Academy of Engineering. Dr. Woodburn was awarded a CBE in 2023 for services to international trade and skills.

Brad Greve, Chief Financial Officer. Mr. Greve was appointed to the Board of Directors on April 1, 2020, having previously joined as Group Finance Director designate in 2019. Mr. Greve is a highly experienced executive with deep financial and operational management experience, gained during a career in excess of 30 years in international engineering and technology businesses. Prior to joining BAE Systems, he held a number of senior executive roles in Schlumberger, undertaking roles in Europe, Africa, South America and the United States.

Tom Arseneault, President and Chief Executive Officer of BAE Systems, Inc. Mr. Arseneault was appointed as President and Chief Executive Officer of BAE Systems, Inc. and to the Board of Directors on April 1, 2020. Throughout his career, Mr. Arseneault has led complex organizations responsible for fulfilling critical and technologically challenging missions. Before becoming President and Chief Executive Officer of BAE Systems, Inc., he held various senior roles within BAE Systems, Inc. Prior to his senior leadership appointments, Mr. Arseneault managed various organizations and programs for Sanders, a Lockheed Martin Company, which was acquired by BAE Systems in 2000. Earlier in his career, he held a variety of engineering and program management positions with General Electric and The Analytic Sciences Corporation. Mr. Arseneault is a member of the Executive committee of the Aerospace Industries Association.

Non-Executive Directors

Cressida Hogg CBE, Chair. Ms. Hogg joined the Board of Directors in November 2022, as a Non-Executive Director and Chair designate and was appointed as Chair on May 4, 2023. She is currently a non-executive director of London Stock Exchange Group plc, where she is the Senior Independent Director. Ms. Hogg has previously enjoyed a long executive career, spent largely with 3i Group, during which she developed a deep understanding of large, long-term infrastructure projects and businesses, gaining international experience whilst working in various countries including the United States, Canada, India, Australia and the Middle East. She was awarded a CBE in 2014 for services to infrastructure investment and policy.

Nick Anderson, Non-Executive Director. Mr. Anderson served as Group Chief Executive of Spirax-Sarco Engineering plc, a FTSE 100 industrial engineering company, from January 2014 until his retirement in January 2024. Mr. Anderson has a strong record of leading and growing global businesses. During his tenure as Group Chief Executive of Spirax-Sarco Engineering, Mr. Anderson oversaw the successful global growth of Spirax-Sarco Engineering. Prior to his roles at Spirax-Sarco Engineering, he was Vice-President of John Crane Asia Pacific and President of John Crane Latin America. Mr. Anderson was appointed a Non-Executive Director in 2020.

Crystal E. Ashby, Non-Executive Director. Ms. Ashby has held various senior leadership roles within the energy and healthcare sectors and has considerable expertise in government affairs, legal and regulatory matters. She is currently the Executive Vice President, Chief People, DEI, and Communications Officer of the US health insurance company, Independence Blue Cross. Prior to joining Independence Health Group, Ms. Ashby acted as the interim President and Chief Executive of the Executive Leadership Council, a non-profit organization that supports inclusive leadership principles and the development and advancement of Black executives. Before that, she held various senior leadership roles during a long career with BP America Inc., culminating with her appointment as Executive Vice President of Government and Public Affairs and Strategic University Partnerships and membership on its Americas Leadership Team. She is an independent director on the Board of Texas Reliability Entity, Inc. and serves on the Engineering Dean's Leadership Advisory Board at the University of Michigan. She is a National Association of Corporate Directors Fellow and a member of the International Women's Forum and American Bar Association. Ms. Ashby was appointed a Non-Executive Director in 2021.

Angus Cockburn, Non-Executive Director. Prior to his retirement in 2021, Mr. Cockburn was the Group Chief Financial Officer of Serco Group plc and before that, Chief Financial Officer of Aggreko plc. Mr. Cockburn is chair of James Fisher & Sons plc and the senior independent director of Ashtead Group plc. He is also the senior non-executive director of the charitable trust-owned Edrington Group. He is currently a non-executive director of the STS Global Income & Growth Trust but will be stepping down from that role later this year. Mr. Cockburn is a former non-executive director of GKN plc and Howdens Joinery Group PLC. He holds an MBA from the IMD Business School in Switzerland, and is also an Honorary Professor at the University of Edinburgh and a member of the Institute of Chartered Accountants of Scotland. Mr. Cockburn was appointed a Non-Executive Director in 2023.

Dame Elizabeth Corley CBE, Non-Executive Director. Dame Elizabeth is currently Chair of Schroders plc and chairs the board of the Impact Investment Institute, having previously been chair of the industry taskforce for the United Kingdom government on social impact investing. She a former non-executive director of Pearson plc and Morgan Stanley Inc. Dame Elizabeth served as Chief Executive Officer of Allianz Global Investors, initially for Europe, then globally, from 2005 to 2016. Prior to that, she worked for Merrill Lynch Investment Managers. Dame Elizabeth is active in representing the investment industry and developing standards within it. She is a member of the CFA Future of Finance Advisory Council, the AQR Institute of Asset Management at the London Business School, the Committee of 200 and the 300 Club. She is also an acclaimed writer, a Fellow of the Royal Society for the encouragement of Arts, Manufactures and Commerce and is a trustee of the British Museum. Dame Elizabeth was appointed a Non-Executive Director in 2016.

Dr. Jane Griffiths, Non-Executive Director. Dr. Griffiths is currently Chair of Redx Pharma Plc, Chair of Theramex and a non-executive director of Johnson Matthey Plc. She is also adirector of the Spanish healthcare company, Esteve. Prior to her retirement in December 2019, Dr. Griffiths enjoyed a long career with Johnson & Johnson during which she held various executive roles in clinical research, international and strategic

marketing, product management and operational management. In her last role before retirement, Dr. Griffiths was Global Head of Actelion, where she led the integration of the Swiss biotech business following its acquisition by Johnson & Johnson. Prior to that, she served as Company Group Chair of Janssen EMEA, the group's research-based pharmaceutical arm. During her time at Johnson & Johnson, Dr. Griffiths led its Corporate Citizen Trust in EMEA and sponsored its Women's Leadership Initiative and the Janssen's Global Pharmaceuticals Sustainability Council. She is a former chair of the Executive Committee of the European Federation of Pharmaceutical Industries and Associations, past chair of the PhRMA Europe Committee and former member of the Corporate Advisory Board of the 'Your Life' campaign backed by the United Kingdom government, aimed at encouraging more people to study STEM subjects. Dr. Griffiths was appointed a Non-Executive Director in 2020.

Dr. Ewan Kirk, Non-Executive Director. Dr. Kirk is Chair of the Isaac Newton Institute for Mathematical Sciences, chairman of DeepTech Labs, a United Kingdom-based venture capital fund that invests in deep technology businesses, and Co-Chair of the Turner Kirk Trust. He has led multiple ventures to commercialize, apply and leverage technology and mathematics research in both business and philanthropy. In 2006, Dr. Kirk founded Cantab Capital Partners, a science-driven investment management firm, which was acquired by GAM Investments in 2016 and is one of the top-performing quantitative investment companies in the United Kingdom. Prior to founding Cantab, Dr. Kirk was partner and Head of Quantitative Strategies Group at Goldman Sachs. In 2023, he became the first Royal Society Entrepreneur in Residence at the Cambridge University at the Centre for Mathematical Sciences. Dr. Kirk holds a PhD in General Relativity from the University of Southampton, a MASt in Mathematics from Queen's College, Cambridge, and a BSc in Natural Philosophy and Astronomy from the University of Glasgow. Dr. Kirk was appointed a Non-Executive Director in 2021.

Stephen Pearce, Non-Executive Director. Mr. Pearce was previously Finance Director of Anglo American plc from 2017 to 2023. He has more than 20 years of public company director experience and over 30 years of financial and commercial experience in the mining, oil and gas, and utilities industries. Prior to joining Anglo American, Stephen served as CFO and an executive director of the Australian iron ore company Fortescue Metals Group Limited from 2010 to 2016. He is a fellow of the Institute of Chartered Accountants, a member of the Governance Institute of Australia and a member of the Australian Institute of Company Directors. Mr. Pearce is Chair of the Audit Committee and was appointed a Non-Executive Director in 2019.

Nicole Piasecki, Non-Executive Director and Senior Independent Director. Ms. Piasecki was Vice President and General Manager of the Propulsion Systems Division of Boeing's commercial aircraft business until September 2017. She previously held a number of engineering, sales, marketing and business strategy roles during her 25-year career with The Boeing Company. She also served as President of Boeing Japan. She is currently a non-executive director of Weyerhaeuser Company and BWX Technologies, Inc. She also serves on the boards of Kymeta Corporation and Alitheon Inc. She is a senior advisor to Mitsubishi Heavy Industries, Inc. and a director of The Stimson Center. She formerly served as chair of the Board of Trustees of Seattle University, and on the Federal Aviation Authority's Management Advisory Board, the US Department of Transportation's Future of Aviation Advisory Committee and the Federal Reserve Bank of San Francisco's Seattle branch. She is a former director of Howmet Aerospace Inc. Ms. Piasecki was appointed a Non-Executive Director in 2019 and assumed the role of Senior Independent Director as of January 1, 2024.

Lord Mark Sedwill GCMG, FRGS, Non-Executive Director. Lord Sedwill is currently a senior adviser and supervisory board member of Rothschild & Co, and the senior independent director and senior deputy chair of Lloyd's of London. He is also the Chairman of the Atlantic Future Forum and a member of the United Kingdom Parliament's House of Lords. Lord Sedwill is chairman of the Atlantic Future Forum and a fellow of the Royal Geographical Society and of the Institute of Directors. He is president of the Special Forces Club and has several charitable interests, including his role as a trustee and council member of the Royal National Lifeboat Institute (RNLI). Lord Sedwill is also a member of the IISS Advisory Council, a trustee of the RNLI, an Honorary Colonel in the Royal Marines and an Honorary Bencher of Middle Temple. Prior to joining the Board, he enjoyed a long career serving the United Kingdom government in a wide range of national security and diplomatic roles in the United Kingdom and overseas, before retiring in 2020. In his final decade in public service, Lord Sedwill was British Ambassador and NATO Representative in Afghanistan, Foreign Office Political Director, Home Office Permanent Secretary, culminating in his period as National

Security Advisor from 2017 to 2020 and Cabinet Secretary from 2018 to 2020. Prior to that, he held diplomatic and security posts, serving in Egypt, Syria, Jordan, Cyprus and Pakistan. Lord Sedwill was appointed a Non-Executive Director in 2022.

The business address of each of the directors is c/o 6 Carlton Gardens, London, SW1Y 5AD, United Kingdom.

There are no actual or potential conflicts of interest between the duties to BAE Systems of any of the directors and his/her private interests and/or other duties.

Remuneration

The overall remuneration package for Executive Directors consists of base salary, an incentive designed to reward annual performance on both financial and non-financial metrics, long-term incentives based on share awards, and retirement and other benefits. All Executive Directors are required to establish and maintain a minimum personal shareholding equal in value to 300% of base salary in the case of the Chief Executive, 200% of annual base salary in the case of the Group Finance Director, and 425% of base salary in the case of the President & Chief Executive Officer of BAE Systems, Inc. As a minimum, a holding equal to one half of the prescribed percentage of annual base salary must be achieved as quickly as possible using shares vesting or options exercised through the executive share option schemes or long-term incentive schemes, by retaining 50% of the net value of the shares that vest or the options that are exercised on each occasion. Thereafter, Executive Directors are required to increase their personal shareholding, on each occasion retaining 25% of the shares that vest or the options exercised each year, within a five-year time period until a personal shareholding equal to the prescribed percentage of annual base salary is achieved and maintained.

Charles Woodburn and Brad Greve have contracts requiring BAE Systems to give not less than 12 months' notice of termination. Tom Arseneault's contract renews for a one year period from 31 December each year unless either party gives the other at least 60 days' notice of termination. No Executive Director has provisions in his service contract that relate to a change of control of BAE Systems. The Executive Directors are also members of group pension schemes.

It is the Board of Directors' policy that Non-Executive Directors do not have service contracts, but do have letters of appointment detailing the basis of their appointment. The Nominations Committee proposes candidates, and the Board of Directors appoints them based on their experience to provide independent judgment on issues of strategy, performance, resources and standards of conduct. The Non-Executive Directors' Fees Committee or the Board without Non-Executive Directors (except the Chair) present agrees the level of fees payable to Non-Executive Directors (other than the Chair) taking into account time commitment requirements and responsibility, and after reviewing practice in other comparable companies. Non-Executive Directors do not participate in the annual incentive scheme or long-term incentive plans and do not receive retirement benefits.

For the year ended December 31, 2023, the single total figure of remuneration for the Chair, the Chief Executive, the other Executive Directors of 2023 and the Non-Executive Directors of 2023 paid by BAE Systems was £0.729 million, £13.451 million, £16.385 million and £1.154 million, respectively.

Audit Committee

The current members of BAE Systems' Audit Committee are:

- Stephen Pearce (Chair)
- Angus Cockburn
- Dame Elizabeth Corley CBE
- Dr. Jane Griffiths

All members of the Audit Committee are independent Non-Executive Directors. The Audit Committee has requested that the Chief Executive, Chief Financial Officer, Group Financial Controller and the head of internal audit normally attend its meetings. Each year, the Audit Committee holds individual meetings without

group executives present, with and without the head of internal audit and the external auditors present. BAE Systems' external auditors and head of internal audit have direct access to the Chair of the Audit Committee.

The Audit Committee may obtain at BAE Systems' expense independent professional advice on any matters covered by its terms of reference.

The Audit Committee's tasks include the following:

- reviewing the effectiveness of BAE Systems' financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- monitoring the integrity of BAE Systems' financial statements;
- monitoring the role and effectiveness of the internal audit function;
- approving an annual program of internal audit work and reviewing its output;
- making recommendations to the Board of Directors on the appointment of the auditors;
- agreeing the scope of the auditors' annual audit program and reviewing the output;
- keeping the relationship with the auditors under review;
- assessing the effectiveness of the audit process; and
- developing and implementing policy on the engagement of the auditors to supply non-audit services.

Special Share

BAE Systems has issued one Special Share. The Special Share is held on behalf of the Secretary of State for Business and Trade (the "*Special Shareholder*"). Certain provisions of BAE Systems' Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in BAE Systems, the requirement that the majority of the directors are British, and the requirement that the Chief Executive and any Executive Chair are British.

The holder of the Special Share is entitled to attend a general meeting, but the Special Share carries no right to vote or any other rights at any such meeting, other than to speak in relation to any business in respect of the Special Share. Subject to the relevant statutory provisions and BAE Systems' Articles of Association, on a return of capital on a winding up, the holder of the Special Share shall be entitled to repayment of the £1 capital paid up on the Special Share in priority to any repayment of capital to any other members.

The holder of the Special Share has the right to require BAE Systems to redeem the Special Share at par or convert the Special Share into one ordinary share at any time.

DESCRIPTION OF SECURITIES

The following is a summary of the material provisions of the Fiscal and Paying Agency Agreement and the Securities, each as defined below. The summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Fiscal and Paying Agency Agreement and the Securities, copies of which will be available for inspection during normal business hours at any time after the closing date at the offices of the Fiscal and Paying Agent (as defined below). Any capitalized term used herein but not defined shall have the meaning assigned to such term in the Fiscal and Paying Agency Agreement.

BAE Systems plc (the "*Issuer*") is offering $800,000,000 aggregate principal amount of its 5.000% Notes due 2027 (the "*2027 Notes*"), $1,250,000,000 aggregate principal amount of its 5.125% Notes due 2029 (the "*2029 Notes*"), $500,000,000 aggregate principal amount of its 5.250% Notes due 2031 (the "*2031 Notes*"), $1,500,000,000 aggregate principal amount of its 5.300% Notes due 2034 (the "*2034 Notes*") and $750,000,000 aggregate principal amount of its 5.500% Notes due 2054 (the "*2054 Notes*" and, together with the 2027 Notes, the 2029 Notes, the 2031 Notes and the 2034 Notes, the "*Securities*"). The 2027 Notes, the 2029 Notes, the 2031 Notes, the 2034 Notes and the 2054 Notes will mature on March 26, 2027, March 26, 2029, March 26, 2031, March 26, 2034 and March 26, 2054, respectively, (in each case, the "*Stated Maturity Date*" of the respective Series (as defined below)), and upon surrender will be repaid at 100% of the principal amount thereof together with any unpaid and accrued interest. Application has been made to the London Stock Exchange for the Securities to be admitted to trading on the International Securities Market of the London Stock Exchange. The 2027 Notes, the 2029 Notes, the 2031 Notes, the 2034 Notes and the 2054 Notes each constitute a separate series of debt securities (each a "*Series*") to be issued under the Fiscal and Paying Agency Agreement (as defined below) but will be treated as a single class for all purposes under the Fiscal and Paying Agency Agreement.

Principal (and premium, if any) of and interest (and any Additional Amounts (as defined below), if any) on the Securities are payable in U.S. dollars, or in such other coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts.

Interest on the Securities will be payable semi-annually in arrear on March 26 and September 26 of each year, commencing on September 26, 2024, and until the principal amount has been paid or made available for payment, to holders of the relevant Securities at the close of business on the respective Record Date (as defined below). Interest on the Securities shall be calculated on the basis of a 360-day year of twelve 30-day months.

The Securities will not be entitled to the benefit of any sinking fund. A "*Business Day*" for the Securities shall be a day which is not, in London or New York City, a Saturday, Sunday, a legal holiday or a day on which banking institutions are authorized or obligated by law to close.

The aggregate principal amount of Securities issuable under the Fiscal and Paying Agency Agreement is unlimited. The Issuer may from time to time without the consent of the holders of the Securities issue further debt securities having the same terms and conditions as the relevant Series of Securities so that the further issue is consolidated and forms a single Series of debt securities with the 2027 Notes, the 2029 Notes, the 2031 Notes, the 2034 Notes or the 2054 Notes, as applicable, having the same terms, other than issue date, interest commencement date, issue price and in some cases, the first interest payment date; *provided* that, if any such additional debt securities are not fungible with the applicable outstanding Securities for U.S. Federal income tax purposes, such additional debt securities will be issued as a separate Series under the Fiscal and Paying Agency Agreement and will have a separate CUSIP or similar identifying number from the Securities of the relevant Series offered hereby. The period of the resale restrictions applicable to any Securities previously offered and sold in reliance on Rule 144A under the Securities Act shall automatically be extended to the last day of the period of any resale restrictions imposed on any such additional Securities.

The Securities will be issued under a Fiscal and Paying Agency Agreement dated March 26, 2024 (the "*Fiscal and Paying Agency Agreement*") between the Issuer and Citibank, N.A., London Branch, as fiscal and paying agent (the "*Fiscal and Paying Agent*") and registrar. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Fiscal and Paying Agency Agreement and the Securities.

All Securities surrendered for payment or exchange shall be delivered to the Fiscal and Paying Agent. The Fiscal and Paying Agent shall cancel and may destroy all such Securities surrendered for payment or exchange, in accordance with its note destruction policy, and if Securities are destroyed, the Fiscal and Paying Agent shall deliver a certificate of destruction to the Issuer.

The Securities

The 2027 Notes will mature on March 26, 2027, the 2029 Notes will mature on March 26, 2029, the 2031 Notes will mature on March 26, 2031, the 2034 Notes will mature on March 26, 2034 and the 2054 Notes will mature on March 26, 2054. The 2027 Notes, the 2029 Notes, the 2031 Notes, the 2034 Notes and the 2054 Notes will bear interest from March 26, 2024, and interest will be payable semi-annually in arrear on each March 26 and September 26 (each such date, an "*Interest Payment Date*"), commencing September 26, 2024 at the rate of 5.000% per year (in the case of the 2027 Notes), at the rate of 5.125% per year (in the case of the 2029 Notes), at the rate of 5.250% per year (in the case of the 2031 Notes), at the rate of 5.300% per year (in the case of the 2034 Notes) and at the rate of 5.500% per year (in the case of the 2054 Notes) and to the holders in whose names the 2027 Notes, the 2029 Notes, the 2031 Notes, the 2034 Notes or the 2054 Notes, as applicable, are registered at the close of business on the March 15 and September 15 preceding such Interest Payment Date (whether or not a Business Day), each such date, a "*Record Date.*"

If any Interest Payment Date or Stated Maturity Date (or date of redemption) with respect to any Securities falls on a day that is not a Business Day, the required payment of principal and/or interest will be made on the next succeeding Business Day as if made on the date such payment was due, and no interest will accrue on such payment for the period from and after such Interest Payment Date or such Stated Maturity Date (or the date of redemption) with respect to such Securities, as the case may be, to the date of such payment on the next succeeding Business Day.

Prescription

Amounts held by the Fiscal and Paying Agent for payment of the principal (and premium, if any) of and interest on any Securities need not be segregated from other funds except as required by law, and will be applied as set forth in the Fiscal and Paying Agency Agreement and in the Securities. Any amounts held by the Fiscal and Paying Agent for the payment of the principal (and premium, if any) of or interest on any Securities which remain unclaimed for two years after such principal (and premium, if any) or interest has become due and payable and paid to the Fiscal and Paying Agent shall be repaid to the Issuer upon its written request, and all liability of the Fiscal and Paying Agent with respect to such amounts shall cease. Any funds held by the Fiscal and Paying Agent will be held by it as a banker and not subject to the United Kingdom Financial Conduct Authority's Client Money Rules.

Rank

The Securities will constitute direct, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* among themselves and with all other existing and future direct, unsecured and unsubordinated obligations of the Issuer (except those obligations preferred by statute or operation of law). The Securities will effectively rank junior to any existing and future secured indebtedness of the Issuer to the extent of the assets securing such indebtedness and to any existing and future indebtedness of the Issuer's subsidiaries to the extent of the assets of such subsidiaries.

The Fiscal and Paying Agency Agreement contains no restrictions on the amount of additional indebtedness which may be incurred by the Issuer; however, the Fiscal and Paying Agency Agreement contains certain restrictions on the ability of the Issuer to secure certain of its indebtedness. See "*—Certain Covenants.*"

Governing Law

The Fiscal and Paying Agency Agreement and the Securities will be governed by the laws of the State of New York.

Optional Redemption

Prior to the applicable Par Call Date (as defined below), each Series of the Securities will be redeemable at the option of the Issuer, in whole or in part, at any time upon giving not less than 10 nor more than 60 days'

notice to the holders, at a redemption price (expressed as a percentage of principal amount and rounded to three decimal places) equal to the greater of:

(i) (a) the sum of the present values of the Remaining Scheduled Payments (as defined below) thereon discounted to the redemption date (assuming the Securities to be redeemed matured on the Par Call Date) on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate (as defined below) *plus* 15 basis points (in the case of the 2027 Notes), 15 basis points (in the case of the 2029 Notes), 15 basis points (in the case of the 2031 Notes), 20 basis points (in the case of the 2034 Notes) or 20 basis points (in the case of the 2054 Notes) *less* (b) interest accrued to the date of redemption; and

(ii) 100% of the outstanding principal amount of the Securities to be redeemed,

plus, in either case, accrued and unpaid interest thereon, if any, to the date fixed by the Issuer for redemption and all Additional Amounts, if any, then due.

On or after the applicable Par Call Date, each Series of the Securities will be redeemable at the option of the Issuer, in whole or in part, at any time upon giving not less than 10 nor more than 60 days' notice to the holders, at a redemption price equal to 100% of the aggregate principal amount of such Securities being redeemed, plus accrued but unpaid interest thereon, if any, to, but not including, the date fixed by the Issuer for redemption.

The Issuer shall determine the redemption price of any such Securities to be redeemed and shall promptly notify the Fiscal and Paying Agent of the redemption price so determined.

"Par Call Date" means February 26, 2027 for any 2027 Notes (the date that is one month prior to the maturity of the 2027 Notes), February 26, 2029 for any 2029 Notes (the date that is one month prior to the maturity of the 2029 Notes), January 26, 2031 for any 2031 Notes (the date that is two months prior to the maturity of the 2031 Notes), December 26, 2033 for any 2034 Notes (the date that is three months prior to the maturity of the 2034 Notes) and September 26, 2053 for any 2054 Notes (the date that is six months prior to the maturity of the 2054 Notes).

"*Remaining Scheduled Payments*" means, with respect to the Securities to be redeemed, the remaining scheduled payments of the principal thereof to be redeemed and interest thereon to the applicable Par Call Date that would be due after the related redemption date but for such redemption; *provided, however*, that, if such redemption date is not an Interest Payment Date with respect to such Securities, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to such redemption date.

"*Treasury Rate*" means, with respect to any redemption date, the yield determined by the Issuer in accordance with the following two paragraphs.

The Treasury Rate shall be determined by the Issuer after 4:15 p.m., New York City time (or after such time as yields on U.S. government securities are posted daily by the Board of Governors of the Federal Reserve System), on the third business day preceding the redemption date based upon the yield or yields for the most recent day that appear after such time on such day in the most recent statistical release published by the Board of Governors of the Federal Reserve System designated as "Selected Interest Rates (Daily)—H.15" (or any successor designation or publication) ("*H.15*") under the caption "U.S. government securities—Treasury constant maturities—Nominal" (or any successor caption or heading) ("*H.15 TCM*"). In determining the Treasury Rate, the Issuer shall select, as applicable: (1) the yield for the Treasury constant maturity on H.15 exactly equal to the period from the redemption date to the applicable Par Call Date (the "*Remaining Life*"); or (2) if there is no such Treasury constant maturity on H.15 exactly equal to the Remaining Life, the two yields—one yield corresponding to the Treasury constant maturity on H.15 immediately shorter than and one yield corresponding to the Treasury constant maturity on H.15 immediately longer than the Remaining Life—and shall interpolate to the applicable Par Call Date on a straight-line basis (using the actual number of days) using such yields and rounding the result to three decimal places; or (3) if there is no such Treasury constant maturity on H.15 shorter than or longer than the Remaining Life, the yield for the single Treasury constant maturity on H.15 closest to the Remaining Life. For purposes of this paragraph, the applicable Treasury

constant maturity or maturities on H.15 shall be deemed to have a maturity date equal to the relevant number of months or years, as applicable, of such Treasury constant maturity from the redemption date.

If on the third business day preceding the redemption date H.15 TCM is no longer published, the Issuer shall calculate the Treasury Rate based on the rate per annum equal to the semi-annual equivalent yield to maturity at 11:00 a.m., New York City time, on the second business day preceding such redemption date of the United States Treasury security maturing on, or with a maturity that is closest to, the applicable Par Call Date, as applicable. If there is no United States Treasury security maturing on the applicable Par Call Date but there are two or more United States Treasury securities with a maturity date equally distant from the applicable Par Call Date, one with a maturity date preceding the applicable Par Call Date and one with a maturity date following the applicable Par Call Date, the Issuer shall select the United States Treasury security with a maturity date preceding the applicable Par Call Date. If there are two or more United States Treasury securities maturing on the applicable Par Call Date or two or more United States Treasury securities meeting the criteria of the preceding sentence, the Issuer shall select from among these two or more United States Treasury securities the United States Treasury security that is trading closest to par based upon the average of the bid and asked prices for such United States Treasury securities at 11:00 a.m., New York City time. In determining the Treasury Rate in accordance with the terms of this paragraph, the semi-annual yield to maturity of the applicable United States Treasury security shall be based upon the average of the bid and asked prices (expressed as a percentage of principal amount) at 11:00 a.m., New York City time, of such United States Treasury security, and rounded to three decimal places.

The Issuer's actions and determinations (and those of any Person acting on its behalf) in determining the redemption price shall be conclusive and binding for all purposes, absent manifest error. The Issuer will notify the Fiscal and Paying Agent of the redemption price promptly after the calculation thereof and the Fiscal and Paying Agent shall not be responsible or liable for any calculation of the redemption price or of any component thereof, or for determining whether manifest error has occurred.

Notice of any redemption will be mailed or electronically delivered (or otherwise transmitted in accordance with the depositary's procedures) at least 10 days but not more than 60 days before the redemption date to the holders of the Securities to be redeemed and to the Fiscal and Paying Agent.

Securities of a Series subject to a partial redemption shall be selected for redemption pro rata, by lot or by such other method as the Fiscal and Paying Agent in its sole discretion deems appropriate and fair. No Securities of a principal amount of $200,000 or less will be redeemed in part. If any Security of a Series is to be redeemed in part only, the notice of redemption that relates to such Securities will state the portion of the principal amount of such Securities to be redeemed. A new Security of such Series in a principal amount equal to the unredeemed portion of the note will be issued in the name of the holder of the note upon surrender for cancellation of the original note. For so long as the Securities of a particular Series are held in global form via DTC, any partial redemption shall be made on a pro rata pass-through of principal basis and otherwise in accordance with the procedures of DTC.

Any redemption and notice may, in the Issuer's discretion, be subject to one or more conditions precedent and, in the Issuer's discretion, the redemption date may be delayed until such time as any or all such conditions precedent included in the Issuer's discretion shall be satisfied (or waived by the Issuer) or the redemption date may not occur and such notice may be rescinded if all such conditions precedent included in the Issuer's discretion shall not have been satisfied (or waived by the Issuer).

Unless the Issuer defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Securities or portions thereof called for redemption.

For the avoidance of doubt, the Issuer or any of its subsidiaries may, at any time and from time to time, purchase or otherwise acquire all or some of any series of Securities in the open market or by private agreement, subject to applicable law.

Additional Amounts

All payments of principal and interest (and premium, if any) by the Issuer in respect of the Securities shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments, or other governmental charges of whatsoever nature imposed or levied ("*Taxes*") by or on behalf

of the United Kingdom or any political subdivision or taxing authority thereof or therein having power to tax, any jurisdiction in which the Issuer is organized, the jurisdiction of residence of the Issuer for tax purposes or any jurisdiction from or through which any amount is paid by the Issuer (or any political subdivision or taxing authority of or in any such jurisdiction) (a "*Taxing Jurisdiction*"), unless such withholding or deduction is required by law. If the Issuer is compelled by the law of a Taxing Jurisdiction to deduct or withhold such Taxes in respect of any amount to be paid by the Issuer on the Securities, then the Issuer shall pay such additional amounts ("*Additional Amounts*") as may be necessary to ensure that the amounts received by each holder of a Security after such withholding or deduction (including any withholding or deduction with respect to such Additional Amounts) shall equal the amount of principal (and premium, if any) and interest which such holder would have received in respect of each Security in the absence of such withholding or deduction; *provided, however,* that the Issuer shall not be required to make any payment of Additional Amounts to a holder for or on account of:

(i) any Tax which would not have been imposed but for (a) the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, such holder, if such holder is an estate, trust, partnership, corporation or other Person) and the Taxing Jurisdiction including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or possessor) being or having been a domiciliary, national or resident thereof or being or having been present or engaged in trade or business therein or having or having had a permanent establishment therein or otherwise having or having had some connection with the Taxing Jurisdiction other than the holding or ownership of a Security or the collection of principal (and premium, if any) of and interest, if any, on, or the enforcement of, a Security or (b) the presentation of a Security for payment (x) on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later, except to the extent that the holder would have been entitled to such Additional Amounts if it had presented such Security for payment on the last day of such period of 30 days, or (y) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting for payment to another fiscal or paying agent in a member state of the European Union;

(ii) any estate, inheritance, gift, sale, transfer, personal property or similar Tax;

(iii) any Tax which is payable otherwise than by deduction or withholding from payments of (or in respect of) principal (and premium, if any) of, or any interest on the Securities;

(iv) any Tax that is imposed or withheld by reason of the failure to comply by the holder or, if different, the beneficial owner of the Security or the payment in question with a request of the Issuer addressed to the holder (a) to provide information concerning the nationality, residence, identity or place of incorporation or organization of the holder or such beneficial owner or (b) to make any declaration or other similar claim to satisfy any information or reporting requirement, which in the case of (a) or (b), is required or imposed by a statute, treaty, regulation or administrative practice of the Taxing Jurisdiction as a precondition to exemption from all or part of such Tax; *provided* that the Issuer has given the holder or the beneficial owner at least 30 days' notice that the holder or beneficial owner will be required to provide such information, declaration or other reporting requirement;

(v) any Tax imposed, deducted or withheld pursuant to section 1471(b) of the Code or otherwise imposed pursuant to sections 1471 through 1474 of the Code, in each case, as of the issue date (and any amended or successor version that is substantively comparable), any current or future regulations or agreements thereunder, official interpretations thereof or similar law or regulation implementing an intergovernmental agreement relating thereto; or

(vi) any combination of clauses (i) through (v) above;

nor shall Additional Amounts be paid with respect to any payment of the principal (and premium, if any) of, or any interest on, any Security to any holder of a Security who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of the United Kingdom (or any political subdivision or taxing authority thereof or therein) to be included in the

income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to such Additional Amounts had it been the holder of such Security.

The Issuer will make all withholdings and deductions as required by law and will timely remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law.

Within 60 days after the date of any payment of any Tax in respect of any payment under any Security pursuant to the provisions set forth above, the Issuer shall furnish to each holder of a Security the original tax receipt for the payment of such Tax (or, if such original tax receipt is not available, a duly certified copy of any original tax receipt) together with such other documentary evidence with respect to such payments as may be reasonably requested from time to time by any holder or beneficial owner of a Security.

The obligations of the Issuer set forth above shall survive the transfer or payment of a Security. The Issuer will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the execution, delivery or registration of the Securities or any other document or instrument referred to therein, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of the United Kingdom except those resulting from, or required to be paid in connection with, the enforcement of the Securities or any other such document or instrument following the occurrence of any Event of Default (as defined herein).

Whenever in the Fiscal and Paying Agency Agreement or in this "*Description of Securities*" there is mentioned, in any context, the payment of amounts based upon the principal amount of the Securities or of principal, interest or premium (if any) payable under, or with respect to, any of the Securities, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof thereunder, hereunder or under the Securities.

Redemption for Taxation Reasons

The Securities of each Series may be redeemed, at the option of the Issuer, in whole but not in part, at any time upon giving not less than 10 nor more than 60 days' notice to the holders, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest to the date fixed by the Issuer for redemption (a "*Tax Redemption Date*") and all Additional Amounts, if any, then due and which will become due on the Tax Redemption Date, as a result of the redemption or otherwise, if the Issuer determines that, as a result of (i) any change in, or amendment to, the laws or treaties (or any regulation or rulings promulgated thereunder) of any Taxing Jurisdiction affecting taxation or (ii) any change in position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction), which change, amendment, application or interpretation becomes effective on or after the date of this Offering Memorandum, the Issuer is, or on the next Interest Payment Date would be, required to pay Additional Amounts with respect to the Securities of such Series, and the Issuer determines that such payment obligation cannot be avoided by the Issuer taking reasonable measures available to it. Notwithstanding the foregoing, no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obligated to make such payment or withholding if a payment in respect of the Securities were then due. Prior to the mailing of any notice of redemption of the Securities pursuant to the foregoing, the Issuer will deliver to the Fiscal and Paying Agent an opinion of a tax counsel of recognized standing to the effect that the circumstances referred to in (i) or (ii) above exist along with a certificate signed by a duly authorized representative stating that the Issuer is entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to the right to redeem have occurred. The Fiscal and Paying Agent shall take receipt of such opinion of a tax counsel and certificate signed by a duly authorized representative solely for the purposes of making the same available for inspection by holders of the Securities, which receipt shall constitute sufficient evidence of the satisfaction of the conditions precedent described above, in which event they shall be conclusive and binding on the holders of Securities.

Amendments of Securities

The Holders of the Securities of any Series may, with the written consent of the Issuer, and, solely to the extent that the proposed amendments affect the Fiscal and Paying Agent or the performance of its duties

under the Fiscal and Paying Agency Agreement, the Fiscal and Paying Agent (such consent from the Fiscal and Paying Agent not to be unreasonably withheld or delayed), modify, amend or supplement the terms of such Securities or the Fiscal and Paying Agency Agreement, in any way, and may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal and Paying Agency Agreement or such Securities to be made, given or taken by holders of such Securities either (i) at any meeting of holders of the Securities affected thereby duly called and held, by the affirmative vote, in person or by proxy or (ii) with the written consent, in each case in (i) and (ii) above, of the holders of a majority in aggregate principal amount of the Securities affected thereby then outstanding voting together as a single class; *provided, however*, that no such action, modification, amendment, or supplement may, without the written consent of the holders of the Securities affected thereby, (i) change the due date for the payment of the principal (and premium, if any) of or any installment of interest on the Securities, (ii) reduce the principal amounts of the Securities or the interest rate thereon or the premium payable upon redemption thereof, (iii) change the currency in which or change the required place at which payment with respect to principal (and premium, if any) or interest, if any, in respect of the Securities is payable to a place outside the United States, (iv) amend the procedures provided for or the circumstances under which the Securities may be redeemed or (v) reduce the proportion of the principal amount of the Securities the consent of the holders of which is necessary to modify or amend the Fiscal and Paying Agency Agreement or the terms and conditions of the Securities or to make, take or give consent, waiver or other action provided thereby to be made, taken or given.

The Issuer, any guarantor and the Fiscal and Paying Agent may, without the vote or consent of any holder of Securities, amend the Fiscal and Paying Agency Agreement, the Securities or any guarantees in respect thereof for the purpose of (i) adding to the covenants of, or the restrictions, conditions or provisions applicable to, the Issuer or any guarantor, as the case may be, for the benefit of the holders of Securities or providing any additional rights or benefits to the holders of the Securities, (ii) surrendering any right or power conferred upon the Issuer or any guarantor, (iii) securing the Securities pursuant to the requirements thereof or otherwise, (iv) evidencing the addition of any guarantor of the Securities, or the release of any guarantor from its obligations with respect to the Securities, (v) evidencing the succession of another corporation or other Person to the Issuer or any guarantor, as the case may be, or successive successions, and the assumption by such successor(s) of the covenants, agreements and obligations of the Issuer or guarantor, as the case may be, therein and in the Securities as permitted by the Fiscal and Paying Agency Agreement and the Securities, (vi) modifying the restrictions on and procedures for resale and other transfers of the Securities to reflect any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resale or transfer of restricted securities generally, (vii) accommodating the issuance, if any, of Securities in book-entry form and matters related thereto, (viii) curing any ambiguity or correcting or supplementing any provision contained in the Fiscal and Paying Agency Agreement or the Securities which may be defective or inconsistent with any other provision contained therein or making such other provision in regard to matters or questions arising thereunder as the Issuer, any guarantor or the Fiscal and Paying Agent may deem necessary or desirable and which does not, as determined by the Issuer, adversely affect the interest of a holder of the Securities in any material respect, (ix) effecting any other amendment which the Issuer, any guarantor and the Fiscal and Paying Agent may determine and which, as determined solely by the Issuer, shall not adversely affect the interest of any holder of the Securities in any material respect or (x) making any modification which is of a minor or technical nature or correcting a manifest error.

Events of Default

Each of the following events will constitute an "*Event of Default*" with respect to the Securities of any Series:

(i) the Issuer shall fail to pay when due the principal of the Securities of such Series within five Business Days following the date such payment is due;

(ii) the Issuer shall fail to pay an installment of interest on the Securities of such Series within 30 days following the date such payment is due;

(iii) the Issuer shall fail to perform or observe any other term, covenant or agreement contained in the Securities of such Series for a period of 90 days after written notice thereof shall have been given to the Issuer by the holders of not less than 25% in aggregate principal amount of the Securities of such Series;

(iv) a decree or order by a court having jurisdiction shall have been entered adjudging the Issuer bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of the Issuer under any Bankruptcy Law or any other similar applicable Federal, state or foreign law, and such decree or order shall have continued undischarged and unstayed for a period of 60 days; or a decree or order of a court having jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Issuer or of the property of the Issuer or for the winding up or liquidation of the affairs of the Issuer shall have been entered and such decree or order shall have continued undischarged and unstayed for a period of 60 days; or

(v) the Issuer shall institute proceedings to be adjudicated voluntarily bankrupt or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization under any Bankruptcy Law or any other similar applicable Federal, state or foreign law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or its property, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due.

In each and every such case (other than an Event of Default specified in clause (i) or (ii) above or an Event of Default in respect of the Issuer specified in clause (iv) or (v) above), the holders of not less than a majority percent in aggregate principal amount of the Securities of the applicable Series then outstanding may, by notice in writing to the Issuer, declare the principal amount (and premium, if any) of and all accrued interest on all the Securities of such Series to be due and payable immediately. Upon any such declaration the same shall become and shall be immediately due and payable upon the date that such written notice is received by the Issuer, unless prior to such date all Events of Default in respect of all the Securities of such Series shall have been cured; *provided* that, if at any time after the principal of the Securities of any Series shall have been so declared due and payable, and before any sale of property under any judgment or decree for the payment of the monies due shall have been obtained or entered as hereinafter provided, the Issuer shall pay or shall deposit with the Fiscal and Paying Agent a sum sufficient to pay all matured installments of interest and principal upon all the Securities of such Series which shall have become due otherwise than solely by acceleration (with interest on overdue installments of interest, to the extent permitted by law, and on such principal of each Security of such Series at the rate of interest specified therein, to the date of such payment or deposit) and such amount as shall be sufficient to cover reasonable compensation to the Fiscal and Paying Agent and each predecessor, their respective agents, attorneys and counsel, and all other documented expenses and liabilities reasonably incurred, and all advances made for documented expenses and legal fees reasonably incurred by the Fiscal and Paying Agent and each predecessor Fiscal and Paying Agent, and if any and all Events of Default, other than the non-payment of the principal of the Securities of any Series then outstanding, which shall have become due solely by acceleration, shall have been cured, waived or otherwise remedied as provided in such Securities and the Fiscal and Paying Agency Agreement, then and in every such case, the holders of two-thirds in aggregate principal amount of the Securities of such Series then outstanding by written notice to the Issuer and to the Fiscal and Paying Agent may, on behalf of all of the holders of the Securities of such Series, waive all defaults and rescind and annul such declaration and its consequences but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon. Actions by holders of Securities pursuant to this provision need not be taken at a meeting pursuant to the provisions regarding meetings of holders of Securities. If an Event of Default specified in clause (i) or (ii) above occurs, each holder of Securities of the applicable Series may, by written notice to the Issuer and the Fiscal and Paying Agent, declare the principal (and premium, if any) of and all accrued interest on the Securities of such Series of such holder to be due and payable upon the date that written notice is received by or on behalf of the Issuer and the Fiscal and Paying Agent unless prior to such date all Events of Default in respect of such holder's Securities of such Series shall have been cured. If an Event of Default specified in clause (iv) or (v) above occurs, the principal (and premium, if any) of and accrued interest on the Securities will be immediately due and payable without any declaration or other act on the part of any holder of Securities or other person.

Certain Covenants

So long as any amount remains unpaid on the Securities, the Issuer will comply with the terms of the covenants set forth herein.

Payment of Principal and Interest

The Issuer will duly and punctually pay the principal of (and premium, if any) and interest on the Securities in accordance with their terms.

Existence

Except as provided below in "*—Merger, Consolidation, Sale or Lease,*" the Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect its existence.

Merger, Consolidation, Sale or Lease

The Issuer will not, directly or indirectly, consolidate or merge with, or sell, lease or otherwise dispose of substantially all of its assets to, any other Person unless (i) the Issuer is the survivor in such transaction or the Issuer procures that the survivor is a corporation or other Person organized under the laws of England and Wales, the United States or a state thereof or the District of Columbia which expressly assumes in writing the Issuer's obligations under the Securities and (ii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing.

Limitation on Liens

The Issuer will not, and will not permit any member of the BAE Systems Group (as defined below) to, create or permit to exist any Lien (as defined below) upon any of its or their present or future assets or revenues to secure any of its present or future Relevant Borrowings (as defined below) without making effective provision whereby all of the Securities shall be directly secured equally and ratably with such Relevant Borrowings.

Information

So long as any Securities are outstanding, and except at such time as the Issuer is a reporting company under Section 13 or 15(d) of the Exchange Act or is exempt from registration under the Exchange Act by virtue of the exemption from registration set forth in Rule 12g3-2(b) under the Exchange Act, the Issuer shall provide the information required pursuant to Rule 144A(d)(4) under the Securities Act upon request of the holders of the Securities, a prospective purchaser of the Securities designated by such holder, a beneficial owner of such a Global Security or a prospective purchaser designated by such beneficial owner.

Definitions

The terms hereinafter set forth when used in connection with the covenants and events of default applicable to the Securities shall have the meanings set forth below.

For purposes of the following definitions, borrowings of any member of the BAE Systems Group expressed in or calculated by reference to a currency other than pounds Sterling or a combination of currencies including a currency or currencies other than pounds Sterling shall (as regards the currency or currencies other than pounds Sterling) be converted into pounds Sterling by reference to the rates of exchange used for the conversion of such currencies in the Latest Consolidated Balance Sheet or, if no such conversion was so required for any relevant currency, by reference to the rate of exchange or approximate rate of exchange in effect on the date of the Latest Consolidated Balance Sheet.

"*BAE Systems Group*" means the Issuer and its consolidated Subsidiaries.

"*BAE Systems Group Total Assets*" means, at any time, the aggregate book value of the current and non-current assets and investments of the BAE Systems Group as determined by reference to the Latest Consolidated Balance Sheet.

"*Bankruptcy Law*" means Title 11, United States Code, or any similar U.S. Federal or state law, any applicable English bankruptcy, insolvency, reorganization or other similar law of England, or any other similar foreign law for the relief of debtors.

"*Latest Consolidated Balance Sheet*" means the latest published annual consolidated balance sheet of the Issuer which has been audited and reported on by the Issuer's independent auditors in the full financial statements of the BAE Systems Group.

"*Lien*" means any lien, mortgage, charge, encumbrance or other security interest; *provided* that Liens shall not include: (i) in the case of a Subsidiary, any liens, mortgages, charges, encumbrances or other security interests in existence at the date it became a Subsidiary and which was not created in anticipation of such acquisition and (ii) any security interests not falling within (i) above securing an amount in the aggregate not exceeding 3.5% of the BAE Systems Group Total Assets.

"*Person*" means an individual, partnership, corporation, company, undertaking, joint venture, trust, unincorporated organization or other entity, and a government or agency or political subdivision thereof.

"*Relevant Borrowings*" means any indebtedness for borrowed money of any member of the BAE Systems Group in the form of, or represented by, bonds, notes, debentures or other securities which are or are to be quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market (whether or not initially distributed by way of private placement), but excluding any such indebtedness which upon the issuance thereof had a stated maturity not exceeding one year.

"*Subsidiary*" means a subsidiary corporation or other Person which is required to be fully consolidated in the consolidated financial statements of the Issuer in accordance with the accounting principles under which the Issuer is required to produce its financial statements from time to time.

Book-Entry; Delivery and Form

Each Series of the Securities being offered hereby is being offered and sold only (i) to qualified institutional buyers ("*QIBs*") in reliance on Rule 144A and (ii) in offshore transactions in reliance on Regulation S.

Each Series of the Securities will be issued in fully registered form and only in denominations of $200,000 and integral multiples of $1,000 in excess thereof. Each Series of the Securities will be issued on the closing date only against payment in immediately available funds.

Summary of Provisions Relating to Securities in Global Form

The certificates representing each Series of the Securities will be issued in fully registered form without interest coupons. Securities of each Series sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global Securities in fully registered form without interest coupons (each a "*Regulation S Global Security*") and will be deposited with Citibank, N.A. as custodian for, and registered in the name of, a nominee of The Depository Trust Company, as depositary ("*DTC*") for the accounts of its participants, including Euroclear and Clearstream. Prior to the 40th day after the later of the commencement of the Offering of the Securities and the date of the Fiscal and Paying Agency Agreement, any resale or other transfer of such interests to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S, as applicable, and in accordance with the certification requirements described below.

Securities of each Series sold in reliance on Rule 144A will be represented by one or more permanent global securities in fully registered form without interest coupons (each, a "*Rule 144A Global Security*" and, together with the Regulation S Global Security, the "*Global Securities*") and will be deposited with Citibank, N.A. as custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Rule 144A Global Security may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Security only upon receipt by the Fiscal and Paying Agent of written certifications (in the form(s) provided in the Fiscal and Paying Agency Agreement) and pursuant to the transfer restrictions related to a Rule 144A Global Security as described in this Offering Memorandum.

Each Global Security (and any Security issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein described under "*Transfer Restrictions*". Except in the limited circumstances described below under "*—Summary of Provisions Relating to Certificated Securities,*" owners of beneficial

interests in the Global Securities will not be entitled to receive physical delivery of certificates for the Securities in certificated form ("*Certificated Securities*").

Ownership of beneficial interests in a Global Security will be limited to persons who have accounts with DTC ("*participants*") or persons who hold interests through participants. Ownership of beneficial interests in a Global Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). QIBs may hold their interests in a Rule 144A Global Security directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Investors may hold their interests in a Regulation S Global Security directly through Euroclear and Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the Regulation S Global Securities on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Security, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Securities represented by such Global Security for all purposes under the Fiscal and Paying Agency Agreement and the Securities. No beneficial owner of an interest in a Global Security will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Fiscal and Paying Agency Agreement and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Security will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Issuer nor the Fiscal and Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Security, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Security as shown on the records of DTC or its nominee. The Issuer also expects that payments by participants to owners of beneficial interests in such Global Security held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Cross-market transfers between persons holding, directly or indirectly through DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant European depositary; however, those cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to the relevant European depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the European depositaries.

Because of time zone differences, credits of securities received in Euroclear or Clearstream as a result of a transaction with a person that does not hold the Securities through Euroclear or Clearstream will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Those credits or any transactions in those securities settled during that processing will be reported to the relevant Euroclear or Clearstream participants on that business day. Cash received in Euroclear or Clearstream as a result of sales of securities by or through a Euroclear participant or a Clearstream participant to a DTC

participant will be received with value on the DTC settlement date, but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

The Issuer expects that DTC will take any action permitted to be taken by a holder of Securities (including the presentation of Securities for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Security is credited and only in respect of such portion of the aggregate principal amount of Securities as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Securities, DTC will exchange the applicable Global Security for Certificated Securities, which it will distribute to its participants and which may be legended as set forth under the heading "*Transfer Restrictions.*"

The Issuer understands that DTC is a limited purpose trust company organized under the laws of the State of New York, a "*banking organization*" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "*clearing corporation*" within the meaning of the Uniform Commercial Code and a "*Clearing Agency*" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates and certain other organizations. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("*indirect participants*").

Euroclear advises that it was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions among Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank SA/NV (the "*Euroclear Operator*"), under contract with Euroclear Clearance Systems S.C., a Belgian cooperative corporation (the "*Euroclear Clearance System*"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Euroclear Clearance System. The Euroclear Clearance System establishes policies for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Initial Purchasers. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with Euroclear participants, either directly or indirectly. Euroclear is an indirect participant in DTC. The Euroclear Operator is a Belgian bank. The Belgian Banking Commission and the National Bank of Belgium regulate the Euroclear Operator.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "*Terms and Conditions*"). The Terms and Conditions govern transfer of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no record of or relationship with persons holding through Euroclear participants. Distributions with respect to the Securities held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions.

Clearstream advises that it is incorporated under the laws of Luxembourg and licensed as a bank and professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions among its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with the Euroclear Operator, to facilitate the settlement of trades between Clearstream and Euroclear. As a

registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream customers are limited to securities brokers and dealers and banks, and may include the Initial Purchasers of the Securities. Other institutions that maintain a custodial relationship with a Clearstream customer may obtain indirect access to Clearstream. Clearstream is an indirect participant in DTC.

Distributions with respect to Securities held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Security among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the Fiscal and Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their respective operations.

Summary of Provisions Relating to Certificated Securities

If DTC is at any time unwilling or unable to continue as a depositary for the Global Securities and a successor depositary is not appointed by the Issuer within 90 days, or if there shall have occurred and be continuing an Event of Default (as described above) with respect to the Securities, the Issuer will issue Certificated Securities in exchange for the Global Securities. Certificated Securities delivered in exchange for beneficial interests in any Global Security will be registered in the names, and issued in denominations of $200,000 or integral multiples of $1,000 in excess thereof, requested by or on behalf of the DTC or successor depositary (in accordance with its customary procedures). Holders of an interest in the Global Securities may receive Certificated Securities, which may bear the legend referred to under "*Transfer Restrictions,*" in accordance with DTC's rules and procedures in addition to those provided for under the Fiscal and Paying Agency Agreement.

Except in the limited circumstances described above, owners of interests in the Global Securities will not be entitled to receive physical delivery of individual definitive certificates. The Securities are not issuable in bearer form.

Subject to such transfer restrictions, the holder of a Certificated Security bearing such a legend may transfer or exchange such Securities in whole or in part by surrendering them to the Fiscal and Paying Agent. Prior to any proposed transfer of Securities in certificated form, the holder may be required to provide certifications and other documentation to the Fiscal and Paying Agent as described above. In the case of a transfer of only part of a Security, the original principal amount of both the part transferred and the balance not transferred must be in authorized denominations, and Securities will be issued to the transferor and transferee, respectively, by the Fiscal and Paying Agent. Upon the transfer, exchange or replacement of Certificated Securities not bearing the legend described above, the Fiscal and Paying Agent will deliver Certificated Securities that do not bear such legend.

Upon the transfer, exchange or replacement of Certificated Securities bearing the legend described above, or upon a specific request for removal of the legend from such Certificated Security, the Fiscal and Paying Agent will deliver only Certificated Securities bearing such legend or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of legal counsel of recognized standing, as may be reasonably required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Payment of principal and interest in respect of the Certificated Securities shall be payable at the office of agency of the Issuer in London which shall initially be the corporate trust office of the Fiscal and Paying Agent, at Citibank, N.A., London Branch, Citigroup Centre, 25 Canada Square, Canary Wharf, London E14 5LB, United Kingdom, Attention: Agency & Trust—Paying Agent; *provided* that at the option of the

Issuer, payment may be made by wire transfer, direct deposit or check mailed to the address of the holder entitled thereto as such address appears in the Security register.

The Certificated Securities, at the option of the holder of such Certificated Securities and subject to the restrictions contained in the Securities and in the Fiscal and Paying Agency Agreement, may be transferred or exchanged, upon surrender or exchange or registration for transfer at the office of the Fiscal and Paying Agent. Any Certificated Security surrendered for exchange or presented for registration of transfer shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Fiscal and Paying Agent, duly endorsed by the holder thereof or his attorney duly authorized in writing. Securities issued upon such transfer will be executed by the Issuer and authenticated by the Fiscal and Paying Agent, registered in the name of the designated transferee or transferees and delivered at the office of the Fiscal and Paying Agent or mailed, at the request, risk and expense of, and to the address requested by, the designated transferee or transferees.

Payments of Interest and Principal

Payments of interest and principal (and premium, if any) to owners of a beneficial interest in Global Securities are expected to be made in accordance with the procedures of DTC, DTC Participants, Euroclear and Clearstream in effect from time to time as described above under "*—Book-Entry, Delivery and Form.*"

When and if the Securities are in certificated form, interest payments on the Securities (other than interest due at the Stated Maturity Date thereof or upon redemption) will be made on the relevant Interest Payment Date, by the Fiscal and Paying Agent either (i) by transfer of immediately available funds to such account at a bank in New York City (or at a bank in such other place as may be consented to by the Issuer) as such holder of Securities shall have designated at least ten calendar days prior to the relevant Interest Payment Date or (ii) by check mailed, postage prepaid, payable to the order of the holder at its address appearing in the register of Securities maintained by the Issuer or to such other address as any holder shall designate to the Fiscal and Paying Agent in writing not later than ten calendar days prior to the Interest Payment Date. The Fiscal and Paying Agent shall have no responsibility to obtain wire transfer instructions from any holder. The Fiscal and Paying Agent will withhold taxes, if any, on interest to the extent that such Fiscal and Paying Agent has been instructed by the Issuer that any taxes should be withheld or to the extent required by law including then existing United Kingdom law or U.S. Treasury Regulations.

Upon presentation of the Securities of a Series on or after the Stated Maturity Date thereof, the Fiscal and Paying Agent shall pay the principal amount of such Securities in accordance with such terms of the Securities together with accrued interest, if any, due at the Stated Maturity Date thereof in immediately available funds against presentation of the Securities at the office of the Fiscal and Paying Agent in London. The Fiscal and Paying Agent will cancel such Securities and, unless otherwise instructed by the Issuer, destroy such Securities. The Fiscal and Paying Agent will withhold taxes, if any, on principal to the extent that such Fiscal and Paying Agent has been instructed by the Issuer that any taxes should be withheld or to the extent required by law including then existing United Kingdom law or U.S. Treasury Regulations.

The Issuer shall, not later than 10:00 a.m. New York City time on each date on which interest is payable on a Security, deposit with the Fiscal and Paying Agent, or as it shall direct, U.S. dollars in immediately available funds sufficient to pay all interest due on the Securities on such date and shall, not later than 10:00 a.m. New York City time on the Stated Maturity Date of any Securities, deposit with the Fiscal and Paying Agent, or as it shall direct, U.S. dollars in immediately available funds sufficient to pay the principal of and accrued interest, if any, on such Securities.

TAXATION

Prospective investors should consult their professional advisors on the possible tax consequences of buying, holding or selling any Securities under the laws of their country of citizenship, residence or domicile. The discussions that follow for each jurisdiction are based upon the applicable laws and interpretations thereof as in effect as at the date hereof, all of which laws and interpretations are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively.

U.S. Taxation of U.S. Persons

This section summarizes the material U.S. Federal income tax consequences to U.S. Persons. It represents the views of the Issuer's U.S. tax counsel, Cravath, Swaine & Moore LLP. However, the discussion is limited in the following ways:

- The discussion only covers you if you buy your Securities in the initial offering at their issue price.
- The discussion only covers you if you hold your Securities as a capital asset (that is, for investment purposes), and if you do not have a special tax status.
- The discussion does not cover tax consequences that depend upon your particular tax situation in addition to your ownership of Securities, nor does it address specific tax consequences that may be relevant to particular holders (including, for example, financial institutions, broker-dealers, thrifts, real estate investment trusts, regulated investments companies, traders in securities that elect mark-to-market treatment, insurance companies, individual retirement accounts or qualified pension plans or investors in pass-through entities, including partnerships and Subchapter S corporations, U.S. expatriates, tax-exempt organizations, U.S. Persons who hold Securities that have a functional currency other than the U.S. dollar, Persons subject to special tax accounting rules as a result of any item of gross income with respect to the Securities being taken into account in an applicable financial statement, Persons that purchase or sell the Securities as part of a wash sale for tax purposes or Persons who hold the Securities as part of a straddle, hedge, conversion or other integrated financial transaction).
- The discussion is based on current law. Changes in the law may change the tax treatment of the Securities.
- The discussion does not cover state, local or foreign law.

If you are considering buying Securities, the Issuer suggests that you consult your tax advisors about the tax consequences of holding the Securities in your particular situation.

For purposes of the following discussion, a "*U.S. Person*" is:

- an individual that is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. Federal income tax purposes) organized or created under U.S. law; or
- an estate or trust that is taxable in the United States on its worldwide income.

Payments of Interest

Stated interest on the Securities, and any Additional Amounts with respect to withholding tax on the Securities (including the amount of tax withheld from payments of interest and Additional Amounts) generally will be taxable to you as ordinary income at the time that it is paid or accrued in accordance with your method of accounting for U.S. Federal income tax purposes.

Interest on the Securities generally will be treated as foreign source income for U.S. Federal income tax purposes and generally will constitute "passive category" income for most U.S. Persons.

Sale, Exchange or Other Disposition of the Securities

Upon the sale, exchange or other disposition of a Security, you would recognize gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or other disposition (excluding accrued

but unpaid stated interest, which generally would be taxable as interest to the extent not previously included in income) and your adjusted tax basis in the Security. Your adjusted tax basis in the Security would generally be the amount you paid for the Security.

The gain or loss recognized by the U.S. Person on the disposition of the Security will be long-term capital gain or loss if it has held the Security for more than one year, or short-term capital gain or loss if it has held the Security for one year or less, at the time of the disposition. Long-term capital gains of non-corporate taxpayers currently are taxed at preferential rates. Short-term capital gains are taxed at ordinary income rates. The deductibility of capital losses against ordinary income is subject to limitations.

Information Reporting and Backup Withholding

The Code and U.S. Treasury Regulations generally require Persons who make specified payments to report the payments to the U.S. Internal Revenue Service (the "*IRS*"). Among the specified payments are interest, dividends, and proceeds paid by brokers to their customers. This reporting regime is reinforced by "backup withholding" rules, which generally require the payor to withhold from payments subject to information reporting if the recipient has failed to provide a taxpayer identification number to the payor, furnished an incorrect identification number, failed to comply with applicable certification requirements or has been repeatedly notified by the IRS that it has failed to report interest or dividends on its U.S. Federal income tax returns.

Payments of interest to U.S. Persons holding Securities and payments made to U.S. Persons by a broker upon a sale of Securities generally will be subject to information reporting and backup withholding, unless the U.S. Person (1) is an exempt recipient or (2) in the case of backup withholding, provides the payor with a correct taxpayer identification number and complies with applicable certification requirements. If a sale is made through a foreign office of a foreign broker, however, the sale will generally not be subject to either information reporting or backup withholding. This exception may not apply if the foreign broker is owned or controlled by U.S. Persons or is engaged in a U.S. trade or business.

U.S. Return Disclosure Requirements

If you hold certain "specified foreign financial assets," which may include the Securities, you may be required to report information relating to such assets, subject to certain exceptions (including an exception for assets held in accounts maintained by certain financial institutions), by attaching a complete IRS Form 8938 (Statement of Specified Foreign Financial Assets) with your tax return for each year in which you hold an interest in such assets. "Specified foreign financial asset" generally includes any financial account maintained with a non-U.S. financial institution and may also include the Securities if they are not held in an account maintained with a financial institution. Penalties may apply for failure to properly complete and file IRS Form 8938.

FATCA

Pursuant to Sections 1471 through 1474 of the Code (provisions commonly known as "*FATCA*"), a "foreign financial institution" may be required to withhold U.S. tax on certain "foreign passthru payments" made after December 31, 2018, to the extent such payments are treated as attributable to certain U.S. source payments. Obligations issued on or prior to the date that is six months after the date on which applicable final U.S. Treasury Regulations defining "foreign passthru payments" are filed generally would be "grandfathered" unless such obligations are materially modified after such date. As of the date of this Offering Memorandum, applicable final U.S. Treasury Regulations defining "foreign passthru payments" have not yet been filed. Accordingly, if the Issuer is treated as a foreign financial institution, FATCA would apply to payments on the Securities only if there is a significant modification of the Securities for U.S. Federal income tax purposes after the expiration of this grandfathering period. However, if additional Securities are issued after the expiration of the grandfathering period, have the same CUSIP or ISIN as the relevant Securities issued hereby, and are subject to withholding under FATCA, then withholding agents may treat all Securities in such series, including the relevant Securities issued hereby, as subject to withholding under FATCA. Non-U.S. governments have entered into intergovernmental agreements with the United States to implement FATCA in a manner that alters the rules described herein. U.S. Persons should consult their own tax advisors on how these rules may apply to their investment in the Securities. In the event any withholding under FATCA is

imposed with respect to any payments on the Securities, there generally will be no additional amounts payable to compensate for the withheld amount.

The preceding discussion of certain U.S. Federal income tax considerations is for general information only. It is not tax advice. You should consult your own tax advisor regarding the particular U.S. Federal, state, local, and foreign tax consequences of purchasing, holding, and disposing of Securities, including the consequences of any proposed change in applicable laws.

UK Taxation

This section summarizes the material UK tax consequences to holders of the Securities.

General

The comments below are of a general nature and are not intended to be exhaustive. They assume that there will be no substitution of the Issuer or further issues of securities that will form a single series with the Securities, and do not address the consequences of any such substitution or further issue (notwithstanding that such substitution or further issue may be permitted by the terms and conditions of the Securities). Any holders of Securities who are in doubt as to their own tax position should consult their professional advisers. In particular, holders of Securities should be aware that the tax legislation of any jurisdiction where a holder of Securities is resident or otherwise subject to taxation (as well as the jurisdiction discussed below) may have an impact on the tax consequences of an investment in the Securities including in respect of any income received from the Securities.

The comments in this part are based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs), in each case as at the latest practicable date before the date of this Offering Memorandum. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who hold their Securities as investments (regardless of whether the holder also carries on a trade, profession or vocation through a permanent establishment, branch or agency to which the Securities are attributable) and are the absolute beneficial owners thereof. In particular, holders of Securities holding their Securities via a depositary receipt system or clearance service should note that they may not always be the beneficial owners thereof. Certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer may be subject to special rules and this summary does not apply to such holders of Securities.

Withholding

While the Securities are admitted to trading on a multilateral trading facility operated by a United Kingdom, Gibraltar or EEA regulated recognized stock exchange within the meaning of Sections 987 and 1005 Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of United Kingdom income tax. The International Securities Market of the London Stock Exchange is a multilateral trading facility operated by a United Kingdom, Gibraltar or EEA regulated recognized stock exchange (the London Stock Exchange) for these purposes.

If the Securities cease to be admitted to trading, interest which has a United Kingdom source will generally be paid by the Issuer under deduction of income tax at the basic rate (currently 20%) unless (i) another relief applies under domestic law of the United Kingdom or (ii) the Issuer has received a direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

If interest were paid under deduction of United Kingdom income tax (*e.g.*, if the Securities lost their admission to trading), holders of Securities who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

Treatment of any Premium or Supplemental Interest Payable on Redemption

Where Securities are to be, or may fall to be, redeemed at a premium as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest that would be subject to the rules on United Kingdom withholding tax outlined above.

Interest

The interest is expected to have a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment irrespective of the residence of the holder of the Security. Where the interest is paid without withholding or deduction on account of United Kingdom tax, the interest will not be assessed to United Kingdom tax in the hands of holders of the Securities (other than certain trustees) who are not resident for tax purposes in the United Kingdom, except where the holder carries on a trade, profession or vocation through a branch or agency, or in the case of a corporate holder, carries on a trade through a permanent establishment in the United Kingdom, in connection with which the interest is received or to which the Securities are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency, or permanent establishment.

Holders of Securities should note that the provisions relating to Additional Amounts referred to in "*Description of Securities*" above would not apply if HM Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

Information Reporting

Holders of Securities may wish to note that HM Revenue & Customs has power to obtain information (including, in certain cases, the name and address of the beneficial owner of the interest), including from any person in the United Kingdom who either pays certain amounts in respect of the Securities to, or receives certain amounts in respect of the Securities for the benefit of, an individual. Such information may, in certain circumstances, be exchanged by HM Revenue & Customs with the tax authorities of other jurisdictions.

United Kingdom Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer by delivery of a Security or on its redemption.

Investors who are in any doubt as to their position should consult their professional advisers.

CERTAIN ERISA CONSIDERATIONS

ERISA and Section 4975 of the Code prohibit certain transactions ("*prohibited transactions*") involving the assets of (i) an employee benefit plan that is subject to the prohibited transaction provisions of Title I of ERISA or Section 4975 of the Code (including individual retirement accounts, Keogh plans and other plans described in Section 4975(e)(1) of the Code) and (ii) entities whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement (each of the foregoing described in clauses (i) and (ii), a "*Plan*" and collectively, the "*Plans*") and certain persons who are "parties in interest" (within the meaning of ERISA) or "disqualified persons" (within the meaning of the Code) with respect to the Plan.

The Issuer, the Initial Purchasers and their respective affiliates may be considered a "party in interest" or a "disqualified person" with respect to many Plans, and, accordingly, prohibited transactions may arise if Securities are acquired or held by or on behalf of a Plan unless the Securities are acquired or held pursuant to an available exemption, of which there are many. In this regard the U.S. Department of Labor has issued prohibited transaction class exemptions that may apply to the purchasing and holding of the Securities. These exemptions include transactions effected on behalf of a Plan by a "qualified professional asset manager" (prohibited transaction exemption 84-14) or an "in-house asset manager" (prohibited transaction exemption 96-23), transactions involving insurance company general accounts (prohibited transaction exemption 95-60), transactions involving insurance company pooled separate accounts (prohibited transaction exemption 90-1), and transactions involving bank collective investment funds (prohibited transaction exemption 91-38). In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, *provided* that neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction and; *provided, further*, that the Plan receives no less and pays no more than "adequate consideration" (within the meaning of Section 408(b)(17) of ERISA and Section 4975(f)(10) of the Code). There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Governmental plans, certain church plans and non-U.S. plans may not be subject to the prohibited transaction provisions of ERISA or the Code but may be subject to similar laws ("*Similar Laws*"). Fiduciaries of any such plans should consult with counsel before acquiring or continuing to hold the Securities.

Because of the foregoing, the person making the decision on behalf of a Plan or a governmental, church or foreign plan will be deemed, by purchasing or holding the Securities, to represent on behalf of itself and the plan that the purchase or holding of the Securities will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or any applicable Similar Law.

In addition, the person making the decision on behalf of a Plan will be deemed to have represented and warranted that none of the Issuer, the Initial Purchasers or any of their respective affiliates is undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the purchase or holding of the Securities by any Plan.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering the purchase or continued holding of the Securities on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such decision and whether an exemption would be applicable to the purchase or holding of the Securities.

PLAN OF DISTRIBUTION

J.P. Morgan Securities LLC is acting as the representative of the Initial Purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated the date of this Offering Memorandum, each Initial Purchaser named below has agreed severally, and not jointly, to purchase, and the Issuer has agreed to sell to that Initial Purchaser, the principal amount of the Securities set forth opposite the Initial Purchaser's name.

Initial Purchasers	Principal Amount of 2027 Notes	Principal Amount of 2029 Notes	Principal Amount of 2031 Notes	Principal Amount of 2034 Notes	Principal Amount of 2054 Notes
BNP Paribas Securities Corp.	$ 66,667,000	$ 104,166,000	$ 41,667,000	$ 125,000,000	$ 62,500,000
BofA Securities, Inc.	$ 66,667,000	$ 104,166,000	$ 41,667,000	$ 125,000,000	$ 62,500,000
Citigroup Global Markets Inc.	$ 66,667,000	$ 104,167,000	$ 41,666,000	$ 125,000,000	$ 62,500,000
J.P. Morgan Securities LLC	$ 66,667,000	$ 104,167,000	$ 41,666,000	$ 125,000,000	$ 62,500,000
Morgan Stanley & Co. LLC	$ 66,666,000	$ 104,167,000	$ 41,667,000	$ 125,000,000	$ 62,500,000
SG Americas Securities, LLC	$ 66,666,000	$ 104,167,000	$ 41,667,000	$ 125,000,000	$ 62,500,000
Australia and New Zealand Banking Group Limited	$ 25,000,000	$ 39,062,000	$ 15,625,000	$ 46,875,000	$ 23,438,000
Barclays Capital Inc.	$ 25,000,000	$ 39,062,000	$ 15,625,000	$ 46,875,000	$ 23,438,000
Commerz Markets LLC	$ 25,000,000	$ 39,062,000	$ 15,625,000	$ 46,875,000	$ 23,438,000
Credit Agricole Securities (USA) Inc.	$ 25,000,000	$ 39,062,000	$ 15,625,000	$ 46,875,000	$ 23,438,000
Crédit Industriel et Commercial S.A.	$ 25,000,000	$ 39,062,000	$ 15,625,000	$ 46,875,000	$ 23,438,000
Deutsche Bank Securities Inc.	$ 25,000,000	$ 39,062,000	$ 15,625,000	$ 46,875,000	$ 23,438,000
Goldman Sachs & Co. LLC	$ 25,000,000	$ 39,062,000	$ 15,625,000	$ 46,875,000	$ 23,438,000
Lloyds Securities Inc.	$ 25,000,000	$ 39,062,000	$ 15,625,000	$ 46,875,000	$ 23,438,000
MUFG Securities Americas Inc.	$ 25,000,000	$ 39,063,000	$ 15,625,000	$ 46,875,000	$ 23,437,000
NatWest Markets Securities Inc.	$ 25,000,000	$ 39,063,000	$ 15,625,000	$ 46,875,000	$ 23,437,000
RBC Capital Markets, LLC	$ 25,000,000	$ 39,063,000	$ 15,625,000	$ 46,875,000	$ 23,437,000
Santander US Capital Markets LLC	$ 25,000,000	$ 39,063,000	$ 15,625,000	$ 46,875,000	$ 23,437,000
SEB Securities, Inc.	$ 25,000,000	$ 39,063,000	$ 15,625,000	$ 46,875,000	$ 23,437,000
SMBC Nikko Securities America, Inc.	$ 25,000,000	$ 39,063,000	$ 15,625,000	$ 46,875,000	$ 23,437,000
TD Securities (USA) LLC	$ 25,000,000	$ 39,063,000	$ 15,625,000	$ 46,875,000	$ 23,437,000
Wells Fargo Securities, LLC	$ 25,000,000	$ 39,063,000	$ 15,625,000	$ 46,875,000	$ 23,437,000
Total	$800,000,000	$1,250,000,000	$500,000,000	$1,500,000,000	$750,000,000

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Securities are subject to approval of legal matters by counsel and to other conditions. The Offering of the Securities by the Initial Purchasers is subject to receipt and acceptance and subject to the Initial Purchasers' right to reject any order in whole or in part. The Initial Purchasers have agreed, severally and not jointly, to purchase all the Securities if they purchase any of the Securities. If an Initial Purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the purchase agreement may be terminated.

The Issuer has agreed to indemnify the several Initial Purchasers against certain liabilities, including liability under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

The Initial Purchasers propose to resell the Securities at the issue prices set forth on the cover page of this Offering Memorandum within the United States only to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and, through their respective selling agents, outside the United States in reliance on Regulation S. The ability of Australia and New Zealand Banking Group Limited and Crédit Industriel et Commercial S.A. to engage in U.S. securities dealing is limited under the U.S. Bank Holding Company Act and they may not underwrite, offer or sell securities that are offered or sold in the United States. Australia and New Zealand Banking Group Limited and Crédit Industriel et Commercial S.A. will only

underwrite, offer and sell the securities that are part of their respective allotments solely to non-U.S. persons outside the United States. See "*Transfer Restrictions*" and the representations of each Initial Purchaser set forth below. The price at which the Securities are offered may be changed at any time without notice.

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "*Transfer Restrictions*."

Accordingly, in connection with sales outside the United States, each Initial Purchaser has agreed that, except as permitted by the purchase agreement and set forth in "*Transfer Restrictions*," it will not offer or sell the Securities within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the closing date, and it will have sent to each dealer to which it sells Securities during the 40-day restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the later of the commencement of the Offering and the closing date, an offer or sale of Securities within the United States by a dealer that is not participating in this Offering may violate the registration requirement of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The Securities will constitute a new class of securities with no established trading market. Application has been made for the Securities to be admitted to trading on the International Securities Market of the London Stock Exchange, but there can be no assurance that the Securities will be admitted to trading or that such admission will be maintained. The Issuer cannot assure you that the prices at which the Securities will sell after the Offering will not be lower than the initial offering price or that any trading market for the Securities will develop and continue after the Offering. The Initial Purchasers currently intend to make a market in the Securities. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Securities at any time without notice. In addition, market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, the Issuer can neither assure investors that there will be a trading market for the Securities nor that there will be sufficient liquidity in any trading market. See "*Risk Factors—3. Factors which are material for the purpose of assessing the market risks associated with the Securities—There is no prior market for the Securities and the trading market for the Securities may have limited liquidity or may be volatile.*"

In connection with the Offering, the Stabilization Manager may purchase and sell the Securities in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Stabilization Manager of a greater number of Securities than it is required to purchase in the Offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Securities while the Offering is in progress.

These activities by the Stabilization Manager, as well as other purchases by the Stabilization Manager for its own account, may stabilize, maintain or otherwise affect the market price of the Securities. As a result, the price of the Securities may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Stabilization Manager at any time. These transactions may be effected in the over-the-counter market or otherwise.

It is expected that delivery of the Securities will be made against payment therefor on or about the fifth business day following the date of pricing of the Securities (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Securities on any date prior to two business days before delivery will be required, by virtue of the fact that the Securities initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Securities who wish to make such trades should consult their own advisors.

Other Relationships

The Initial Purchasers and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities and other commercial dealings in the ordinary course of business. Certain of the Initial Purchasers and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Issuer and its subsidiaries and affiliates and equity accounted investments, for which they received or will receive customary fees and expenses, and certain of the Initial Purchasers have provided and are providing general financing and banking services to the Issuer and its subsidiaries and affiliates and equity accounted investments and may also act as lenders under the Issuer's credit facilities. In addition, certain of the Initial Purchasers or their affiliates have direct or indirect interests in the issued ordinary share capital of the Issuer.

In the ordinary course of their various business activities, the Initial Purchasers and their respective affiliates have made or held, and may in the future make or hold, a broad array of investments including serving as counterparties to certain derivative and hedging arrangements, and may have actively traded, and, in the future may actively trade, debt and equity securities (or related derivative securities), and financial instruments (including bank loans) for their own account and for the accounts of their customers and may have in the past and at any time in the future hold long and short positions in such securities and instruments. Such investment and securities activities may have involved, and in the future may involve, securities and instruments of the Issuer and its subsidiaries. Certain of the Initial Purchasers or their affiliates have lending relationships with the Issuer and its subsidiaries, including under the RCF and the Bridge Facility and will therefore receive a portion of the net proceeds of the Offering as set forth under "*Use and Estimated Amount of Net Proceeds.*" Certain of such Initial Purchasers or their affiliates routinely hedge, certain other of the Initial Purchasers have hedged and are likely in the future to hedge or otherwise reduce, and certain other of those Initial Purchasers or their affiliates may hedge, their credit exposure to the Issuer and its subsidiaries consistent with their customary risk management policies. Typically, these Initial Purchasers and their affiliates would hedge or otherwise reduce such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's or its affiliates' securities, including potentially the Securities offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Securities offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

Canada

The Securities may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Securities must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable Canadian securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("*NI 33-105*"), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.

European Economic Area ("EEA")

The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "*MiFID II*"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "*Insurance Distribution Directive*"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Hong Kong

The Securities may not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and no advertisement, invitation or document relating to the Securities may be issued by an Initial Purchaser, or be in the possession of an Initial Purchaser for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

Japan

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended or the "*Financial Instruments and Exchange Act*"). Accordingly, the Securities may not, directly or indirectly, be offered or sold in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Act (Law No. 228 of 1949, as amended) (including any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This Offering Memorandum will not be registered as a prospectus with the Monetary Authority of Singapore ("*MAS*"). Accordingly, the Securities may not be offered or sold or be made the subject of an invitation for subscription or purchase and neither this Offering Memorandum nor any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities may be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "*SFA*")) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) in accordance with the conditions specified in Section 275 of the SFA.

In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined the classification of the Securities as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

South Korea

The Securities may not be offered, sold and delivered, directly or indirectly, or offered or sold to any person for reoffering or resale, directly or indirectly, in South Korea or to any resident of South Korea except

pursuant to the applicable laws and regulations of South Korea, including the Financial Investment Services and Capital Markets Act of Korea and the Foreign Exchange Transaction Act of Korea and the decrees and regulations thereunder. The Securities have not been registered with the Financial Services Commission of South Korea for public offering in South Korea. Furthermore, the Securities may not be re-sold to South Korean residents unless the purchaser of the Securities complies with all applicable regulatory requirements (including but not limited to government approval requirements under the Foreign Exchange Transaction Act of Korea and its subordinate decrees and regulations) in connection with their purchase.

Switzerland

No Securities have been offered or will be offered to the public in Switzerland, except that offers of Securities may be made to the public in Switzerland at any time under the following exemptions under the Swiss Financial Services Act ("*FinSA*"):

(a) to any person which is a professional client as defined under FinSA;

(b) to fewer than 500 persons (other than professional clients as defined under FinSA), subject to obtaining the prior consent of the Initial Purchasers for any such offer; or

(c) in any other circumstances falling within Article 36 FinSA in connection with Article 44 FinSO,

provided, in each case, that no such offer of Securities shall require the Company to publish a prospectus pursuant to Article 35 FinSA.

The Securities have not been and will not be listed or admitted to trading on a trading venue (i.e., an exchange or a multilateral trading facility) in Switzerland.

Neither this Offering Memorandum nor any other offering or marketing material relating to the Securities constitutes a prospectus as such term is understood pursuant to FinSA and neither this document nor any other offering or marketing material relating to the Securities may be publicly distributed or otherwise made publicly available in Switzerland. This and any other offering or marketing materials in relation to the Securities are personal to each recipient and may not be publicly distributed or otherwise made publicly available in or into Switzerland.

Taiwan (Republic of China)

The Securities will not be registered or filed with, or approved by, the Financial Supervisory Commission of the Republic of China ("*ROC*") and/or other regulatory authority of the ROC pursuant to relevant securities laws and regulations and may not be sold, issued or offered within the ROC through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of the ROC or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission of the ROC and/or other regulatory authority of the ROC. No person or entity in the ROC has been authorized to offer or sell the Securities in the ROC.

United Arab Emirates

This Offering Memorandum has not been reviewed, approved or licensed by the Central Bank of the United Arab Emirates (the "*UAE*"), the Emirates Securities and Commodities Authority (the "*SCA*") or any other relevant licensing authority in the UAE, including any licensing authority incorporated under the laws and regulations of any of the free zones established and operating in the UAE, including, without limitation, the Dubai Financial Services Authority (the "*DFSA*"), a regulatory authority of the Dubai International Financial Centre (the "*DIFC*").

This Offering Memorandum is not intended to, and does not, constitute an offer, sale or delivery of shares or other securities under the laws of the UAE. Each Initial Purchaser has represented and agreed that the Securities have not been and will not be registered with the SCA or the UAE Central Bank, the Dubai Financial Market, the Abu Dhabi Securities Market or any other UAE regulatory authority or exchange.

The issue and/or sale of the Securities has not been approved or licensed by the SCA, the UAE Central Bank or any other relevant licensing authority in the UAE, and does not constitute a public offer of securities

in the UAE in accordance with the Commercial Companies Law, Federal Law No. 1 of 2015 (as amended) or otherwise, does not constitute an offer in the UAE in accordance with the Board Decision No. 37 of 2012 Concerning the Regulation of Investment Funds (whether by a Foreign Fund, as defined therein, or otherwise), and further does not constitute the brokerage of securities in the UAE in accordance with the Board Decision No. 27 of 2014 Concerning Brokerage in Securities.

United Kingdom

The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (as amended, the "*EUWA*"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("*FSMA*") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law of the United Kingdom by virtue of the EUWA.

Each Initial Purchaser has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

TRANSFER RESTRICTIONS

The Securities have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("*Regulation S*")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Securities are being offered and sold only (i) to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act ("*Rule 144A*")), commonly referred to as "QIBs," in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; and (ii) in offers and sales that occur outside the United States to purchasers who are not U.S. persons (as defined in Regulation S) in reliance on Regulation S.

Each holder of a Security, or of any interest therein, will be deemed to acknowledge, represent, warrant and agree that, at the time of its acquisition and throughout the period of its holding and disposition of such Security or interest therein, either (a) the holder is not a Plan and it is not purchasing the Security on behalf of, or with the "plan assets" of, any Plan; or (b) the holder's purchase, holding and subsequent disposition of the Security either (i) are not a prohibited transaction under ERISA or the Code and are otherwise permissible under all applicable Similar Laws or (ii) are entitled to exemptive relief from the prohibited transaction provisions of ERISA and the Code in accordance with one or more available statutory, class or individual prohibited transaction exemptions and are otherwise permissible under all applicable Similar Laws.

Rule 144A

Each purchaser of the Securities (other than the Initial Purchasers) offered hereby in the United States will be deemed, by its acceptance or purchase thereof, to have represented to and agreed with the Issuer and each Initial Purchaser as follows:

1. It is not an "affiliate," as defined under Rule 144, of the Issuer or acting on behalf of such an affiliate and that it (A) is a QIB, (B) is acquiring the Securities for its own account or for the account of a QIB and (C) is aware that the sale of the Securities to it is being made in reliance on Rule 144A.

2. The purchase of the Securities is not part of a plan or scheme to evade the registration requirements of the Securities Act.

3. It acknowledges and understands that the Securities have not been registered under the Securities Act or any other applicable securities laws and that the Securities are being offered for resale in a transaction not requiring registration under the Securities Act or any other securities laws, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except as set forth below.

4. It agrees that if in the future it decides to offer, resell, pledge or otherwise transfer any of the Securities, it shall not offer, resell, pledge or otherwise transfer any of the Securities except (A) (i) to the Issuer or any of its subsidiaries, (ii) for so long as the Securities are eligible for resale pursuant to Rule 144A, in the United States to a person whom the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in an offshore transaction (as defined in Regulation S) in compliance with Rule 903 or Rule 904 of Regulation S, and, in the case of transfers on or prior to the 40th day after the later of the commencement of the Offering of the Securities and the date of the initial issuance of the Securities, which is to a non-U.S. person, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available), (v) pursuant to another available exemption from registration under the Securities Act or (vi) pursuant to an effective registration statement under the Securities Act and (B) in each case, in accordance with all applicable laws of any state of the United States or any other jurisdiction.

5. It understands and agrees that the Securities offered in the United States to QIBs will be represented by Rule 144A Global Securities and that Securities offered outside the United States to non-U.S. persons in reliance on Regulation S will be represented by Regulation S Global Securities. Before any beneficial interest in a Rule 144A Global Security may be offered, sold, pledged or otherwise transferred to a purchaser outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, the transferor will be required to provide the Fiscal and Paying Agent with a

written certificate (the form of which certification can be obtained from the Fiscal and Paying Agent) as to compliance with the transfer restrictions referred to above.

6. It agrees that it will deliver to each person to whom it transfers Securities notice of any restrictions on transfer of such Securities.

7. It understands that the Securities will bear a legend to the following effect unless otherwise agreed by the Issuer and the holder thereof:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES THAT IT WILL NOT OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (A)(I) TO THE ISSUER OR ANY OF ITS SUBSIDIARIES, (II) FOR SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")) IN COMPLIANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND, IN THE CASE OF TRANSFERS ON OR PRIOR TO THE 40TH DAY AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE SECURITIES AND THE DATE OF THE INITIAL ISSUANCE OF THIS SECURITY, WHICH IS TO A NON-U.S. PERSON, (IV) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (V) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, OR (VI) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND (B) IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION; AND (2) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM IT TRANSFERS SECURITIES A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THE FISCAL AND PAYING AGENCY AGREEMENT CONTAINS A PROVISION REQUIRING THE FISCAL AND PAYING AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS SECURITY IN VIOLATION OF THE FOREGOING RESTRICTIONS. EACH HOLDER OF THIS SECURITY, OR OF ANY INTEREST THEREIN, WILL BE DEEMED TO ACKNOWLEDGE, REPRESENT, WARRANT AND AGREE THAT, AT THE TIME OF ITS ACQUISITION AND THROUGHOUT THE PERIOD OF ITS HOLDING AND DISPOSITION OF SUCH SECURITY OR INTEREST THEREIN, EITHER (A) IT IS NOT, AND IT WILL NOT BECOME, AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")) THAT IS SUBJECT TO ERISA, A "PLAN" SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY OR OTHERWISE, OR A GOVERNMENTAL PLAN, CHURCH PLAN, NON-U.S. PLAN OR OTHER PLAN THAT IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS

OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR (B) ITS PURCHASE, HOLDING AND DISPOSITION OF SUCH SECURITY OR INTEREST THEREIN WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA AND/OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL PLAN, CHURCH PLAN, NON-U.S. PLAN OR OTHER PLAN, A VIOLATION OF ANY SUBSTANTIALLY SIMILAR FEDERAL, STATE, LOCAL OR NON-U.S. LAW) BY REASON OF AN APPLICABLE STATUTORY OR ADMINISTRATIVE EXEMPTION. THE FISCAL AND PAYING AGENCY AGREEMENT CONTAINS A PROVISION REQUIRING THE FISCAL AND PAYING AGENT TO REFUSE TO REGISTER ANY TRANSFER OF ANY SECURITY IN VIOLATION OF THE FOREGOING RESTRICTIONS."

8. It represents and agrees that (i) no other representation with respect to the offer or sale of the Securities has been made, other than the information contained in this Offering Memorandum; (ii) its investment decision is solely based on the information contained in this Offering Memorandum; (iii) the Initial Purchasers make no representation or warranty as to the accuracy or completeness of this Offering Memorandum; and (iv) it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its prospective investment and can afford the complete loss of such investment.

9. It represents and agrees that it has received a copy of this Offering Memorandum and acknowledges that it has had access to such financial and other information, and it has been afforded the opportunity to ask questions of the Issuer and receive answers thereto, as it deemed necessary in connection with its decision to purchase Securities.

10. It acknowledges that the Issuer, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements and agrees that, if any of the acknowledgments, representations, warranties and agreements deemed to have been made by its purchase of the Securities is no longer accurate, it shall promptly notify the Issuer and the Initial Purchasers. If it is acquiring any Securities as a fiduciary or agent of one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such investor account.

Regulation S

Each purchaser of the Securities (other than the Initial Purchasers) offered hereby outside the United States will be deemed, by its acceptance or purchase thereof, to have represented to and agreed with the Issuer and each Initial Purchaser as follows:

1. It is not an "affiliate," as defined under Rule 144, of the Issuer or acting on behalf of such an affiliate and that it (A) is not a U.S. person (as defined in Regulation S), (B) is not purchasing the Securities for the account or benefit of any U.S. person and (C) is purchasing the Securities in an offshore transaction (as defined in Regulation S) in accordance with Regulation S.

2. The purchase of the Securities is not part of a plan or scheme to evade the registration requirements of the Securities Act.

3. It acknowledges and understands that the Securities have not been registered under the Securities Act or any other applicable securities laws and that the Securities are being offered for resale in a transaction not requiring registration under the Securities Act or any other securities laws, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except as set forth below.

4. It agrees that if in the future it decides to offer, resell, pledge or otherwise transfer any of the Securities, it shall not offer, resell, pledge or otherwise transfer any of the Securities except (A) (i) to the Issuer or any of its subsidiaries, (ii) for so long as the Securities are eligible for resale pursuant to Rule 144A, in the United States to a person whom the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in an offshore

transaction (as defined in Regulation S) in compliance with Rule 903 or Rule 904 of Regulation S, and, in the case of transfers on or prior to the 40th day after the later of the commencement of the Offering of the Securities and the date of the initial issuance of the Securities, which is to a non-U.S. person, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available), (v) pursuant to another available exemption from registration under the Securities Act or (vi) pursuant to an effective registration statement under the Securities Act, and (B) in each case, in accordance with all applicable laws of any state of the United States or any other jurisdiction.

5. It understands and agrees that the Securities offered in the United States to QIBs will be represented by Rule 144A Global Securities and that Securities offered outside the United States to non-U.S. persons in reliance on Regulation S will be represented by Regulation S Global Securities.

6. It agrees that it will deliver to each person to whom it transfers Securities notice of any restrictions on transfer of such Securities.

7. It understands that the Regulation S Global Securities will initially be restricted as described under "*Description of Securities—Book-Entry; Delivery and Form*" for a period ending 40 days after the later of the commencement of the Offering and the closing date. Before any beneficial interest in a Regulation S Global Security may be offered, sold, pledged or otherwise transferred, the transferor will be required to provide the Fiscal and Paying Agent with a written certificate (the form of which certification can be obtained from the Fiscal and Paying Agent) as to compliance with the transfer restriction referred to above.

8. It understands that the Securities will bear a legend to the following effect unless otherwise agreed by the Issuer and the holder thereof:

   "THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "*SECURITIES ACT*"), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

   THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES THAT IT WILL NOT OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (A) (I) TO THE ISSUER OR ANY OF ITS SUBSIDIARIES, (II) FOR SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT ("*RULE 144A*"), (III) TO A NON-U.S. PERSON OUTSIDE THE UNITED STATES IN AN "OFFSHORE TRANSACTION" (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("*REGULATION S*")) IN COMPLIANCE WITH RULE 903 OR RULE 904 OF REGULATION S, (IV) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (V) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, OR (VI) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND (B) IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION; AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM IT TRANSFERS SECURITIES A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

   THE FISCAL AND PAYING AGENCY AGREEMENT CONTAINS A PROVISION REQUIRING THE FISCAL AND PAYING AGENT TO REFUSE TO REGISTER ANY

TRANSFER OF THIS SECURITY IN VIOLATION OF THE FOREGOING RESTRICTIONS. AFTER THE END OF THE RESTRICTED PERIOD, THIS SECURITY AND ANY INTEREST HEREIN MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE SECURITIES ACT AND ALL APPLICABLE LAWS OF ANY OTHER JURISDICTION. EACH HOLDER OF THIS SECURITY, OR OF ANY INTEREST THEREIN, WILL BE DEEMED TO ACKNOWLEDGE, REPRESENT, WARRANT AND AGREE THAT, AT THE TIME OF ITS ACQUISITION AND THROUGHOUT THE PERIOD OF ITS HOLDING AND DISPOSITION OF SUCH SECURITY OR INTEREST THEREIN, EITHER (A) IT IS NOT, AND IT WILL NOT BECOME, AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("*ERISA*")) THAT IS SUBJECT TO ERISA, A "PLAN" SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "*CODE*"), OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY OR OTHERWISE, OR A GOVERNMENTAL PLAN, CHURCH PLAN, NON-U.S. PLAN OR OTHER PLAN THAT IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR (B) ITS PURCHASE, HOLDING AND DISPOSITION OF SUCH SECURITY OR INTEREST THEREIN WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA AND/OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL PLAN, CHURCH PLAN, NON-U.S. PLAN OR OTHER PLAN, A VIOLATION OF ANY SUBSTANTIALLY SIMILAR FEDERAL, STATE, LOCAL OR NON-U.S. LAW) BY REASON OF AN APPLICABLE STATUTORY OR ADMINISTRATIVE EXEMPTION. THE FISCAL AND PAYING AGENCY AGREEMENT CONTAINS A PROVISION REQUIRING THE FISCAL AND PAYING AGENT TO REFUSE TO REGISTER ANY TRANSFER OF ANY SECURITY IN VIOLATION OF THE FOREGOING RESTRICTIONS."

9. It represents and agrees that (i) no other representation with respect to the offer or sale of the Securities has been made, other than the information contained in this Offering Memorandum; (ii) its investment decision is solely based on the information contained in this Offering Memorandum; (iii) the Initial Purchasers make no representation or warranty as to the accuracy or completeness of this Offering Memorandum; and (iv) it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its prospective investment and can afford the complete loss of such investment.

10. It represents and agrees that it has received a copy of this Offering Memorandum and acknowledges that it has had access to such financial and other information, and it has been afforded the opportunity to ask questions of the Issuer and receive answers thereto, as it deemed necessary in connection with its decision to purchase Securities.

11. It acknowledges that the Issuer, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements and agrees that, if any of the acknowledgments, representations, warranties and agreements deemed to have been made by its purchase of the Securities is no longer accurate, it shall promptly notify the Issuer and the Initial Purchasers. If it is acquiring any Securities as a fiduciary or agent of one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such investor account.

For further discussion of the requirements (including the presentation of transfer certificates) under the Fiscal and Paying Agency Agreement to effect exchanges or transfer of interests in Global Securities, see "*Description of Securities—Book-Entry; Delivery and Form.*"

LEGAL MATTERS

Certain legal matters will be passed upon for the Issuer by Cravath, Swaine & Moore LLP, United States counsel for the Issuer. Certain United Kingdom legal matters will be passed upon for the Issuer by Linklaters LLP. Certain United States legal matters in connection with the Securities will be passed upon for the Initial Purchasers by Milbank LLP, United States counsel for the Initial Purchasers.

INDEPENDENT AUDITORS

The BAE Systems 2023 Annual Financial Statements and the BAE Systems 2022 Annual Financial Statements have been audited by Deloitte LLP, independent auditors. Deloitte LLP is registered to carry out audit work in the United Kingdom and Ireland by the Institute of Chartered Accountants in England and Wales. Its business address is 1 New Street Square, London, EC4A 3HQ, United Kingdom.

In accordance with guidance issued by The Institute of Chartered Accountants in England and Wales, each of the independent auditor's reports dated February 20, 2024 and February 22, 2023 on the consolidated financial statements of BAE Systems plc included in this Offering Memorandum incorporates language that states that: "This report is made solely to [BAE Systems plc]'s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to [BAE Systems plc]'s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than [BAE Systems plc] and [BAE Systems plc]'s members, as a body, for our audit work, for this report, or for the opinions we have formed." The independent auditor's reports are included on pages F-3 and F-80 of this Offering Memorandum. Investors in the Securities should understand that in making these statements the independent auditors confirmed that they do not accept or assume liability to parties (such as the purchasers of the Securities) other than BAE Systems plc and BAE Systems plc's members as a body with respect to the report and to the independent auditor's audit work and opinions. The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act, or in a report filed under the Exchange Act. If a U.S. court (or any other court) were to give effect to such limiting language, the recourse that investors in the Securities may have against the independent auditor based on its report or the consolidated financial statements to which it relates could be limited.

SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS

The Issuer is incorporated in England and Wales. Although the Issuer will agree, in accordance with the terms of the Fiscal and Paying Agency Agreement, to accept service of process in the United States by an agent designated for such purpose, it may not be possible for investors: (i) to effect service of process in the United States upon the directors or officers of the Issuer or (ii) to enforce against either the Issuer or its officers or directors, judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal or state securities laws of the United States.

If a judgment is obtained in a U.S. court against the Issuer, or any of its directors or executive officers, investors may need to enforce such judgment in jurisdictions where the relevant defendant has assets. Even though the enforceability of U.S. court judgments outside the United States is described below for England and Wales, you should consult with your own advisers in any pertinent jurisdictions as needed to enforce a judgment in those countries or elsewhere outside the United States.

The following summary with respect to the enforceability of certain U.S. court judgments in England and Wales is based upon advice provided to BAE Systems by U.S. and English legal advisers. The United States and England and Wales currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. Federal securities laws, would not automatically be recognized or enforceable in England and Wales. In order to enforce any such U.S. judgment in England and Wales, proceedings must first be initiated before a court of competent jurisdiction in England and Wales. In such an action, the courts of England and Wales would not generally reinvestigate the merits of the original matter decided by the U.S. court (subject to what is said below) and it would usually be possible to obtain summary judgment on such a claim (assuming that there is no good defense to it). Recognition and enforcement of a U.S. judgment by the courts of England and Wales in such an action is conditional upon (among other things) the following:

- the U.S. court having had jurisdiction over the original proceedings according to English conflicts of laws principles in England and Wales;
- the U.S. judgment being final and conclusive on the merits in the sense of being final and unalterable in the court which pronounced it and being for a debt for a definite sum of money;
- the U.S. judgment not contravening public policy in England and Wales;
- the U.S. judgment not being for a sum payable in respect of tax, or other charges of a like nature in respect of a penalty or fine;
- the U.S. judgment not having been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damages sustained and not being otherwise in breach of Section 5 of the Protection of Trading Interests Act 1980;
- the U.S. judgment not having been obtained by fraud or in breach of principles of natural justice in England and Wales;
- the U.S. judgment not having been given in proceedings brought in breach of an agreement for settlement of disputes;
- there not having been a prior inconsistent decision of the courts of England and Wales or a non-U.S. court between the same parties; and
- the enforcement proceedings in England and Wales being commenced within six years from the date of the U.S. judgment.

Subject to the foregoing, investors may be able to enforce in England and Wales judgments in civil and commercial matters that have been obtained from U.S. Federal or state courts. However, there can be no assurance that those judgments will be recognized or enforceable in England and Wales.

GENERAL INFORMATION

1. Application has been made for the Securities to be admitted to trading on the International Securities Market of the London Stock Exchange. It is expected that admission of the Securities to trading on the International Securities Market of the London Stock Exchange will take effect on or around March 28, 2024. The expenses in connection with the admission of the Securities to trading on the International Securities Market of the London Stock Exchange are expected to amount to £17,250.

2. The Legal Entity Identifier (LEI) code of the Issuer is 8SVCSVKSGDWMW2QHOH83.

3. The Issuer has obtained all necessary consents, approvals and authorizations in the United Kingdom in connection with the issue and performance of the Securities. The issue of the Securities was authorized by resolutions of the Board of Directors of the Issuer passed on December 15, 1980 and September 21, 2022 and by resolutions of an ad-hoc banking committee of the Board of Directors of the Issuer passed on March 14, 2024.

4. Save as disclosed in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*," there has been no significant change in the financial or trading position of the Issuer and/or BAE Systems and no material adverse change in the prospects of the Issuer and/or BAE Systems, in each case, since December 31, 2023.

5. There are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened), of which the Issuer is aware, in the 12 months preceding the date of this Offering Memorandum, which may have, or have had in the recent past, a significant effect on the Issuer's ability to meet its obligations to holders of the Securities.

6. The website of the Issuer is https://www.baesystems.com/en/home. The information on https://www.baesystems.com/en/home does not form part of this Offering Memorandum.

7. The yield of the 2027 Notes is 5.149% on an annual basis, the yield of the 2029 Notes is 5.197% on an annual basis, the yield of the 2031 Notes is 5.287% on an annual basis, the yield of the 2034 Notes is 5.369% on an annual basis and the yield of the 2054 Notes is 5.615% on an annual basis. The yield is calculated as at March 19, 2024 on the basis of the issue price. It is not an indication of future yield.

8. There are no material contracts entered into other than in the ordinary course of the Issuer's business, which could result in any member of BAE Systems being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to holders of Securities in respect of the Securities.

9. Where information in this Offering Memorandum has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.

10. For so long as the Securities remain outstanding, copies of the following documents will be available for inspection at https://investors.baesystems.com/:

    a) the Fiscal and Paying Agency Agreement (which includes the form of the Global Securities);

    b) the Memorandum and Articles of Association of the Issuer;

    c) a copy of this Offering Memorandum together with any supplement to this Offering Memorandum or further Offering Memoranda; and

    d) all reports, letters and other documents, historical financial information, valuations and statements by any expert at the Issuer's request, any part of which is included or referred to in this Offering Memorandum.

11. Deloitte LLP of 1 New Street Square, London EC4A 3HQ, United Kingdom have audited, and rendered an unmodified opinion in their independent auditor's reports on, the financial statements

of the Issuer and its subsidiaries for each of the two years ended December 31, 2023 and December 31, 2022, included elsewhere in this Offering Memorandum. Deloitte LLP is registered to carry out audit work in the United Kingdom and the Republic of Ireland by the Institute of Chartered Accountants in England and Wales.

12. Certain of the Initial Purchasers and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Issuer and its subsidiaries and affiliates and equity accounted investments, for which they received or will receive customary fees and expenses, and certain of the Initial Purchasers have provided and are providing general financing and banking services to the Issuer and its subsidiaries and affiliates and equity accounted investments and may also act as lenders under the Issuer's credit facilities. In addition, certain of the Initial Purchasers or their affiliates have direct or indirect interests in the issued ordinary share capital of the Issuer.

In addition, in the ordinary course of their various business activities, the Initial Purchasers and their respective affiliates have made or held, and may in the future make or hold, a broad array of investments including serving as counterparties to certain derivative and hedging arrangements, and may have actively traded, and, in the future may actively trade, debt and equity securities (or related derivative securities), and financial instruments (including bank loans) for their own account and for the accounts of their customers and may have in the past and at any time in the future hold long and short positions in such securities and instruments. Such investment and securities activities may have involved, and in the future may involve, securities and instruments of the Issuer and its subsidiaries. Certain of the Initial Purchasers or their affiliates have lending relationships with the Issuer and its subsidiaries, including under the RCF and the Bridge Facility and will therefore receive a portion of the net proceeds of the Offering as set forth under "*Use and Estimated Amount of Net Proceeds.*" Certain of such Initial Purchasers or their affiliates routinely hedge, certain other of the Initial Purchasers have hedged and are likely in the future to hedge or otherwise reduce, and certain other of those Initial Purchasers or their affiliates may hedge, their credit exposure to the Issuer and its subsidiaries consistent with their customary risk management policies. Typically, these Initial Purchasers and their affiliates would hedge or otherwise reduce such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's or its affiliates' securities, including potentially the Securities offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Securities offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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* The information provided in this Offering Memorandum has been extracted from the 2023 Annual Report of BAE Systems. As the information only represents extracts of the 2023 Annual Report, there are certain references made to pages of the 2023 Annual Report which have different pagination in this Offering Memorandum, or to other pages of the 2023 Annual Report that have not been included in this Offering Memorandum. Copies of the Annual Report for 2023 can be obtained through the website maintained by BAE Systems at https://investors.baesystems.com/. The information on the Issuer's website does not form part of this Offering Memorandum.

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BAE SYSTEMS 2023 ANNUAL FINANCIAL STATEMENTS

Independent Auditor's report
to the members of BAE Systems plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of BAE Systems plc (the "Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated income statement;
- the Consolidated and Company statements of comprehensive income;
- the Consolidated and Company statements of changes in equity;
- the Consolidated and Company balance sheets;
- the Consolidated cash flow statement;
- the related notes 1 to 35 in the Consolidated financial statements; and
- the related notes 1 to 13 in the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in note 3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- revenue and margin recognition on long-term contracts; and
- valuation of post-employment benefit obligations.

Within this report, key audit matters are identified as follows:

- ∧ Increased level of risk
- ≈ Similar level of risk
- ∨ Decreased level of risk

Materiality

The materiality that we used for the audit of the Group financial statements was £100.0m (2022: £87.5m) which was determined on the basis of profit before tax excluding adjusting items and fair value and foreign exchange movements relating to financial instruments, as described further in section 6 below.

Scoping

We performed a combination of full scope audit procedures and audits of specified account balances on certain components. Together these procedures addressed:

- 85% of revenue (2022 – 89%);
- 85% of profit before tax (2022 – 86%); and
- 91% of total assets (2022 – 91%).

The remaining components were subject to other procedures, including conducting analytical reviews, making enquiries of management, and evaluating the Group's control environment.

Significant changes in our approach

Last year goodwill was included as a key audit matter. As a result of the level of headroom, we consider the risk to have significantly reduced and concluded the valuation of goodwill no longer represents a key audit matter.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of the directors' process for determining the appropriateness of the going concern basis;
- evaluating the Group's existing access to sources of financing, including existing debt, undrawn committed bank facilities and financing for the Ball Aerospace acquisition;
- obtaining an understanding of relevant controls over the going concern models prepared by management, including the review of the inputs and assumptions used in those models;
- testing the accuracy of management's models, including agreement to the most recent Board approved budgets and forecasts;
- challenging the key assumptions underpinning these forecasts by:
  - reading analyst reports, industry data and other external information and comparing these with management's estimates;
  - comparing forecast revenue with the Group's order book and historical performance;
  - evaluating the historical accuracy of forecasts prepared by management;
  - considering potential macro-economic impacts on the forecasts as a consequence of the current geo-political environment;
  - assessing the sensitivity of the headroom to key assumptions; and
- assessing the appropriateness of the Group's disclosure concerning the going concern basis.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's report continued

5.1. Revenue and margin recognition on long-term contracts

Refer to page 97 (Audit Committee Report), Note 1 (key sources of estimation uncertainty) and Note 2 (accounting policy and financial disclosures)

Revenue:
£23,078m (2022: £21,258m)

Operating profit:
£2,573m (2022: £2,384m)

Key audit matter description

The estimation of both overall lifetime contract margin and the appropriate level of revenue and profit to recognise in any single accounting period requires the exercise of judgement. Within the Group's contract portfolio there are a number of programmes where there is a high degree of estimation required in reaching these judgements. Key estimates include forecast costs to complete on contracts, the impact of assumed learning efficiencies over the life of a programme, the schedule completion dates, and the appropriateness of contingency held against the risk of future cost growth. Consequently, we consider that revenue and margin recognition represent a key audit matter.

We focussed a greater proportion of audit effort on a number of contracts where we consider there to be a higher degree of judgement required and designed contract-specific procedures to mitigate the associated risks.

In order to identify contracts where there is the greatest risk of material misstatement, we undertook a contract risk assessment process at each reporting unit utilising data analytics, the latest contract information, our understanding of the business, the results of prior audits and review of external information about market and geo-political conditions which might impact certain contracts. We held meetings with key finance and contract managers, attended quarterly business review meetings and other key management meetings, read and understood underlying contract documentation and obtained support for key contract judgements. In addition, we looked for contracts that might have higher levels of judgement associated with the risk of schedule delivery or technical complexity, fixed price contracts which increase the risk of contract losses and other indicators that could increase the risk of a material impact on the financial statements.

As a result of our risk assessment, we identified one contract where we consider there to be an elevated risk of misstatement, owing to the high degree of judgement required in estimating the trading margin position impacting the 2023 financial statements.

How the scope of our audit responded to the key audit matter

Our contract testing approach included:

Testing the relevant controls

- We obtained an understanding of and tested relevant financial and IT controls across the Group's project accounting processes established to ensure that contracts are appropriately forecast, managed, controlled and reported.
- We observed the controls in operation by attending a sample of project contract status review meetings, quarterly business review meetings and Group-level meetings to validate the various levels of challenge applied to the forecasts.

Challenging assumptions and estimates

To gain assurance over the contract judgements and estimates made, our work included:

- **inspection of customer contracts** – inspecting customer contracts to gain an understanding of key contractual terms;
- **enquiry** – making enquiries of programme management and other operational personnel to obtain an understanding of the performance of the projects throughout the year and at year-end;
- **historical forecasting accuracy** – evaluating historical forecasting accuracy of costs against actual costs, including on similar programmes, and challenging future cost expectations with reference to those data points;
- **site visits** – conducting production site visits to inform our challenge of the cost to complete estimates and understanding of contract status;
- **tests of detail of costs to date and estimates to complete** – testing the underlying calculations used in the contract assessments for sensitivity, accuracy and completeness, including the estimated costs to complete the contract alongside associated contingencies and testing a sample of expenditure to date. In auditing the cost to complete, we have challenged the key assumptions with reference to previous programmes and current run-rate data, resource availability, supply chain issues (such as inflation and contract delivery schedule) and other factors that could impact on contract and schedule risk;
- **inspection and validation of external evidence** – examining external evidence to assess contract status, timeframe for delivery and any variation of consideration (including associated recoverability of contract balances), such as customer correspondence. For certain contracts, this evidence was validated by meeting with the customer directly;
- **legal** – enquiring with in-house legal counsel regarding contract-related litigation and claims and analysing legal opinions where applicable; and
- **stand back assessment** – considering whether there were any indicators of management override of controls or bias in arriving at their reported position, including a stand back assessment of the contract position.

Key observations

As a result of the audit procedures outlined above, we consider the judgements made by the Group in recognising revenue and profit to be reasonable.

5.2. Valuation of post-employment benefit obligations ≈

Refer to page 97 (Audit Committee report), Note 1 (key sources of estimation uncertainty) and Note 24 (accounting policy and financial disclosures)

The Group's share of the net IAS 19 Employee benefits surplus was: £229m (2022: £646m net surplus), and comprised scheme assets of £23,985m (2022: £25,343m) and defined benefit obligations of £23,247m (2022: £23,868m).

Key audit matter description

The post-employment schemes are held across the group in the UK and US, as well as an end of service benefit provided to employees in Saudi Arabia and other locations. The key audit matter set out below is in relation to the UK post-employment schemes.

We identified the following two areas of focus of our procedures as a key audit matter in the current year:

Scheme assets

Given the size and nature of the schemes' assets, there is significant audit effort required in ensuring the valuation of assets is appropriate.

Certain asset classes are inherently more judgmental to value and have a higher level of associated valuation risk, namely:

- Private Equity investments;
- Pooled Investment Vehicles without published market prices;
- Private Placements;
- Longevity swap derivatives; and
- Property assets.

In addition, on 1 December 2023, the Group moved its primary investment manager to a third-party service provider. This has resulted in a transfer of the established control environment to the third-party service provider.

Defined benefit obligations

The key judgements relating to the post-employment benefit obligation liabilities include:

- discount rates;
- inflation assumptions for the UK schemes, including the basis for determining the inflation risk premium; and
- mortality assumptions.

Given the significant size of the post-employment benefit obligations at year-end, small changes to these input assumptions can lead to material changes in the net surplus.

How the scope of our audit responded to the key audit matter

Scheme assets

In relation to asset valuations, we have performed the following procedures with increased focus on those assets with a higher valuation risk as noted above:

- we obtained a detailed understanding and performed walkthroughs of management's process and reviewed relevant internal controls reports from service providers, with specific focus on understanding key controls relating to the valuation of certain asset classes;
- we tested the pension asset valuation controls for a number of the asset classes operated both by management and relevant service providers;
- we sought and obtained third party confirmations from asset managers and/or custodians or other supporting evidence to test existence and valuation as appropriate;
- in conjunction with our actuarial specialists, we challenged the fair value assumptions used to value the longevity swaps including the future projected mortality rates and discount rates;
- we assessed publicly available information on the assets (including fact sheets and prospectuses), comparing to internal and external benchmarks (i.e. market prices, relevant indices or comparably priced instruments);
- in the case of specialist asset classes, such as properties, we involved our specialists to challenge the third-party valuations performed with reference to recent market transactions, rental yields, and movements in relevant indices; and
- we tested relevant controls and performed substantive procedures over the transfer of data to the new third-party service provider.

Defined benefit obligations

In relation to post-employment benefit obligations, we have performed the following procedures:

- we obtained a detailed understanding and performed walkthroughs of management's process, with specific focus on understanding relevant controls relating to the valuation of the post-employment benefit obligation;
- we assessed the relevant control environment of the third-party administrators who maintain membership data on behalf of the Group through review of their ISAE 3402 controls reporting, and considered and responded to any findings therein;
- we assessed the competence, capability and objectivity of the actuaries engaged by management to perform the valuations of the schemes;
- in conjunction with our actuarial specialists, we challenged the assumptions used in the valuation of the defined benefit obligation, including assessing and challenging the reasonableness of the assumptions against available market data and benchmarking against peers;
- we made enquiries regarding the climate impact on the underlying assumptions;
- we considered the adjustment made to the Continuous Mortality Investigation ("CMI") 2022 mortality projections that applies an increased weighting factor to reflect the potential long-term impacts of Covid-19 on future mortality rates, with reference to advice the Group has received from its actuaries; and
- we agreed a sample of cash contributions made into the pension funds.

Key observations

We concluded our testing of the assets and are satisfied that they are appropriately valued. When taken together, we consider the discount rate, inflation and other key pension assumptions used in calculating the UK post-employment benefit obligation to be within our independently developed reasonable range.

Independent Auditor's report continued

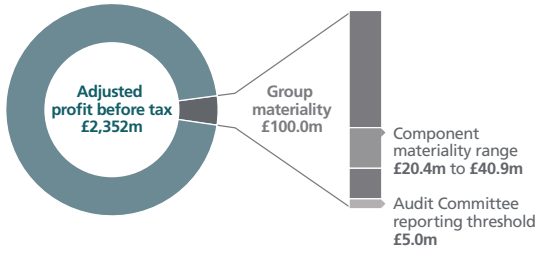
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£100.0m (2022: £87.5m)	£65.0m (2022: £34.2m)
Basis for determining materiality	4.3% of adjusted profit before tax of £2,352m (2022: 4.3% of adjusted profit before tax of £2,034m). This metric excludes adjusting items of £40m and fair value adjustments and foreign exchange movements on financial instruments of £66m, as detailed in note 2 and 6 of the financial statements.	0.4% of total assets of £18,369m, capped at 65% of group materiality (2022: 0.7% of net assets of £4,712m).
Rationale for the benchmark applied	Adjusted profit before tax was considered to be the most relevant benchmark as it is considered the most stable and comparable profit metric. The adjustments relate to items we consider appropriate to exclude and not reflective of the underlying performance of the business. We consider the measure suitable having also considered the other relevant benchmarks such as revenue, where our materiality equates to 0.8%, and net assets, where our materiality equates to 1.0%.	We consider total assets to be the key benchmark used by members of the Company in assessing financial position as the primary purpose of the entity is to hold investments.
Component materiality	The work performed on components identified in our Group audit scope (excluding the Company) was completed to a component materiality level between £20.4m and £40.9m (2022: £20.0m and £33.7m).	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	70% (2022: 70%) of Group materiality	70% (2022: 70%) of Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: – the quantum and nature of the uncorrected misstatements identified in the prior year audit; – our assessment of the potential for uncorrected misstatements in the current year; – our risk assessment, including our assessment of the overall control environment; – no substantial changes to the business have been noted from the prior year; and – the size and nature of the contract-based significant risks of material misstatement identified.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £5m (2022: £4.375m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

We performed our scoping of the Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the audit risks. This exercise has considered the relative size of each reporting unit's contribution to revenue, profit before tax and adjusted profit before tax, alongside further financial or contractual risks, which we consider to be present.

We determined which reporting units are financially significant by reference to a number of factors, including financial contribution and risk profile. This resulted in us performing full scope audits for six (2022: six) reporting units located in the UK, Saudi Arabia and the US, and included the Group's largest joint venture, MBDA S.A.S. ("MBDA"). Additionally, our audit planning identified twenty-one non-financially significant reporting units, located in the UK, Saudi Arabia, Australia, Sweden and the US, where we considered there to be a reasonable possibility of material misstatement in specific balances within the financial statements.

As a result of our risk assessment procedures and the detailed scoping exercise performed at the planning stage of our audit, we determined that it was appropriate to rotate certain non-financially significant reporting units in and out of our Group audit scope in the current year. We directed component auditors to perform an audit of specified account balances or specified audit procedures on the respective income statements and balance sheets for these reporting units.

For all other reporting units not included in full scope, specified account balance scope or specified audit procedure scope, we performed centrally directed analytical review procedures to confirm our conclusion that there was no significant risk of material misstatement in the residual population.

We also audited the consolidation process and performed audit procedures on centrally managed balances including treasury, post-employment benefit obligations, litigation and claims, goodwill, tax, and head office costs.

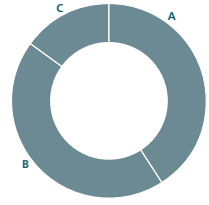
As each of the reporting units maintains separate financial records, we engaged component auditors from the Deloitte member firms in the US, UK, Saudi Arabia, Sweden and Australia to perform procedures at all the wholly owned components under our direction, supervision and review. This approach also allowed us to engage local in-scope auditors who have appropriate knowledge of local regulations to perform the audit work, under a common Deloitte audit approach.

In respect of MBDA, we engaged with the entity's non-Deloitte auditors to perform a full scope audit under our direction, supervision and review.

The Company is located in the United Kingdom and audited directly by the Group audit team.

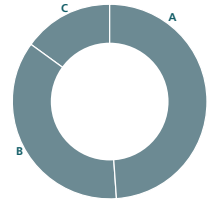
The twenty-six reporting units within either full or specified account balance scope contribute the following proportions to total Group results.

Revenue



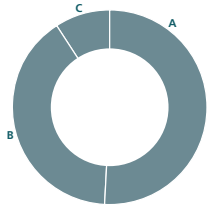
A	Full audit scope	**41%**
B	Specified account balances	**44%**
C	Specified audit procedures and review at Group level	**15%**

Profit before tax



A	Full audit scope	**49%**
B	Specified account balances	**36%**
C	Specified audit procedures and review at Group level	**15%**

Total assets



A	Full audit scope	**51%**
B	Specified account balances	**40%**
C	Specified audit procedures and review at Group level	**9%**

Independent Auditor's report continued

7.2. Our consideration of the control environment

We focussed our controls assessment on the Group's contract accounting processes. For each reporting unit where revenue is in scope, we obtain an understanding of key contract controls, such as with respect to the estimation of contract costs and the amount of contract revenue to recognise in the period. We also tested certain relevant revenue controls. At each reporting unit we also considered key controls relevant to other income statement and balance sheet items where they were considered relevant to our audit for risk assessment purposes.

The Group operates a range of IT systems which underpin the financial reporting process. These vary by business and/or by geography. For all reporting units that were subject to either a full scope or audit of specified balances, we identified relevant IT systems for the purpose of our audit work. These were typically the principal Enterprise Resource Planning ("ERP") systems for each reporting unit that underpin the general ledger and contract accounting balances, and in some cases also included ancillary/ feeder systems into the main ERP.

In the current year our controls approach was principally designed to inform our risk assessment and also to allow us to test the operating effectiveness of certain relevant revenue controls. We also assessed relevant general IT controls. The Group continues to invest in its IT systems and there is an ongoing programme of remediating any control findings where they are identified through its own assurance framework, including Internal Audit, or through the external audit. As part of our controls work, we identified certain control deficiencies that management is in the process of remediating as disclosed in the Audit Committee report on page 97. Where deficiencies have been identified and the remediation activity remained ongoing during the year, or the remediated controls were not effective throughout the whole accounting period, we did not seek to place reliance on those relevant controls for the purpose of our audit.

We also considered head office controls relating to central balances and processes such as post-employment benefit obligations, consolidation and financial reporting, treasury, tax, and the Group's planning and budgeting process.

During the course of our audit, we placed reliance on a number of relevant contract accounting controls and certain valuation controls in relation to pension scheme assets.

7.3. Our consideration of climate-related risks

We have engaged with both the central finance and sustainability functions to gain an understanding of the Group's assessment of, and the process undertaken to both identify and quantify, the Group's climate-related risks. We have engaged our climate specialists in our assessment to consider broader industry and market-wide practice.

We completed an independent climate-based risk assessment in order to consider the potential impact of climate change on the Group's financial statements incorporating both business specific knowledge and wider industry awareness. We used this to assess the completeness of the Group's identified risks. In addition, component teams have considered the local regulatory and legal environment, and therefore the likelihood of unidentified environmental claims arising. As set out by management in pages 158 and 159 to the financial statements, the areas of financial reporting principally impacted are those reliant on future forecasts or future performance, notably recoverability of goodwill.

In relation to the Group's future forecasts, we considered the appropriateness of amounts included by management in relation to climate change in the context of the underlying businesses' specific needs and existing asset base, including engaging with segment management to understand the process undertaken to identify required activities to achieve the Group's Net Zero target. We also assessed whether these disclosures reflect our understanding of the Group's approach to climate. With respect to the financial statements, we considered whether the current assessed impact of climate change required further or enhanced disclosure as part of critical accounting estimates. However, we concluded the current presentation as a factor within the estimate of goodwill, rather than a material driver of these estimates, is proportionate to the relative risk of the Group and currently assessed potential financial impact.

7.4. Working with other auditors

Our oversight of component auditors included directing the planning of their audit work and understanding their risk assessment process to identify key areas of estimates and judgement, as well as supervising the execution of their audit work. We issued detailed referral instructions to the component auditors, reviewed and supervised their work through a number of visits to each of the component auditors during the planning and performance stages of our audit, alongside frequent remote communication. Further, we challenged the related component inter-office reporting and findings from their work, reviewed underlying audit files, attended component audit closing meetings in person, or virtually where in person attendance was not possible, and held regular remote communication to interact on any related audit and accounting matters which arose. Additionally, all teams were involved in our annual planning workshop, which was led by the Group audit team. Visits to meet with component teams in the UK, US, Australia and Kingdom of Saudi Arabia were also conducted by either the lead audit partner or senior members of the engagement team.

The BAE Systems, Inc. reporting units in the US and businesses owned via BAE Systems, Inc., such as Hägglunds a Swedish subsidiary, are subject to a Department of Defence Special Security Arrangement ("SSA"), which is a US government requirement setting out specific protocols that foreign controlled companies must comply with in order to be able to undertake government defence contracts. As part of this there is restriction on the flow of information outside of the US. Therefore, for the US and related reporting units there are restrictions around access to the audit files and specific workpapers for non-US nationals. As such, and consistent with previous years, we have designed alternative procedures, including involvement of an additional independent US national partner, to ensure appropriate direction, supervision and review of the US component team.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's report continued

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal legal counsel, internal audit, directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's industry;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud; and
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations, including obtaining an understanding of the Group's bribery and corruption and whistleblowing policies.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the level of judgement involved in estimating costs to complete on long-term contracts and the subsequent impact on revenue and margin recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pension legislation, and taxation legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty, including in respect of export controls, defence contracting and anti-bribery and corruption legislation.

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue and margin recognition on long-term contracts as a key audit matter, and identified the contract with the greatest judgement related to the potential risk of fraud owing to the level of estimation uncertainty and exercise of management judgement required. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee, in-house legal counsel and where appropriate, circularising external legal counsel, concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with relevant regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 79;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 78;
- the directors' statement on fair, balanced and understandable set out on page 140;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 68;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 90; and
- the section describing the work of the Audit Committee set out on page 97.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the members on 10 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years covering the years ended 31 December 2018 to 31 December 2023.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements will form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R. We have been engaged to provide assurance on whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R and will publicly report separately to the members on this.

Claire Faulkner
Senior Statutory Auditor

For and on behalf of
Deloitte LLP Statutory Auditor

London, United Kingdom
20 February 2024

Consolidated income statement for the year ended 31 December

	Note	2023 £m	2023 Total £m	2022 £m	2022 Total £m
Continuing operations					
Revenue	2		**23,078**		21,258
Operating costs	3		**(20,917)**		(19,269)
Other income	5		**204**		215
Share of results of equity accounted investments	2,12		**208**		180
Operating profit	2		**2,573**		2,384
Finance income		**172**		47	
Finance costs		**(419)**		(442)	
Net finance costs	6		**(247)**		(395)
Profit before tax			**2,326**		1,989
Tax expense	7		**(386)**		(315)
Profit for the year			**1,940**		1,674
Attributable to:					
Equity shareholders			**1,857**		1,591
Non-controlling interests			**83**		83
			1,940		1,674
Earnings per share	8				
Basic earnings per share			**61.3p**		51.1p
Diluted earnings per share			**60.4p**		50.5p

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2023 Other reserves[1] £m	2023 Retained earnings £m	2023 Total £m	2022 Other reserves[1] £m	2022 Retained earnings £m	2022 Total £m
Profit for the year		**–**	**1,940**	**1,940**	–	1,674	1,674
Other comprehensive income							
Items that will not be reclassified to the income statement:							
Consolidated:							
Remeasurements on post-employment benefit schemes and other investments	13,24	**–**	**(669)**	**(669)**	–	2,851	2,851
Tax on items that will not be reclassified to the income statement	7	**–**	**4**	**4**	–	(357)	(357)
Share of the other comprehensive (expense)/income of associates and joint ventures accounted for using the equity method (net of tax)	12	**–**	**(25)**	**(25)**	–	116	116
Items that may be reclassified to the income statement:							
Consolidated:							
Currency translation on foreign currency net investments		**(510)**	**–**	**(510)**	1,172	–	1,172
Reclassification of cumulative currency translation reserve on disposal of subsidiaries	33	**–**	**–**	**–**	(17)	–	(17)
Fair value loss arising on hedging instruments during the year	15	**(4)**	**–**	**(4)**	(102)	–	(102)
Cumulative fair value (gain)/loss on hedging instruments reclassified to the income statement		**(19)**	**–**	**(19)**	5	–	5
Tax on items that may be reclassified to the income statement	7	**3**	**–**	**3**	24	–	24
Share of the other comprehensive income/(expense) of associates and joint ventures accounted for using the equity method (net of tax)	12	**11**	**–**	**11**	(8)	–	(8)
Total other comprehensive (expense)/income for the year (net of tax)		**(519)**	**(690)**	**(1,209)**	1,074	2,610	3,684
Total comprehensive (expense)/income for the year		**(519)**	**1,250**	**731**	1,074	4,284	5,358
Attributable to:							
Equity shareholders		**(511)**	**1,175**	**664**	1,053	4,186	5,239
Non-controlling interests		**(8)**	**75**	**67**	21	98	119
		(519)	**1,250**	**731**	1,074	4,284	5,358

1. An analysis of other reserves is provided in note 26.

Consolidated statement of changes in equity for the year ended 31 December

	Note	Attributable to equity holders of BAE Systems plc: Issued share capital £m	Share premium £m	Other reserves[1] £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2022		85	1,252	5,887	212	7,436	232	7,668
Profit for the year		–	–	–	1,591	1,591	83	1,674
Total other comprehensive income for the year		–	–	1,053	2,595	3,648	36	3,684
Total comprehensive income for the year		–	–	1,053	4,186	5,239	119	5,358
Share-based payments (inclusive of tax)	29	–	–	–	127	127	–	127
Cumulative fair value loss on hedging instruments transferred to the balance sheet (net of tax)		–	–	8	–	8	–	8
Ordinary share dividends	26	–	–	–	(802)	(802)	(166)	(968)
Purchase of own shares	26	(3)	–	3	(793)	(793)	–	(793)
At 31 December 2022		82	1,252	6,951	2,930	11,215	185	11,400
Profit for the year		**–**	**–**	**–**	**1,857**	**1,857**	**83**	**1,940**
Total other comprehensive expense for the year		**–**	**–**	**(511)**	**(682)**	**(1,193)**	**(16)**	**(1,209)**
Total comprehensive (expense)/income for the year		**–**	**–**	**(511)**	**1,175**	**664**	**67**	**731**
Share-based payments (inclusive of tax)	29	**–**	**–**	**–**	**132**	**132**	**–**	**132**
Cumulative fair value gain on hedging instruments transferred to the balance sheet (net of tax)		**–**	**–**	**(38)**	**–**	**(38)**	**–**	**(38)**
Ordinary share dividends	26	**–**	**–**	**–**	**(857)**	**(857)**	**(88)**	**(945)**
Purchase of own shares	26	**(1)**	**–**	**1**	**(558)**	**(558)**	**–**	**(558)**
Proceeds from unclaimed asset programme		**–**	**1**	**–**	**–**	**1**	**–**	**1**
At 31 December 2023		**81**	**1,253**	**6,403**	**2,822**	**10,559**	**164**	**10,723**

1. An analysis of other reserves is provided in note 26.

Consolidated balance sheet as at 31 December

	Note	2023 £m	2022 £m
Non-current assets			
Intangible assets	9	**12,099**	12,644
Property, plant and equipment	10	**3,635**	3,235
Right-of-use assets	11	**1,311**	1,425
Investment property		**57**	63
Equity accounted investments	12	**832**	787
Other investments	13	**84**	99
Contract and other receivables	14	**633**	618
Post-employment benefit surpluses	24	**804**	1,297
Other financial assets	15	**227**	322
Deferred tax assets	16	**609**	338
	20	**20,291**	20,828
Current assets			
Inventories	17	**1,156**	976
Trade, contract and other receivables	14	**6,185**	6,166
Current tax	18	**160**	133
Other financial assets	15	**205**	252
Cash and cash equivalents	19	**4,067**	3,107
		11,773	10,634
Total assets		**32,064**	31,462
Non-current liabilities			
Loans	21	**(4,432)**	(5,189)
Lease liabilities	11	**(1,273)**	(1,375)
Contract liabilities	22	**(1,955)**	(945)
Other payables	23	**(1,594)**	(1,441)
Post-employment benefit obligations	24	**(575)**	(651)
Other financial liabilities	15	**(227)**	(272)
Deferred tax liabilities	16	**(10)**	(5)
Provisions	25	**(332)**	(338)
		(10,398)	(10,216)
Current liabilities			
Loans and overdrafts	21	**(679)**	(53)
Lease liabilities	11	**(147)**	(241)
Contract liabilities	22	**(3,865)**	(3,882)
Trade and other payables	23	**(5,436)**	(4,990)
Other financial liabilities	15	**(295)**	(328)
Current tax	18	**(285)**	(103)
Provisions	25	**(236)**	(249)
		(10,943)	(9,846)
Total liabilities		**(21,341)**	(20,062)
Net assets		**10,723**	11,400
Capital and reserves			
Issued share capital	26	**81**	82
Share premium		**1,253**	1,252
Other reserves	26	**6,403**	6,951
Retained earnings		**2,822**	2,930
Total equity attributable to equity holders of BAE Systems plc		**10,559**	11,215
Non-controlling interests		**164**	185
Total equity		**10,723**	11,400

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

C N Woodburn
Chief Executive

B M Greve
Chief Financial Officer

Consolidated cash flow statement for the year ended 31 December

	Note	2023 £m	2022 £m
Profit for the year		**1,940**	1,674
Tax expense	7	**386**	315
Adjustment in respect of research and development expenditure credits	5	**(53)**	(35)
Share of results of equity accounted investments	2,12	**(208)**	(180)
Net finance costs	6	**247**	395
Depreciation, amortisation and impairment	3	**787**	767
Net gain on disposal of property, plant and equipment, and investment property	3,5	**(10)**	(3)
Gain in respect of business disposals	3,5	**–**	(93)
Gain on disposal of non-current investments	5	**–**	(7)
Cost of equity-settled employee share schemes	4	**110**	101
Movements in provisions		**–**	(54)
Difference between pension funding contributions paid and the pension charge		**(169)**	1
(Increase)/decrease in working capital:			
Inventories		**(223)**	(93)
Trade, contract and other receivables		**(287)**	(1,069)
Trade and other payables, and contract liabilities		**1,635**	1,485
Tax paid net of research and development expenditure credits received		**(395)**	(365)
Net cash flow from operating activities		**3,760**	2,839
Dividends received from equity accounted investments	12	**134**	94
Interest received		**126**	32
Principal element of finance lease receipts		**10**	9
Purchase of property, plant and equipment, and investment property		**(826)**	(599)
Purchase of intangible assets		**(131)**	(94)
Purchase of non-current other investments		**–**	(8)
Proceeds from funding related to assets		**149**	157
Proceeds from sale of property, plant and equipment, and investment property		**19**	18
Proceeds from sale of non-current other investments		**–**	7
Purchase of subsidiary undertakings and equity accounted investments, net of cash and cash equivalents acquired	12,32	**(14)**	(162)
Cash flow in respect of business disposals, net of cash and cash equivalents disposed	33	**(8)**	124
Net cash flow from investing activities		**(541)**	(422)
Interest paid		**(356)**	(269)
Equity dividends paid	26	**(857)**	(802)
Purchase of own shares	26	**(561)**	(788)
Dividends paid to non-controlling interests		**(88)**	(166)
Principal element of lease payments		**(292)**	(236)
Cash inflow from derivative financial instruments (excluding cash flow hedges)		**193**	533
Cash outflow from derivative financial instruments (excluding cash flow hedges)		**(389)**	(205)
Cash inflow from draw-down of loans		**162**	–
Cash outflow from repayment of loans		**–**	(400)
Net cash flow from financing activities	27	**(2,188)**	(2,333)
Net increase in cash and cash equivalents		**1,031**	84
Cash and cash equivalents at 1 January		**3,107**	2,917
Effect of foreign exchange rate changes on cash and cash equivalents		**(71)**	106
Cash and cash equivalents at 31 December	19	**4,067**	3,107

Notes to the Consolidated financial statements

1. Preparation of the Consolidated financial statements

Basis of preparation

BAE Systems plc (the parent company) is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the parent company's registered office is shown on page 236.

Following review, the directors have concluded that it is appropriate to adopt the going concern basis for these financial statements and have not identified any material uncertainties concerning the Group's ability to do so in the 12-month period from the date of approving them. Accordingly, 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.

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

Transactions in foreign currencies are translated at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date, with the resulting exchange differences recognised in the income statement.

Material accounting policies

The material accounting policies applied in the preparation of these Consolidated financial statements are set out in the relevant notes. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the Consolidated financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Group's financial performance and position.

Key sources of estimation uncertainty

The application of the Group's accounting policies requires the use of estimates. In response to the potential impact of risks and uncertainties, the Group undertakes risk assessments and scenario planning in order to be able to respond to potential rapid changes in circumstances. The Group considers a range of estimates and assumptions in the application of its accounting policies and management's assessment of the carrying value of assets and liabilities. In the event that these estimates or assumptions prove to be inaccurate, there may be an adjustment to the carrying values of assets and liabilities within the next year. Potential areas of the Group's financial statements which could be materially impacted may include, but are not limited to:

Accounting policy	Description	Note
Revenue and profit recognition	The Group accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Group's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired. The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks which are reliant on the knowledge and experience of the Group's project managers, engineers and finance and commercial professionals. Material changes in these estimates could affect the profitability of individual contracts. Revenue and cost estimates are reviewed and updated at least quarterly, or more frequently as determined by events or circumstances. The long-term nature of many of the Group's contracts means that judgements are made in estimating future costs on a contract, as well as when risks will be mitigated or retired. The impact of global supply chain issues, volatility in global gas and energy prices, and the ongoing response to climate change, have increased uncertainty in relation to these judgements and estimates. The Group continues to work closely and collaboratively with its key customers to deliver effectively on its contracts and commitments. However, the volume, scale, complexity and long-term nature of its programmes mean that potential sensitivities would be wide-ranging and not practicable to calculate. Owing to the potential future impact of current uncertainties, the Group's estimates and assumptions related to revenue recognition could be impacted by issues such as reduced productivity as a result of operational disruption, production delays and increased costs as a result of disruption to the supply chain, changing working practices to move towards our net zero ambitions, or where there is uncertainty as to the recovery from customers of programme costs incurred. The Group has recognised £0.3bn of revenue in respect of performance obligations satisfied or partially satisfied in previous years (2022 £0.3bn). This continues to provide an approximation of the potential revenue sensitivity arising as a result of management's estimates and assumptions for variable consideration, future costs, and technical and other risks, however it may not reflect the full potential impact on the contract receivables and contract liabilities balances.	2

Notes to the Consolidated financial statements continued

1. Preparation of the Consolidated financial statements continued

Accounting policy	Description	Note
Post-employment benefit obligations	A number of actuarial assumptions are made in assessing the value of post-employment benefit obligations, including the discount rate, inflation rate and mortality assumptions. For each of the actuarial assumptions used, there is a wide range of possible values and management estimates a point within that range that most appropriately reflects the Group's circumstances. If estimates relating to these actuarial assumptions are no longer valid or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly. Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macroeconomic issues. The impact of estimates made with regard to mortality projections may also change. Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions, including the impact of climate change, on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months. Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgement is then required to determine the presentation of any tax payable in recovering a surplus. Note 24 provides information on the key assumptions and analysis of their sensitivities.	24

Critical judgements made in applying accounting policies

In the course of preparing the Consolidated financial statements and when applying its accounting policies, the Group has been required to make judgements with regard to the actions required to enable the business to continue to meet customers' requirements in an operating environment still dominated by global economic uncertainties. No critical judgements have been made in the process of applying the Group's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the Consolidated financial statements.

Impact of climate ambitions on the Consolidated financial statements

In preparing the Consolidated financial statements management has considered the potential impact of climate change, both in the context of the disclosures included in the Strategic report, and the impact of climate-related risks and opportunities and the Group's net zero ambitions and decarbonisation activities on the Group's financial results.

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

Estimates and judgement are required in determining how the Group will pursue its net zero ambitions. These, as well as mitigating actions required from the detailed review of climate risks and opportunities identified within the TCFD disclosures on page 53, have been factored into the current and future plans of the Group through the Integrated Business Plan (IBP). The IBP is the Group's annual long-term strategy review and five-year plan for each segment, including the investment case to decarbonise.

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

- **Maintenance and investment in our infrastructure** – our products are designed and built to remain in service for decades to come, and require development and construction over a significant period of time. In order to deliver complex engineering and technologically advanced products, we continuously invest in the maintenance and upkeep of our global sites and facilities. The Group regularly invests in its facilities to ensure they are maintained and adapted to enable our operations. Regular maintenance and investing in Group infrastructure is embedded in our strategy, and the expected associated costs are reflected in our IBP. Insurance also provides underlying cover for more immediate and unexpected impacts of climate change.
- **Investment in renewable energy** – during the year, the Group has entered into a number of Power Purchase Agreements (PPAs) to invest in renewable energy, providing long-term security of energy and pricing.
- **Proactive estate management** – a large part of our business is based on sites that are leased to the Group, as reflected in our right-of-use assets in the Consolidated financial statements. Although some facilities, such as shipyards, are required to be in certain locations, many of our operations are not tied to a particular location. Given the long-term outlook of our business, future physical impacts of climate change could be mitigated through movement of activities on these sites to facilities that will be less impacted by climate change. As and when sites are identified that would benefit from relocation, the associated costs are reflected within the IBP. We have not currently identified any sites which require relocation due to climate change. We also use opportunities of new building and refurbishment to upgrade energy efficiency.

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

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

1. Preparation of the Consolidated financial statements continued

- **Property, plant and equipment** – the useful economic life of existing capitalised assets across the Group has been reviewed in light of any repairs, upgrades to existing infrastructure, or future investment in facilities that will be required as a result of the climate-related risks and opportunities identified across our sites. No significant impairment of assets has been identified from this review.
- **Right-of-use assets, lease liabilities, and financial assets and liabilities** – the Group has entered into a number of PPAs during the year to provide more sustainable energy from renewable sources, including a new wind farm development and a number of solar projects across our UK enterprise, which will be completed in Q4 2026 and 2024 respectively. Once the projects are completed, and where the accounting for these agreements falls within the scope of IFRS 16 Leases, the relevant right-of-use assets and corresponding liabilities will be recognised in the Consolidated financial statements. The associated costs of the arrangement will be recognised in line with the term of the agreement. The Group has also considered whether any embedded derivatives have arisen, within the scope of IFRS 9 Financial Instruments, as a result of the PPAs entered into during the year. None are considered to exist at the balance sheet date, however this will continue to be monitored as the associated contractual arrangements are refined and the construction of the facility approaches completion.
- **Pension plans** – in assessing the value of pension assets for the UK schemes, the Group has considered the impact of climate change which is incorporated into the cash flow projections used in valuing infrastructure investment assets and pooled investment vehicle cash flows upon which the Group bases its assessment. There is also alignment between the UK Main Scheme and the Group's climate change objectives with consistent long-term net zero ambitions. This has not materially impacted the Group's net pension position during the year.
- **Deferred tax assets** – the recoverability of deferred tax assets are dependent on the future availability of profits, which in turn could be impacted by climate-related matters. The recoverability of deferred tax assets have been reviewed against the Group's future forecasts resulting from the IBP process, which incorporate identified climate-related risks and opportunities. No material risk to the recoverability of deferred tax assets has been identified.
- **Recoverability of contract and trade receivables** – our customers are also impacted by climate-related matters. The Group actively monitors credit risk in relation to defence-related sales to government customers or subcontractors to governments, which is considered extremely low as the probability of default is insignificant. For non-government commercial customers the Group assesses the impact of any credit losses but this is not considered to be material to the financial statements.
- **Share-based payments** – the award of Performance Shares within the 2023 Director's Long-Term Incentive framework has a 10% weighting based on the reduction of Group GHG emissions (Scope 1 and 2) aligned to a science-based pathway. The ability to meet this target will impact the amount and timing of any share-based payments over the term of the policy. The introduction of this condition has not materially impacted the financial results of the Group for the current year.

Changes in accounting policies

The following standards, interpretations and amendments to existing standards became effective on 1 January 2023 and have not had a material impact on the Group:

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023;
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1 January 2023; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2023. These either have been, or are expected to be, endorsed by the UK Endorsement Board and are not expected to have a material impact on the Group:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current, effective from 1 January 2024;
- Amendments to IAS 1: Non-current Liabilities with Covenants, effective from 1 January 2024;
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements, effective from 1 January 2024;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or joint venture; and
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback, effective from 1 January 2024.

Consolidation

The financial statements of the Group consolidate the results of the Company and its subsidiary entities, and include its share of results of equity accounted investments accounted for under the equity method.

A subsidiary is an entity controlled by the Group. The Group controls a subsidiary when it is exposed, or has the rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The results of subsidiaries are included in the income statement from the date of acquisition, or up until the date of disposal.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated financial statements.

Joint ventures are accounted for under the equity method and the Consolidated income statement includes the Group's share of their profits and losses, the Consolidated statement of comprehensive income includes its share of their other comprehensive income and expense, and the Consolidated balance sheet includes its share of their net assets within equity accounted investments.

The assets and liabilities of overseas subsidiaries and equity accounted investments are translated at the exchange rates ruling at the balance sheet date. The income statements of such entities are translated at average rates of exchange during the year. All resulting exchange differences are recognised directly in a separate component of equity. Translation differences that arose before the transition date to IFRS (1 January 2004) are presented in equity, but not as a separate component. When a foreign operation is sold, the cumulative exchange differences recognised in equity since 1 January 2004 are recognised in the income statement as part of the profit or loss on sale.

Notes to the Consolidated financial statements continued

2. Segmental analysis and revenue recognition

Revenue and profit recognition

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

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. Revenue and cost estimates are reviewed and updated at least quarterly, or more frequently as determined by events and circumstances.

The Group typically enters into the following types of contracts with customers:

- to design, build or create assets uniquely available to the customer such as ships and aircraft;
- to service or maintain assets over a period of time;
- to give access to software and licences; and
- to offer bespoke services to customers, for example through training or the offering of cyber, intelligence and security capabilities.

Revenue is recognised against each of these types of contracts in line with the following accounting policies.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

In some cases, the Group provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations. As they are not provided separately, these are not considered to be insurance contracts in scope of IFRS 17 Insurance Contracts. A provision for warranties is recognised when the underlying products and services are sold (see note 25 for further details).

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as variable price mechanisms, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are typically no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles.

Whilst payment terms vary from contract to contract, on many of the Group's contracts, an element of the transaction price is received in advance of delivery. When cash is received in advance of goods or services being delivered a contract liability is recognised. The Group therefore has significant contract liabilities (note 22). The Group's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price. UK Ministry of Defence contracting rules prohibit the inclusion of financing in the sales price. Negotiations on competitive international export contracts do not make allowance for the cash payment profile.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied and control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that most of its contracts satisfy the over-time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it is performed (typically services or support contracts, for example in the case of ongoing maintenance and support of aircraft and flying capability), or the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically development or production contracts, such as in the production of ships or aircraft to customers' unique specifications).

2. Segmental analysis and revenue recognition continued

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the year. Revenue and attributable margin are calculated by reference to reliable estimates of the transaction price and total expected costs, after making suitable allowances for technical and other risks including the impact of global economic uncertainties and climate change. Revenue and associated margin are therefore recognised progressively as costs are incurred and as risks have been mitigated or retired. The Group has determined that this method appropriately depicts the Group's performance in transferring control of the goods and services to the customer.

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

When it is probable that total contract costs will exceed total contract revenue the expected loss is recognised immediately as an expense.

Software licences

The Group sells software licences either separately or together with other goods and services, including computer hardware and implementation, hosting and support. Revenue recognition in respect of software licences sold as part of a bundle of goods and services is considered separately when the licence is determined to be a separate performance obligation. Software licences either represent a right to access the Group's intellectual property as it exists throughout the licence period or a right to use the Group's intellectual property as it exists at the point in time at which the licence is granted. Revenue in respect of a right to access licence is recognised over the licence term or, in relation to perpetual licences, over the related customer relationship. Revenue in respect of a right to use licence is recognised on delivery of the software to the customer or, if the customer chooses not to access and take delivery of the software, on expiry of the licence arrangement. A software licence is considered to be a right to access the Group's intellectual property as it exists throughout the licence period if all of the following criteria are satisfied:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property;
- the licence directly exposes the customer to the effects of those activities; and
- those activities do not result in the transfer of a good or service to the customer.

Contract modifications

The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing, or creates newly enforceable, rights and obligations. The effect of a contract modification on the transaction price, and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates, is recognised in one of the following ways:

1. prospectively, as an additional, separate contract;

2. prospectively, as a termination of the existing contract and creation of a new contract; or

3. as part of the original contract using a cumulative catch-up.

The majority of the Group's contract modifications are treated under either 1 (for example, the requirement for additional distinct goods or services) or 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary and may result in different accounting outcomes.

Costs to obtain a contract

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Costs to fulfil a contract

Contract fulfilment costs in respect of over-time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

Reporting segments

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

- **Electronic Systems** 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.
- **Platforms & Services**, with operations in the US, Sweden and UK, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including naval ship repair, and the management and operation of two government-owned ammunition plants.
- **Air** comprises the Group's UK-based air build and support activities for European and international markets, US programmes, development of Future Combat Air Systems and FalconWorks®, alongside our business in the Kingdom of Saudi Arabia and interests in our European joint ventures: Eurofighter and MBDA.
- **Maritime** comprises the Group's UK-based maritime and land activities, including major submarine, ship build and support programmes as well as our Australian business.

Notes to the Consolidated financial statements continued

2. Segmental analysis and revenue recognition continued

Reporting segments continued

– **Cyber & Intelligence** comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business, which have been aggregated together due to the similarities of the services offered. Together, they cover the Group's cyber security activities for national security, central government and government enterprises.

– **HQ** comprises the Group's head office and UK-based shared services activities, together with a 49% interest in Air Astana as at 31 December 2023.

The Board (the chief operating decision maker as defined by IFRS 8 Operating Segments) monitors the results of these reporting segments to assess performance and make decisions about the allocation of resources. Segmental performance is evaluated based on key performance indicators – sales[1] and underlying EBIT[1]. Net finance costs and tax expense are managed on a Group basis.

Sales[1] and revenue by reporting segment

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

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

Sales[1] and revenue by customer location

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

1. Sales and underlying EBIT are alternative performance measures defined in the Alternative performance measures section on page 227. Sales includes both revenue from the Group's own subsidiaries as well as recognising the strategic importance in its industry of its equity accounted investments. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.
2. Sales and revenue figures for 2022 to UK and Rest of Europe have been re-presented to reflect the workshare on the Typhoon programme.

2. Segmental analysis and revenue recognition continued

Revenue from external customers by domain

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

Revenue by major customer

Revenue from the Group's three principal customers, which individually represent over 10% of total revenue, is as follows:

	2023 £m	2022 £m
US Department of Defense	**7,518**	7,439
UK Ministry of Defence	**5,766**	4,721
Kingdom of Saudi Arabia Ministry of Defence and Aviation	**2,607**	2,425

Revenue from the UK Ministry of Defence and the US Department of Defense was generated by the five reporting segments, excluding HQ. Revenue from the Kingdom of Saudi Arabia Ministry of Defence and Aviation was generated by the Air segment.

Operating profit/(loss) by reporting segment

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

Notes to the Consolidated financial statements continued

2. Segmental analysis and revenue recognition continued

Share of results of equity accounted investments within reporting segments

	Underlying EBIT[3]		Adjusting items		Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles		Net finance and tax expense		Share of results of equity accounted investments	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Electronic Systems	**10**	4	**–**	–	**–**	–	**–**	–	**10**	4
Platforms & Services	**(1)**	11	**–**	–	**–**	–	**(2)**	(4)	**(3)**	7
Air	**164**	164	**–**	–	**–**	–	**(1)**	(38)	**163**	126
Maritime	**13**	11	**–**	–	**–**	–	**(2)**	(4)	**11**	7
HQ	**55**	65	**–**	–	**–**	–	**(28)**	(29)	**27**	36
	241	255	**–**	–	**–**	–	**(33)**	(75)	**208**	180

3. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 227. It provides a measure of operating profitability, excluding one-off events or adjusting items that are not considered to be part of the ongoing operational transactions of the business, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.

Adjusting items

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 include profit or loss on business transactions, the impact of substantively enacted tax rate changes, and costs incurred which are one-off in nature, for example non-routine costs or income relating to post-retirement benefit schemes, and other items which management has determined as not being relevant to an understanding of the Group's underlying business performance.

2023

Adjusting items in 2023 comprises a £60m settlement gain on a US pension annuity buy-out recognised within Electronic Systems, Platforms & Services and Cyber & Intelligence, partially offset by £13m costs related to the Ball Aerospace acquisition in Electronic Systems, and £7m related to current and historical business acquisitions in Cyber & Intelligence and HQ.

2022

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 the pension schemes.

Performance obligations

The Group's order book, which represents its unsatisfied performance obligations, as at 31 December 2023 was £58.0bn (2022 £48.9bn).

The Group expects that approximately 34% (2022 33%) of the order book will be recognised as revenue during the next year, with the remainder largely recognised over the following four (2022 four) years.

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the year. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method appropriately depicts the Group's performance in transferring control of the goods and services to the customer. Accordingly, revenue of £0.3bn (2022 £0.3bn) was recognised during the year in respect of performance obligations satisfied or partially satisfied in previous years.

3. Operating costs

Research and development

The Group undertakes research and development activities either on its own behalf or on behalf of customers, including research and development expenditure in relation to the Group's Sustainability Accelerator Fund.

Group-funded expenditure on research, and on development activities not meeting the conditions for capitalisation, is written off as incurred and charged to the income statement.

	Note	**2023 £m**	2022 £m
Inventories recognised as an expense		**7,873**	7,094
Staff costs	4	**8,091**	7,495
Depreciation		**564**	549
Amortisation	9	**218**	215
Impairment – intangible assets	9	**5**	1
Impairment – property, plant and equipment and right-of-use assets	10,11	**–**	2
Current and historical business transaction costs	32	**20**	16
Loss on disposal of property, plant and equipment, and investment property		**1**	2
Other operating charges		**4,145**	3,895
Operating costs		**20,917**	19,269

Operating costs includes research and development expenditure of £274m (2022 £276m) funded by the Group. Development investment of £8m (2022 £11m) was capitalised during the year (see note 9).

Fees payable to the Company's auditor and its associates included in operating costs

	2023			2022		
	UK £'000	**Overseas £'000**	**Total £'000**	UK £'000	Overseas £'000	Total £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**3,043**	**–**	**3,043**	2,963	–	2,963
Fees payable to the Company's auditor and its associates for other services to the Group:						
The audit of the Company's subsidiaries	**5,444**	**6,953**	**12,397**	5,184	7,413	12,597
Total audit fees	**8,487**	**6,953**	**15,440**	8,147	7,413	15,560
Audit-related assurance services[1]	**1,281**	**52**	**1,333**	805	3	808
Other non-audit services	**13**	**–**	**13**	1	–	1
Total non-audit fees[2]	**1,294**	**52**	**1,346**	806	3	809
Total fees payable to the Company's auditor and its associates	**9,781**	**7,005**	**16,786**	8,953	7,416	16,369

1. Audit-related assurance services principally comprises fees in respect of the review of the Group's half-yearly report, along with ESEF, controls and ESG assurance work.
2. In addition to the amounts shown above, the auditor received fees of £518k (2022 £446k) for the audit of the BAE Systems UK pension schemes and £423k (2022 £534k) for the audit of BAE Systems pension schemes in the US.

Notes to the Consolidated financial statements continued

4. Employees

The average and year-end numbers of employees, excluding employees of equity accounted investments, were as follows:

	Average		At year end	
	2023 Number '000	2022 Number '000	**2023 Number '000**	2022 Number '000
Electronic Systems	**17**	16	**18**	16
Platforms & Services	**12**	12	**12**	12
Air	**20**	19	**20**	19
Maritime	**26**	23	**28**	24
Cyber & Intelligence	**11**	11	**11**	11
HQ	**3**	2	**3**	2
	89	83	**92**	84

The aggregate staff costs of Group employees, excluding employees of equity accounted investments, were as follows:

	Note	**2023 £m**	2022 £m
Wages and salaries		**6,983**	6,350
Social security costs		**536**	485
Share-based payments	29	**110**	101
Pension costs – defined contribution plans	24	**309**	299
Pension costs – defined benefit plans	24	**128**	230
Other post-employment benefit costs	24	**25**	30
		8,091	7,495

5. Other income

	Note	**2023 £m**	2022 £m
Research and development expenditure credits		**53**	35
Operating lease income from investment property		**3**	3
Operating lease income from subleasing right-of-use assets		**1**	1
Profit on disposal of businesses	33	**–**	94
Profit on disposal of non-current investment		**–**	7
Gain on sale of property, plant and equipment		**–**	1
Profit on disposal of investment property		**11**	4
Management recharges to equity accounted investments	30	**8**	8
Royalties		**28**	30
Pensions settlement gain	24	**60**	–
Other		**40**	32
Other income		**204**	215

6. Net finance costs

Finance income and finance costs

Finance income and finance costs are recognised in the income statement in the year in which they are incurred.

	Note	2023 £m	2022 £m
Interest income on cash and other financial instruments		**130**	34
Interest income on finance lease receivables	11	**1**	1
Net present value gains on provisions and other payables		**–**	12
Net interest income on post-employment benefit obligations	24	**41**	–
Finance income		**172**	47
Interest expense on loans and other financial instruments		**(286)**	(221)
Facility fees		**(14)**	(4)
Interest expense on lease liabilities	11	**(53)**	(48)
Net present value expenses on provisions and other payables		**(9)**	(4)
Net interest expense on post-employment benefit obligations	24	**–**	(37)
(Loss)/gain on remeasurement of financial instruments at fair value through profit or loss[1,2]		**(267)**	396
Foreign exchange gains/(losses)[2,3]		**210**	(524)
Finance costs		**(419)**	(442)
Net finance costs		**(247)**	(395)

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

Notes to the Consolidated financial statements continued

7. Tax expense

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in the Consolidated income statement, except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, except for transactions giving rise to equal taxable and deductible temporary differences, or to temporary differences associated with right-of-use assets and lease liabilities;
- related to investments in subsidiaries and equity accounted investments to the extent that it is probable that they will not reverse in the foreseeable future; and
- arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Tax expense

	2023 £m	2022 £m
Current tax		
UK:		
Current year	**(103)**	(115)
Adjustments in respect of prior years	**(8)**	(1)
	(111)	(116)
Overseas:		
Current year	**(477)**	(354)
Adjustments in respect of prior years	**(132)**	(15)
	(609)	(369)
Total current tax	**(720)**	(485)
Deferred tax		
UK:		
Origination and reversal of temporary differences	**(11)**	11
Adjustments in respect of prior years	**(13)**	(3)
Tax rate adjustment	**1**	4
	(23)	12
Overseas:		
Origination and reversal of temporary differences	**228**	132
Adjustments in respect of prior years	**129**	27
Tax rate adjustment	**–**	(1)
	357	158
Total deferred tax	**334**	170
Tax expense	**(386)**	(315)
UK	**(134)**	(104)
Overseas	**(252)**	(211)
Tax expense	**(386)**	(315)

7. Tax expense continued

Reconciliation of tax expense

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

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

Tax recognised in other comprehensive income

	2023			2022		
	Before tax £m	Tax benefit/ (expense) £m	Net of tax £m	Before tax £m	Tax (expense)/ benefit £m	Net of tax £m
Items that will not be reclassified to the income statement:						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**(669)**	**4**	**(665)**	2,851	(285)	2,566
Tax rate adjustment	**–**	**–**	**–**	–	(72)	(72)
Share of the other comprehensive (expense)/income of associates and joint ventures accounted for using the equity method	**(25)**	**–**	**(25)**	140	(24)	116
Items that may be reclassified to the income statement:						
Consolidated:						
Currency translation on foreign currency net investments	**(510)**	**–**	**(510)**	1,172	–	1,172
Reclassification of cumulative currency translation reserve on disposal of subsidiary	**–**	**–**	**–**	(17)	–	(17)
Fair value loss arising on hedging instruments during the year	**(4)**	**1**	**(3)**	(102)	25	(77)
Cumulative fair value (gain)/loss on hedging instruments reclassified to the income statement	**(19)**	**2**	**(17)**	5	(1)	4
Share of the other comprehensive income/(expense) of associates and joint ventures accounted for using the equity method	**12**	**(1)**	**11**	(9)	1	(8)
	(1,215)	**6**	**(1,209)**	4,040	(356)	3,684

Notes to the Consolidated financial statements continued

7. Tax expense continued

Tax recognised in other comprehensive income continued

	2023			2022		
	Other reserves £m	**Retained earnings £m**	**Total £m**	Other reserves £m	Retained earnings £m	Total £m
Current tax						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**–**	**76**	**76**	–	57	57
	–	**76**	**76**	–	57	57
Deferred tax						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**–**	**(72)**	**(72)**	–	(342)	(342)
Tax rate adjustment	**–**	**–**	**–**	–	(72)	(72)
Fair value loss arising on hedging instruments during the year	**1**	**–**	**1**	25	–	25
Cumulative fair value gain/(loss) on hedging instruments reclassified to the income statement	**2**	**–**	**2**	(1)	–	(1)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	**(1)**	**–**	**(1)**	1	(24)	(23)
	2	**(72)**	**(70)**	25	(438)	(413)
Tax on other comprehensive (expense)/income	**2**	**4**	**6**	25	(381)	(356)

8. Earnings per share

The weighted average number of ordinary shares used in calculating earnings per share is the number of ordinary shares outstanding at the start of the year, less the weighted average number of shares repurchased, plus the weighted average number of shares issued within the year (including those issued from treasury), and those shares held in trust that are no longer contingently returnable (i.e. all performance conditions attached to them are met, excluding the passage of time). The number of ordinary shares outstanding at the start of the year is calculated by taking the total number of ordinary shares in issue, less treasury shares and shares held in trust which are contingently returnable (i.e. where the performance conditions attached to those shares have not been met, excluding the passage of time). The weighted average number of ordinary shares purchased, issued or released is calculated by reference to the day on which each transaction occurred.

The weighted average number of ordinary shares used in calculating diluted earnings per share is the weighted average number of ordinary shares outstanding, plus the number of ordinary shares which are considered potentially dilutive ordinary shares in respect of share incentive schemes, should the vesting conditions have been met as at the year end.

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

	2023 Millions	2022 Millions
Ordinary shares in issue as at 1 January	**3,297**	3,404
Less:		
Treasury shares as at 1 January	**(220)**	(237)
Shares held in trust which were contingently returnable as at 1 January	**(22)**	(23)
Number of ordinary shares outstanding as at 1 January	**3,055**	3,144
Net weighted average number of ordinary shares repurchased in year	**(24)**	(32)
Weighted average number of ordinary shares used in calculating basic earnings per share	**3,031**	3,112
Incremental ordinary shares in respect of employee share schemes	**41**	41
Weighted average number of ordinary shares used in calculating diluted earnings per share	**3,072**	3,153

9. Intangible assets

Intangible assets are carried at cost or valuation, less accumulated amortisation and impairment losses.

Cost or valuation

Goodwill

Under the acquisition method for business combinations, goodwill is the acquisition-date fair value of the consideration transferred, less the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of joint ventures and associates is included in the carrying value of equity accounted investments. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Software

Software includes:

- **Computer software licences** acquired for use within the Group are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software;
- **Software development costs** that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Group-funded expenditure associated with enhancing or maintaining computer software programmes for sale is recognised as an expense as incurred; and
- **Software as a service** cloud computing arrangements are not deemed to be controlled by the Group, and costs associated with the implementation and ongoing receipt of these services are expensed as the costs are incurred.

Development costs

Development costs funded by the Group on activities applied to a plan or design for the production of new or substantially improved products are capitalised as an internally generated intangible asset if certain conditions are met. The costs capitalised include materials, direct labour and related overheads.

Programme and customer-related

Intangible assets recognised by the Group include those relating to ongoing programmes within businesses acquired, mainly in respect of customer relationships and order backlog. These assets are initially recognised at their fair value at the acquisition date.

Other

Other intangible assets includes patents, trademarks and licences.

Amortisation

Goodwill is not amortised, but is tested annually for impairment, and carried at cost less accumulated impairment losses. Amortisation on intangible assets, excluding goodwill, is charged to the income statement on a straight-line basis over their estimated useful lives.

For programme-related intangibles, amortisation is set on a programme-by-programme basis over the life of the individual programme. Amortisation for customer-related intangibles is also set on an individual basis.

The estimated useful lives are as follows:

Software	up to 5 years
Development costs	up to 10 years
Programme and customer-related	up to 15 years
Other	up to 20 years

The Group has no indefinite-life intangible assets other than goodwill.

Impairment of intangible assets, property, plant and equipment, right-of-use assets, investment property and equity accounted investments

The carrying amounts of the Group's intangible assets (excluding goodwill), property, plant and equipment, right-of-use assets, investment property and equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment, as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, impairment testing is performed annually. In estimating the asset's recoverable amount, the Group takes into consideration the impact of the Group's sustainability ambitions.

Goodwill is tested annually for impairment. For the purposes of impairment testing, goodwill is allocated to Cash-Generating Units (CGUs), or a group of CGUs on a consistent basis. The impairment calculations require the use of estimates of the future profitability and cash-generating ability of the CGU to determine its value in use based on the Group's five-year IBP and the pre-tax discount rate used in discounting these projected cash flows.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, which is the greater of its value in use and its fair value less cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses are recognised in the income statement. An impairment loss in respect of goodwill is not reversed. An impairment loss in respect of other intangible assets, property, plant and equipment, investment property and equity accounted investments is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Consolidated financial statements continued

9. Intangible assets continued

	Note	Goodwill £m	Software £m	Development costs £m	Programme and customer-related £m	Other £m	Total £m
Cost or valuation							
At 1 January 2022		15,624	893	116	551	110	17,294
Additions:							
Acquired separately		–	76	–	–	–	76
Internally developed		–	6	11	–	–	17
Business acquisitions	32	91	–	–	66	5	162
Disposals[1]		–	(34)	–	–	–	(34)
Business disposals		(191)	–	–	–	–	(191)
Transfer from property, plant and equipment		–	5	–	–	–	5
Foreign exchange adjustments		1,069	27	14	71	15	1,196
At 31 December 2022		16,593	973	141	688	130	18,525
Additions:							
Acquired separately		–	111	–	–	1	112
Internally developed		–	11	8	–	–	19
Business acquisitions	32	3	–	–	–	8	11
Disposals[1]		–	(49)	–	(3)	(2)	(54)
Foreign exchange adjustments		(545)	(25)	(8)	(39)	(4)	(621)
At 31 December 2023		**16,051**	**1,021**	**141**	**646**	**133**	**17,992**
Amortisation and impairment							
At 1 January 2022		4,714	569	79	170	46	5,578
Amortisation		–	106	2	95	15	218
Impairment charge		–	1	–	–	–	1
Disposals[1]		–	(34)	–	–	–	(34)
Business disposals	33	(168)	–	–	–	–	(168)
Foreign exchange adjustments		228	21	10	21	6	286
At 31 December 2022		4,774	663	91	286	67	5,881
Amortisation		–	103	4	97	14	218
Impairment charge		–	5	–	–	–	5
Disposals[1]		–	(49)	–	(3)	(2)	(54)
Foreign exchange adjustments		(109)	(20)	(7)	(18)	(3)	(157)
At 31 December 2023		**4,665**	**702**	**88**	**362**	**76**	**5,893**
Net book value							
At 31 December 2023		**11,386**	**319**	**53**	**284**	**57**	**12,099**
At 31 December 2022		11,819	310	50	402	63	12,644
At 1 January 2022		10,910	324	37	381	64	11,716

1. Includes intangible assets with £nil net book value no longer used by the Group.

9. Intangible assets continued

Impairment testing

The recoverable amount of the Group's goodwill is based on value in use, estimated using risk-adjusted future cash flow projections from the five-year Integrated Business Plan (IBP) and a terminal value based on the projections for the final year of that plan, with a long-term growth rate of 2% applied for each significant group of Cash-Generating Units (CGUs). The IBP process includes the use of historical experience, available government spending data and the Group's order backlog, as well as the impact of evolving issues such as global economic uncertainty and climate change. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital and adjusted for factors specific to the market in which the CGU operates, have been used in discounting these projected risk-adjusted cash flows.

Significant CGUs

A summary of the significant CGUs is presented below.

		Allocated goodwill		Pre-tax discount rate	
Cash-Generating Unit	Key assumptions	**2023 £bn**	2022 £bn	**2023 %**	2022 %
Electronic Systems	Continued demand from the US Government for electronic warfare systems (where the business has a leadership position), other technology-based solutions and growth in the commercial avionics market	**5.0**	5.2	**9**	9
Platforms & Services	Continued demand in the Group's principal markets for existing and successor military tracked vehicles, naval guns, missile launchers, artillery systems, munitions, upgrade programmes and support, and in the US for complex infrastructure, maritime and aviation services	**3.6**	3.8	**9**	9
Maritime	Continued demand, primarily from the UK and Australian Governments, for existing and successor programmes for submarines, complex warships and munitions. This includes upgrade and sustainment programmes in these areas as well as in the field of air, electronic systems and wide-area surveillance	**1.5**	1.5	**10**	10

The headroom, calculated as the difference between net assets including allocated goodwill as at 31 December 2023 and the value in use calculations, for the CGUs listed above is shown below. The table also shows the headroom assuming a 1% reduction in the terminal value growth rate assumption, a 2% increase in the discount rate and a 1% reduction in the operating margin used in the value in use calculations, considered to be reasonable worst-case scenarios in the current economic climate.

	Headroom as at 31 December		Headroom assuming a 1% reduction in the terminal value growth rate assumption		Headroom assuming a 2% increase in the discount rate		Headroom assuming a 1% reduction in operating margin	
Cash-Generating Unit	**2023 £bn**	2022 £bn	**2023 £bn**	2022 £bn	**2023 £bn**	2022 £bn	**2023 £bn**	2022 £bn
Electronic Systems	**6.0**	5.4	**4.3**	3.8	**2.5**	2.0	**5.2**	4.5
Platforms & Services	**2.5**	2.1	**1.6**	1.3	**0.6**	0.3	**1.9**	1.5
Maritime	**5.7**	4.2	**4.8**	3.5	**2.6**	1.7	**4.8**	3.5

Other CGUs

The remaining goodwill balance of £1.3bn (2022 £1.3bn) is allocated across multiple CGUs. No individual CGU exceeds 10% of the Group's total goodwill balance. The majority of the projected cash flows within these CGUs is primarily underpinned by expected levels of government spending on defence, aerospace and security, and the Group's ability to capture a broadly consistent market share.

Capital commitments

At 31 December 2023, capital expenditure of £44m (2022 £41m) in respect of intangible assets was contracted for but not provided for in the accounts.

Notes to the Consolidated financial statements continued

10. Property, plant and equipment

Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred. The reimbursement of the cost of an item of property, plant and equipment by way of a government grant is presented as deferred income and recognised in the income statement on a basis consistent with the depreciation of the asset over its estimated useful life.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided, normally on a straight-line basis, to write off the cost of items of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Buildings	up to 50 years, or the lease term if shorter
Plant and machinery:	
Computing equipment and motor vehicles	4 to 5 years
Other equipment	10 to 20 years, or the project life if shorter

No depreciation is provided on freehold land and assets in the course of construction.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date, taking into consideration the impact on the assets' useful economic lives as a result of the Group's sustainability ambitions.

Impairment

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 9.

10. Property, plant and equipment continued

	Note	Land and buildings £m	Plant and machinery £m	Total £m
Cost				
At 1 January 2022		2,754	3,756	6,510
Additions		302	289	591
Business acquisitions	32	–	1	1
Transfer to intangible assets		–	(5)	(5)
Reclassification between categories		16	(16)	–
Disposals		(45)	(131)	(176)
Foreign exchange adjustments		143	227	370
At 31 December 2022		3,170	4,121	7,291
Additions		413	411	824
Reclassification between categories		(38)	38	–
Disposals		(33)	(104)	(137)
Foreign exchange adjustments		(82)	(127)	(209)
At 31 December 2023		**3,430**	**4,339**	**7,769**
Depreciation and impairment				
At 1 January 2022		1,191	2,467	3,658
Depreciation charge for the year		109	218	327
Impairment charge		–	2	2
Disposals		(40)	(125)	(165)
Foreign exchange adjustments		79	155	234
At 31 December 2022		1,339	2,717	4,056
Depreciation charge for the year		112	232	344
Disposals		(30)	(100)	(130)
Foreign exchange adjustments		(47)	(89)	(136)
At 31 December 2023		**1,374**	**2,760**	**4,134**
Net book value				
At 31 December 2023[1]		**2,056**	**1,579**	**3,635**
At 31 December 2022[1]		1,831	1,404	3,235
At 1 January 2022		1,563	1,289	2,852

1. Includes £1,145m (2022 £991m) of assets at Barrow-in-Furness, UK funded by the UK government.

Assets in the course of construction

Included in the above analysis, the following balances relate to those assets which are still in the course of construction:

	Land and buildings £m	Plant and machinery £m	Total £m
At 31 December 2023	**750**	**394**	**1,144**
At 31 December 2022	547	292	839

Capital commitments

At 31 December 2023, capital expenditure of £442m (2022 £403m) in respect of property, plant and equipment was contracted for but not provided for in the Consolidated financial statements.

Assets pledged as security

Within the Land and buildings balance, there are assets with a carrying amount of £62m (2022 £nil) which the Group cannot pledge as security for borrowings, or sell to another entity.

Notes to the Consolidated financial statements continued

11. Leases

The Group as lessee

All leases in which the Group is lessee are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between repayment of the lease liability and finance cost. The finance cost is charged to the income statement over the lease term to produce a constant periodic rate of interest on the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease. Where this rate is not determinable, the Group's incremental borrowing rate is used, which is the interest rate the Group would have to pay to borrow the amount necessary to obtain an asset of similar value, in a similar economic environment with similar terms and conditions.

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs.

The carrying amounts of the Group's right-of-use assets are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 9.

Payments in respect of short-term leases, low-value leases and leases of intangible assets are charged to the income statement on a straight-line basis over the lease term.

The Group leases land, buildings, vehicles and equipment under non-cancellable lease arrangements. The leases have varying terms, including escalation clauses, renewal rights and purchase options. None of these terms represents unusual arrangements or creates material onerous or beneficial rights or obligations.

Right-of-use assets

		2023			2022		
	Note	**Land and buildings £m**	**Plant and machinery £m**	**Total £m**	Land and buildings £m	Plant and machinery £m	Total £m
Net book value at 1 January		**1,400**	**25**	**1,425**	1,075	16	1,091
Additions during the year		**115**	**19**	**134**	397	20	417
Business acquisitions	32	**–**	**–**	**–**	1	–	1
Lease modifications during the year		**20**	**(1)**	**19**	50	1	51
Depreciation charge for the year		**(202)**	**(12)**	**(214)**	(205)	(12)	(217)
Business disposals	33	**–**	**–**	**–**	(3)	–	(3)
Foreign exchange adjustments		**(53)**	**–**	**(53)**	85	–	85
Net book value at 31 December		**1,280**	**31**	**1,311**	1,400	25	1,425

11. Leases continued

Lease liabilities

A maturity analysis of the future undiscounted lease payments in respect of the Group's lease liabilities is presented in the table below:

	2023 £m	2022 £m
Payments due:		
Within one year	**197**	290
Between one and five years	**537**	632
Later than five years	**1,229**	1,227
Total undiscounted gross payments	**1,963**	2,149
Deduct: Impact of discounting	**(543)**	(533)
Lease liabilities	**1,420**	1,616

The Group is also committed to future undiscounted lease payments of £68m in respect of leases which had not yet commenced at 31 December 2023 (2022 £5m).

The total cash outflow for leases in the year ended 31 December 2023, including short-term leases and low-value leases, amounted to £376m (2022 £314m).

Amounts recognised in the Consolidated income statement

	2023 £m	2022 £m
Included in operating costs:		
Depreciation on right-of-use assets	**(214)**	(217)
Short-term lease expense	**(25)**	(25)
Low-value lease expense	**(5)**	(5)
	(244)	(247)
Included in net finance costs:		
Interest income on finance lease receivables	**1**	1
Interest expense on lease liabilities	**(53)**	(48)
	(52)	(47)

Notes to the Consolidated financial statements continued

12. Equity accounted investments

Equity accounted investments comprise joint ventures and associates. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. An associate is an entity over which the Group has significant influence but not control or joint control.

The Group recognises its share of the profit or loss and other comprehensive income of equity accounted investments as a separate line in the Consolidated income statement and Consolidated statement of comprehensive income, respectively.

The carrying value of an equity accounted investment comprises the Group's share of net assets and purchased goodwill, and is assessed for impairment as a single asset. The carrying amounts of the Group's equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment, in accordance with the policy shown in note 9.

Group summary

The Group has two individually material joint ventures which are Eurofighter Jagdflugzeug and MBDA, the carrying values of which are included on the next page.

The Group also has a number of individually immaterial joint ventures and associates, the carrying values of the most significant at 31 December 2023 are as follows: Rheinmetall BAE Systems Land (RBSL) (£84m); Air Astana (£84m); FADEC International (£47m); Panavia Aircraft (£20m); and FNSS (£16m). The following table shows a reconciliation of the opening to closing carrying values for both the Group's principal and other joint ventures and associates.

	Principal equity accounted investments £m	Other joint ventures £m	Other associates £m	Total £m
At 1 January 2022	354	115	85	554
Group's share of profit for the year	126	46	8	180
Group's share of remeasurements on post-employment benefit schemes	140	–	–	140
Tax on items that will not be reclassified to the income statement	(24)	–	–	(24)
Foreign exchange adjustments	(10)	–	(1)	(11)
Amounts (debited)/credited to hedging reserve	(2)	4	–	2
Tax on items that may be reclassified to the income statement	1	–	–	1
Group's share of total comprehensive income for the year	231	50	7	288
Dividends received from equity accounted investments	(83)	(11)	–	(94)
Foreign exchange adjustments	26	13	–	39
At 31 December 2022	528	167	92	787
Group's share of profit for the year	165	39	4	208
Group's share of remeasurements on post-employment benefit schemes	(24)	(1)	–	(25)
Foreign exchange adjustments	3	3	–	6
Amounts credited to hedging reserve	2	4	–	6
Tax on items that may be reclassified to the income statement	(1)	–	–	(1)
Group's share of total comprehensive income for the year	145	45	4	194
Acquisition of equity accounted investments	–	5	–	5
Dividends received from equity accounted investments	(110)	(24)	–	(134)
Foreign exchange adjustments	(12)	(8)	–	(20)
At 31 December 2023	**551**	**185**	**96**	**832**

12. Equity accounted investments continued

Principal equity accounted investments

Joint venture	Principal activities	Shareholding	Principally operates in
Eurofighter Jagdflugzeug	Management and control of the European Typhoon programme	33%	Germany
MBDA	Development and manufacture of guided weapons	37.5%	Europe

The following tables summarise the financial information of the Group's principal equity accounted investments included in their own financial statements, as adjusted for fair value adjustments at acquisition and differences in accounting policies, and reconcile this to the Group's interest in those equity accounted investments.

	2023		2022	
	Eurofighter Jagdflugzeug £m	**MBDA £m**	Eurofighter Jagdflugzeug £m	MBDA £m
Revenue (100%)	**4,169**	**3,871**	3,693	3,590
Underlying EBIT[1] excluding depreciation and amortisation	**23**	**568**	19	574
Depreciation and amortisation	**(4)**	**(138)**	(4)	(152)
Finance income	**3**	**145**	2	25
Finance costs	**(3)**	**(13)**	(2)	(13)
Tax expense	**(9)**	**(130)**	(6)	(105)
Profit for the year (100%)	**10**	**432**	9	329
Remeasurements on post-employment benefit schemes, net of tax	**–**	**(65)**	–	310
Amounts credited/(debited) to hedging reserve, net of tax	**–**	**4**	–	(4)
Foreign exchange adjustments	**–**	**8**	(5)	(24)
Total comprehensive income for the year (100%)	**10**	**379**	4	611
Group's share of total comprehensive income for the year	**3**	**142**	1	230
Non-current assets	**29**	**2,717**	30	2,464
Cash and cash equivalents	**43**	**4,109**	42	2,650
Current assets excluding cash and cash equivalents	**9,089**	**4,626**	8,591	4,697
Current assets	**9,132**	**8,735**	8,633	7,347
Non-current financial liabilities excluding trade and other payables, and provisions	**–**	**(15)**	–	(10)
Other non-current liabilities	**(45)**	**(85)**	(47)	(20)
Non-current liabilities	**(45)**	**(100)**	(47)	(30)
Current financial liabilities excluding trade and other payables, and provisions	**(9)**	**–**	(10)	–
Other current liabilities	**(9,077)**	**(9,942)**	(8,581)	(8,416)
Current liabilities	**(9,086)**	**(9,942)**	(8,591)	(8,416)
Net assets (100%)	**30**	**1,410**	25	1,365

1. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 227.

	2023			2022		
	Eurofighter Jagdflugzeug £m	**MBDA £m**	**Total £m**	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m
Group's share of net assets	**10**	**529**	**539**	8	512	520
Goodwill adjustment	**–**	**12**	**12**	–	8	8
Carrying value	**10**	**541**	**551**	8	520	528

	2023			2022		
	Eurofighter Jagdflugzeug £m	**MBDA £m**	**Total £m**	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m
Dividends received	**2**	**108**	**110**	3	80	83

Contingent liabilities

The Group is not aware of any material contingent liabilities in respect of its equity accounted investments.

Notes to the Consolidated financial statements continued

13. Other investments

Other investments are carried at fair value through other comprehensive income.

	2023 £m	2022 £m
Other investments at fair value through other comprehensive income	**84**	99

14. Trade, contract and other receivables

Trade and contract receivables are measured at amortised cost under IFRS 9 Financial Instruments as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Contract receivables represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprise costs incurred plus attributable margin.

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

The Group writes off a receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

US deferred compensation plan assets are measured at fair value in accordance with IAS 19 Employee Benefits.

	Note	2023 £m	2022 £m
Non-current			
Contract receivables		**18**	20
Prepayments		**215**	201
Accrued income		**–**	1
US deferred compensation plan assets		**340**	328
Finance lease receivables		**15**	24
Other receivables		**45**	44
		633	618
Current			
Contract receivables		**3,377**	3,473
Trade receivables		**1,196**	1,506
Amounts owed by equity accounted investments	30	**77**	75
Prepayments		**933**	509
Accrued income		**19**	62
US deferred compensation plan assets		**42**	39
Finance lease receivables		**9**	10
Other receivables[1]		**532**	492
		6,185	6,166

1. Includes £231m (2022 £329m) in relation to VAT receivable in the Kingdom of Saudi Arabia.

Trade receivables are stated net of a provision for expected credit losses. Disclosures relating to the ageing of trade receivables and movements in the provision for expected credit losses are provided in note 15.

15. Other financial assets and liabilities and financial risk management

Derivative financial instruments and hedging activities

The international nature of the Group's business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the Group's policy is to hedge all material firm transactional exposures.

The Group uses interest rate derivative instruments to manage the Group's exposure to interest rate fluctuations on its borrowings and deposits by varying the proportion of fixed rate debt relative to floating rate debt over the forward time horizon.

The Group uses foreign exchange derivative instruments to manage the Group's exposure to currency fluctuations on its borrowings and deposits with the Group's subsidiaries and equity accounted investments.

In accordance with its Treasury Policy, the Group does not hold derivative financial instruments for trading purposes.

The Group aims to achieve hedge accounting treatment for all derivatives that hedge material foreign currency exposures.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the balance sheet date. The fair values are estimated by discounting expected future cash flows based on reputable third-party forecast data, and then adjusting for credit risk, including the Group's own credit risk, and market risk.

Fair value through profit or loss

Gains and losses on derivative financial instruments that are not designated as cash flow hedges are recognised within net finance costs in the income statement for the year.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows relating to a highly-probable forecast transaction (income or expense) or recognised asset or liability, the effective portion of any change in the fair value of the instrument is recognised in other comprehensive income and presented in the hedging reserve in equity. Amounts recognised in equity are removed from the hedging reserve and included in the cost of the underlying transaction or reclassified to the income statement when the underlying transaction affects profit or loss. These amounts are presented within the same line item in the income statement as the underlying transaction, typically revenue or operating costs. The ineffective portion of any change in the fair value of the instrument is recognised in the income statement within net finance costs immediately. The Group treats the foreign currency basis element of the designated foreign exchange derivative hedging instruments as a cost of hedging and as such it is excluded from the hedge designation. Any hedges entered into on behalf of equity accounted investments (note 30) are classified as cash flow hedges.

	2023		2022	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Cash flow hedges – foreign exchange contracts	**127**	**(170)**	175	(237)
Debt-related derivative financial instruments	**100**	**(57)**	147	(35)
	227	**(227)**	322	(272)
Current				
Cash flow hedges – foreign exchange contracts	**162**	**(184)**	229	(249)
Debt-related derivative financial instruments	**–**	**(21)**	–	–
Other foreign exchange/interest rate contracts	**43**	**(90)**	23	(79)
	205	**(295)**	252	(328)

Debt-related derivative financial instruments

The debt-related derivative financial instruments represent the fair value of cross-currency, interest rate and foreign exchange derivatives relating to the US$800m 3.8% bond, repayable 2024, the US$500m 7.5% bond, repayable 2027, the US$1,300m 3.4% bond, repayable 2030, and the US$400m 5.8% bond, repayable 2041 (see note 21).

Notes to the Consolidated financial statements continued

15. Other financial assets and liabilities and financial risk management continued

Interest rate risk

The Group's objective is to manage its exposure to interest rate fluctuations on borrowings through varying the proportion of fixed-rate debt relative to floating rate debt with derivative instruments, including interest rate and cross-currency swaps.

The Group's interest rate management policy is that a minimum of 50% (2022 50%) and a maximum of 90% (2022 90%) of borrowings is maintained at fixed interest rates. At 31 December 2023, the Group had 86% (2022 85%) of fixed-rate debt and 14% (2022 15%) of floating rate debt based on a gross debt of £5.1bn (2022 £5.0bn), including debt-related derivative financial assets.

Based on contracted maturities and/or repricing dates, the following amounts are exposed to interest rate risk over the future as shown below:

	2023			2022		
	Within one year £m	**Between one and two years £m**	**Later than two years £m**	Within one year £m	Between one and two years £m	Later than two years £m
Cash and cash equivalents	**4,067**	**–**	**–**	3,107	–	–
Loans and overdrafts	**703**	**–**	**–**	745	745	–

The floating rate debt has been predominantly achieved by entering into interest rate swaps which swap the fixed-rate US dollar interest payable on debt into either floating rate sterling or US dollars. At the end of 2023, the Group had a total of $0.9bn (2022 $0.9bn) of this type of swap outstanding with a weighted average duration of 0.8 years (2022 1.8 years). In respect of the fixed-rate debt, the weighted average period in respect of which interest is fixed was 12.4 years (2022 12.9 years). Given the level of short-term interest rates during the year, the average cost of the floating rate debt was 7.7% (2022 4.2%) on US dollars. The cost of the fixed-rate debt was 3.7% (2022 3.7%).

Additionally, the Group has entered into $1.0bn (£0.8bn) of interest rate derivatives to partially manage the Group's exposure to fixed interest rate risk on the anticipated raising of capital in 2024.

IBOR reform

The Group has interest rate swaps that reference USD LIBOR, with a combined notional value of $0.9bn, that mature in October 2024. During the year, the Group adhered to the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol, which will be used to calculate the USD floating rates applicable for these interest rate swaps between the period post cessation of USD LIBOR and maturity of the swaps. The Group has no other derivatives that reference IBOR benchmarks.

Sensitivity analysis

A change of 100 basis points in short-term rates applied to the average fixed/floating mix and level of borrowings would vary the interest cost to the Group by approximately £7m (2022 £7m).

In respect of cash deposits, given the fluctuation in the Group's working capital requirements, cash is generally invested for short-term periods based at floating-interest rates. A change of 100 basis points in the average interest rates during the year applied to the average cash deposits would vary the interest receivable by approximately £29m (2022 £19m). Should interest rates fluctuate by a different rate to those disclosed, the impact can be linearly interpolated.

15. Other financial assets and liabilities and financial risk management continued

Liquidity risk

Contractual cash outflows on financial liabilities

The contracted cash outflows on loans and overdrafts, derivative financial instruments and other financial instruments at the reporting date are shown below, classified by maturity. The cash outflows are shown on a gross basis, are not discounted, are translated at the spot rate and include estimated interest payments where applicable. Contracted cash outflows reflect the gross cash outflow on derivative financial instruments and exclude the broadly offsetting cash inflows for the receive leg of derivatives that are settled separately to the pay leg.

	2023					2022				
		Contracted cash outflow					Contracted cash outflow			
	Carrying amount £m	**Within one year £m**	**Between one and five years £m**	**Later than five years £m**	**Total £m**	Carrying amount £m	Within one year £m	Between one and five years £m	Later than five years £m	Total £m
Cash outflows without directly offsetting inflows										
Accruals[1]	**(1,758)**	**(1,739)**	**(19)**	**–**	**(1,758)**	(2,025)	(1,997)	(28)	–	(2,025)
Trade and other payables[2]	**(2,681)**	**(2,660)**	**(21)**	**–**	**(2,681)**	(2,154)	(2,126)	(28)	–	(2,154)
Lease liabilities	**(1,420)**	**(197)**	**(537)**	**(1,229)**	**(1,963)**	(1,616)	(290)	(632)	(1,227)	(2,149)
Loans and overdrafts	**(5,111)**	**(825)**	**(1,585)**	**(4,794)**	**(7,204)**	(5,242)	(199)	(2,377)	(4,893)	(7,469)
	(10,970)					(11,037)				
Cash outflows with largely offsetting inflows[3]										
Cash flow hedges – financial assets	**289**	**(6,003)**	**(4,623)**	**(135)**	**(10,761)**	404	(7,434)	(4,444)	(443)	(12,321)
Cash flow hedges – financial liabilities	**(354)**	**(6,775)**	**(6,127)**	**(477)**	**(13,379)**	(486)	(8,258)	(5,758)	(741)	(14,757)
Other foreign exchange/interest rate contracts – financial assets	**43**	**(2,674)**	**–**	**–**	**(2,674)**	23	(2,364)	–	–	(2,364)
Other foreign exchange/interest rate contracts – financial liabilities	**(90)**	**(1,468)**	**–**	**–**	**(1,468)**	(79)	(1,693)	–	–	(1,693)
Debt-related derivatives – financial assets	**100**	**(23)**	**(370)**	**(36)**	**(429)**	147	(58)	(534)	(1,124)	(1,716)
Debt-related derivatives – financial liabilities	**(78)**	**(92)**	**(141)**	**(1,053)**	**(1,286)**	(35)	(47)	(47)	–	(94)
	(90)					(26)				
	(11,060)					(11,063)				

1. Accruals presented in the table excludes £910m (2022 £719m) of accruals which are non-financial liabilities.
2. Trade and other payables excludes other taxes and social security costs, deferred income and US deferred compensation plan liabilities (see note 23) on the basis that these are non-financial liabilities.
3. Cash outflows in relation to derivatives presented in this table do not include the cash inflows which would be received when closing out the trades. These cash inflows are expected to largely offset all outflows presented within this table.

Borrowing facilities

The Group's objective is to maintain adequate undrawn committed borrowing facilities.

At 31 December 2023, the Group had a committed Revolving Credit Facility (RCF) of £2bn (2022 £2bn). The RCF was undrawn throughout the year. The RCF also acts as a backstop to Commercial Paper issued by the Group. In 2023, the Group entered into a new five-year RCF, with two one-year extension options, taking the expected maturity of the facility to 2030. At 31 December 2023, the Group had no Commercial Paper in issue (2022 £nil).

At 31 December 2023, the Group also had a committed undrawn bridge loan facility of US$4.0bn (£3.1bn) to support the Group's financing requirements for the acquisition of Ball Aerospace which completed on 16 February 2024. Prior to completion, the full bridging facility was drawn down. See note 34 on page 213.

Notes to the Consolidated financial statements continued

15. Other financial assets and liabilities and financial risk management continued

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 currency and notional amount of the designated hedging instruments match the currency and principal amounts of the forecast transactions being hedged, therefore the hedging instruments and hedged items have values which will generally move in opposite directions because of the same hedged risk. As the critical terms of the hedging instruments match those of the hedged items, an economic relationship can be demonstrated on an ongoing basis.

The hedge ratio is 1:1 on the basis that the notional amount of the designated hedging instruments matches the principal amount of the forecast foreign currency sales/purchases designated as the hedged items. The Group does not designate groups of items with offsetting risk positions as hedged items.

The Group considers the potential sources of hedge ineffectiveness to be:

– valuation adjustments for credit risk made to derivative hedging instruments at each hedge effectiveness measurement date;
– changes to the timing and amount of forecast transactions; and
– non-occurrence of the designated hedged items.

Ineffectiveness due to foreign currency basis was highly immaterial.

The Group enters into derivative contracts with varying maturities up to 2032. The following table presents the sterling nominal amounts of the foreign currency contracts used to hedge foreign currency risk, split by maturity profile, along with the exchange rate:

		2023				2022			
		Currency purchased		Currency sold		Currency purchased		Currency sold	
(Purchase)/sale contracts	Maturity date	Weighted average hedged rate	Notional value of currency purchased £m	Weighted average hedged rate	Notional value of currency sold £m	Weighted average hedged rate	Notional value of currency purchased £m	Weighted average hedged rate	Notional value of currency sold £m
Sterling/US dollar	Within one year	**1.26**	**(2,762)**	**1.27**	**2,657**	1.23	(2,790)	1.24	3,060
	Between one and five years	**1.26**	**(1,608)**	**1.27**	**1,898**	1.28	(1,423)	1.30	2,171
	Later than five years	**1.33**	**(13)**	**1.40**	**5**	1.40	(31)	1.29	19
Sterling/euro	Within one year	**1.12**	**(2,725)**	**1.12**	**2,525**	1.12	(3,689)	1.12	3,299
	Between one and five years	**1.10**	**(2,913)**	**1.09**	**2,702**	1.09	(2,576)	1.09	2,583
	Later than five years	**1.07**	**(136)**	**1.07**	**133**	1.08	(383)	1.07	388
Other	Within one year	**n/a**	**(2,208)**	**n/a**	**2,209**	n/a	(2,873)	n/a	2,869
	Between one and five years	**n/a**	**(1,795)**	**n/a**	**1,781**	n/a	(1,437)	n/a	1,455
	Later than five years	**n/a**	**(333)**	**n/a**	**326**	n/a	(379)	n/a	378
Cash flow hedges			**(14,493)**		**14,236**		(15,581)		16,222

The effect of cash flow hedges on the Group's financial position and performance for the year is as follows:

	2023				2022			
(Purchase)/sale contracts	Change in the value of hedging instruments since 1 January £m	Change in the value of hedged items since 1 January £m	Notional amount £m	Carrying amount £m	Change in the value of hedging instruments since 1 January £m	Change in the value of hedged items since 1 January £m	Notional amount £m	Carrying amount £m
Sterling/US dollar	**44**	**(44)**	**177**	**(29)**	(106)	106	1,006	(102)
Sterling/euro	**(5)**	**5**	**(414)**	**(2)**	9	(9)	(378)	17
Other	**(43)**	**43**	**(20)**	**(34)**	(5)	5	13	3
Cash flow hedges	**(4)**	**4**	**(257)**	**(65)**	(102)	102	641	(82)

15. Other financial assets and liabilities and financial risk management continued

Currency risk continued

Sensitivity analysis

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 £229m (2022 £258m).

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 £16m (2022 £94m). 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 (2022 £35m).

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.

The carrying amount of the Group's financial assets represents the maximum exposure to credit risk.

Movements on the provision for expected credit losses are as follows:

	2023 £m	2022 £m
At 1 January	**20**	15
Net remeasurement of loss allowance	**3**	7
Amounts written off	**(3)**	(2)
At 31 December	**20**	20

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 considered insignificant.

The Group writes off a receivable when there is evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation. None of the trade receivables that were written off during the year are still subject to enforcement activity. The ageing of trade receivables is detailed below:

	2023			2022		
	Gross £m	**Provision £m**	**Net £m**	Gross £m	Provision £m	Net £m
Not past due	**822**	**–**	**822**	969	–	969
Up to 180 days overdue	**336**	**(1)**	**335**	499	(1)	498
Past 180 days overdue	**58**	**(19)**	**39**	58	(19)	39
	1,216	**(20)**	**1,196**	1,526	(20)	1,506

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.

Surplus cash held by the businesses over and above balances required for working capital management is loaned to the Group's centralised treasury department. Surplus cash is invested in instant-access current accounts, short-term deposits and money market funds, choosing instruments with appropriate maturities or sufficient liquidity to provide adequate headroom as determined by cash flow forecasts.

The Group's objective is to monitor and control counterparty credit risk and credit limit utilisation. The Group adopts a conservative approach to the investment of its surplus cash which is deposited for short periods with financial institutions with investment-grade (BBB- and above) credit ratings. The cash and cash equivalents balance at 31 December 2023 of £4,067m (2022 £3,107m) was invested with 42 (2022 44) financial institutions. A credit limit is allocated to each institution taking account of its market capitalisation, credit rating and credit default swap price. The cash and cash equivalents of the Group are invested in non-speculative financial instruments which are usually highly liquid, such as short-term deposits. Therefore, the Group believes it has reduced its exposure to counterparty credit risk through this process.

Notes to the Consolidated financial statements continued

15. Other financial assets and liabilities and financial risk management continued

Credit risk continued

The cash and cash equivalents balance is subject to review for impairment under IFRS 9, and due to the high credit ratings of the counterparties set out below, no impairment has been recognised within the year:

Counterparty credit rating at 31 December	**2023**	2022
AAA to AA-	**60%**	67%
A+ to A-	**39%**	32%
BBB+ to BBB-	**1%**	1%

Offsetting financial assets and liabilities

Financial assets and liabilities are offset, and the net amount reported in the balance sheet, when there is a legally enforceable right to offset the recognised amounts. The following table sets out the Group's financial assets and financial liabilities which are subject to a master netting agreement. The master netting agreements regulate settlement amounts in the event a party defaults on their obligations.

	2023			2022		
	Balance sheet £m	**Amounts not offset £m**	**Net balances £m**	Balance sheet £m	Amounts not offset £m	Net balances £m
Assets						
Other financial assets	**432**	**(382)**	**50**	574	(455)	119
Liabilities						
Other financial liabilities	**(522)**	**382**	**(140)**	(600)	455	(145)

16. Deferred tax

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Property, plant and equipment	**17**	48	**(118)**	(126)	**(101)**	(78)
Intangible assets	**41**	15	**(2)**	(2)	**39**	13
Capitalised research and development	**458**	149	**–**	–	**458**	149
Provisions and accruals	**229**	233	**–**	–	**229**	233
Goodwill	**–**	–	**(352)**	(352)	**(352)**	(352)
Pension/post-employment schemes:						
Deficits	**80**	97	**–**	–	**80**	97
UK additional pension contributions	**–**	60	**–**	–	**–**	60
US deferred compensation plans	**106**	102	**–**	–	**106**	102
Share-based payments	**94**	64	**–**	–	**94**	64
Financial instruments	**21**	17	**(1)**	(1)	**20**	16
Other items, including tax losses carried forward	**28**	45	**(2)**	(16)	**26**	29
Deferred tax assets/(liabilities)	**1,074**	830	**(475)**	(497)	**599**	333
Set off of tax	**(465)**	(492)	**465**	492	**–**	–
Net deferred tax assets/(liabilities)	**609**	338	**(10)**	(5)	**599**	333

16. Deferred tax continued

Movement in temporary differences during the year

	At 1 January 2023 £m	Foreign exchange adjustments £m	Acquisitions and disposals £m	Recognised in income £m	Recognised in equity £m	**At 31 December 2023 £m**
Property, plant and equipment	(78)	7	–	(30)	–	**(101)**
Intangible assets	13	–	–	26	–	**39**
Capitalised research and development	149	(17)	–	326	–	**458**
Provisions and accruals	233	(13)	–	9	–	**229**
Goodwill	(352)	21	–	(21)	–	**(352)**
Pension/post-employment schemes:						
Deficits	97	(3)	–	(2)	(12)	**80**
UK additional pension contributions	60	–	–	–	(60)	**–**
US deferred compensation plans	102	(6)	–	10	–	**106**
Share-based payments	64	–	–	13	17	**94**
Financial instruments	16	–	–	1	3	**20**
Other items, including tax losses carried forward	29	(5)	–	2	–	**26**
	333	(16)	–	334	(52)	**599**

	At 1 January 2022 £m	Foreign exchange adjustments £m	Acquisitions and disposals £m	Recognised in income £m	Recognised in equity £m	At 31 December 2022 £m
Property, plant and equipment	(59)	(12)	–	(7)	–	(78)
Intangible assets	15	2	(13)	9	–	13
Capitalised research and development	–	4	–	145	–	149
Provisions and accruals	203	25	–	5	–	233
Goodwill	(302)	(39)	–	(11)	–	(352)
Pension/post-employment schemes:						
Deficits	430	3	–	20	(356)	97
UK additional pension contributions	118	–	–	–	(58)	60
US deferred compensation plans	110	13	–	(21)	–	102
Share-based payments	28	–	–	12	24	64
Financial instruments	(9)	1	–	3	21	16
Other items, including tax losses carried forward	11	3	–	15	–	29
	545	–	(13)	170	(369)	333

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items:

	2023		2022	
	Gross amount £m	**Unrecognised deferred tax asset £m**	Gross amount £m	Unrecognised deferred tax asset £m
Deductible temporary differences, including tax credits	**2**	**2**	9	9
Tax losses carried forward	**438**	**89**	464	93
	440	**91**	473	102

These assets have not been recognised as the incidence of future profits in the relevant countries and legal entities cannot be accurately predicted at this time.

The Group has not recognised any deferred tax liability on temporary differences totalling £211m (2022 £189m) relating to potentially taxable unremitted earnings of overseas subsidiaries and equity accounted investments because the Group is in a position to control the timing of the reversal of the temporary differences and none are expected to reverse in the foreseeable future.

Both the recognised and unrecognised UK deferred tax balances at 31 December 2023 have been calculated at 25% (2022 blended rate of 24.2%). This reflects the increase in the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. An adjustment has been made to reflect the fact that UK deferred tax balances are expected to unwind at 25%.

Notes to the Consolidated financial statements continued

17. Inventories

Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value. Inventory cost is valued using the most appropriate method based on the business use of inventory. In the majority of cases this is moving average unit cost, with some businesses using standard cost or first in first out (FIFO) as methods more indicative of their use of inventory.

	2023 £m	2022 £m
Raw materials and consumables	**646**	535
Work-in-progress	**437**	372
Finished goods and goods for resale	**73**	69
	1,156	976

The Group recognised £4m (2022 £26m) as a write down of inventories to net realisable value.

18. Current tax

Current tax for the current and prior years is recognised as a liability to the extent that it has not yet been settled, and as an asset to the extent that the amounts already paid exceed the amount due or the benefit of a tax loss can be carried back to recover current tax of a prior year. Current tax assets and liabilities are measured at the amount expected to be paid to or recovered from tax authorities, using the rates that have been enacted or substantively enacted by the balance sheet date.

	2023 £m	2022 £m
Tax provisions	**(370)**	(145)
Research and development expenditure credits receivable	**156**	131
Other tax receivables	**89**	44
	(125)	30
Represented by:		
Current tax assets	**160**	133
Current tax liabilities	**(285)**	(103)
	(125)	30

Tax provisions of £370m (2022 £145m) are in respect of known tax issues, of which £299m (2022 £87m) relates to the US, £71m (2022 £56m) relates to the UK and £nil (2022 £2m) relates to other territories. The majority of the current tax provisions relate to the timing of tax reliefs. Corresponding deferred tax assets are therefore recognised in relation to the same tax judgements, including in relation to most of the increase in the year.

19. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, call and term deposits, investments in money market funds and other short-term liquid investments with original maturities of three months or less and which are subject to an insignificant risk of change in value. For the purpose of the cash flow statement, cash and cash equivalents also includes bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management.

	2023 £m	2022 £m
Cash	**502**	484
Money market funds	**1,375**	1,149
Short-term deposits	**2,190**	1,474
	4,067	3,107

Cash and cash equivalents includes £59m (2022 £55m) which is subject to regulatory restrictions and is therefore not available for general use by other entities within the Group.

20. Geographical analysis of assets

Analysis of non-current assets by geographical location

Asset location	Note	2023 £m	2022 £m
UK		**4,877**	4,563
Rest of Europe		**2,065**	1,965
US		**10,167**	10,719
Kingdom of Saudi Arabia		**533**	586
Australia		**499**	518
Rest of Asia and Pacific		**8**	5
		18,149	18,356
Other investments	13	**84**	99
Other receivables	14	**418**	416
Post-employment benefit surpluses	24	**804**	1,297
Other financial assets	15	**227**	322
Deferred tax assets	16	**609**	338
Non-current assets		**20,291**	20,828

21. Loans and overdrafts

Loans and overdrafts are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, loans and overdrafts are stated at amortised cost. Any difference between the amount initially recognised and the redemption value is recognised in the income statement over the period of the borrowings.

	2023 £m	2022 £m
Non-current		
US$800m 3.8% bond, repayable 2024	**–**	664
US$750m 3.85% bond, repayable 2025	**587**	621
US$500m 7.5% bond, repayable 2027	**392**	415
US$1,300m 3.4% bond, repayable 2030	**1,013**	1,073
US$1,000m 1.9% bond, repayable 2031	**778**	824
US$400m 5.8% bond, repayable 2041	**311**	330
US$550m 4.75% bond, repayable 2044	**423**	447
US$1,000m 3% bond, repayable 2050	**770**	815
US$200m 5.5%, private placement, repayable 2050	**158**	–
	4,432	5,189
Current		
US$800m 3.8% bond, repayable 2024	**627**	–
Accrued interest	**52**	53
	679	53

The proceeds received under the US$200m private placement are being used in the construction of a modern shiplift at our Jacksonville, Florida ship repair facility.

US$500m of the US$800m 3.8% bond, repayable 2024, has been converted to a floating rate bond by utilising interest rate swaps that mature in October 2024 and had an effective rate during 2023 of 5.7%.

The US$500m 7.5% bond, repayable 2027, was converted at issue to a sterling fixed rate bond by utilising cross-currency swaps and had an effective rate during 2023 of 7.7%.

US$1,237m of the US$1,300m 3.4% bond, repayable 2030, was converted at issue to a sterling fixed rate bond by utilising cross-currency swaps and had an effective rate during 2023 of 3.5%.

The US$400m 5.8% bond, repayable 2041, has been converted to a floating rate bond by utilising interest rate swaps that mature in October 2024 and had an effective rate during 2023 of 8.8%.

Notes to the Consolidated financial statements continued

22. Contract liabilities

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

	2023 £m	2022 £m
Non-current		
Contract liabilities	**1,955**	945
Current		
Contract liabilities	**3,865**	3,882
	5,820	4,827

Revenue recognised in the year includes £3,573m (2022 £2,393m) that was included in the opening contract liabilities balance.

Non-current and current contract liabilities as at 1 January 2022 were £519m and £2,874m, respectively.

The increase in contract liabilities since 2022 is primarily due to customer advances received during the year.

23. Trade and other payables

Trade and other payables are stated at amortised cost.

US deferred compensation plan liabilities represent the present value of expected future payments required to settle the obligation to employees in accordance with IAS 19 Employee Benefits.

	Note	2023 £m	2022 £m
Non-current			
Accruals		**68**	50
Amounts owed to equity accounted investments	30	**10**	8
Deferred income[1]		**1,144**	1,006
US deferred compensation plan liabilities		**361**	357
Other payables		**11**	20
		1,594	1,441
Current			
Trade payables		**866**	839
Amounts owed to equity accounted investments	30	**1,534**	1,061
Other taxes and social security costs		**73**	76
Accruals		**2,600**	2,679
Deferred income[1]		**61**	109
US deferred compensation plan liabilities		**42**	39
Other payables		**260**	187
		5,436	4,990

1. Includes £1,192m (2022 £1,041m) of funding received from the UK Government for property, plant and equipment at Barrow-in-Furness, UK.

24. Post-employment benefits

Pension schemes

Defined contribution

Obligations for contributions are recognised as an expense in the income statement as incurred.

Defined benefit

The cost of providing benefits is determined periodically by independent actuaries and charged to the income statement in the year in which those benefits are earned by the employees. Remeasurements, including actuarial gains and losses, are recognised in the Consolidated statement of comprehensive income in the year in which they occur. Past service costs resulting from a plan amendment or curtailment are recognised immediately in the income statement.

The post-employment benefit surpluses and obligations recognised in the Group's balance sheet represent the fair value of scheme assets, less the present value of the defined benefit obligations calculated using a number of actuarial assumptions as set out on page 195. The bid values of scheme assets are not intended to be realised in the short term and may be subject to significant change before they are realised. The present values of scheme liabilities are derived from cash flow projections over long periods and are, therefore, inherently uncertain.

IAS 19 Employee Benefits limits the measurement of a defined benefit surplus to the lower of the surplus in the defined benefit scheme and the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme. IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, issued in 2007, provides an interpretation of the requirements of IAS 19, clarifying that a refund is available if the entity has an unconditional right to a refund in certain circumstances. The Group has applied IFRIC 14 and has determined that there is no limit on the recognition of the surpluses in its defined benefit pension schemes as at 31 December 2023. In the UK 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.

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

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

The Group's share of the IAS 19 pension surplus or deficit allocated to equity accounted investments is included in the balance sheet within equity accounted investments.

Background

Pension schemes

BAE Systems plc operates pension schemes for the Group's qualifying employees in the UK, US and other countries. The UK and US operate a number of funded defined benefit schemes, and the assets are held in separate trustee-administered funds. The largest funded defined benefit scheme is the BAE Systems Pension Scheme – BAE Systems Section (Main Scheme) which represents 93% (2022 93%) of the UK IAS 19 defined benefit obligation at 31 December 2023. The schemes in other countries are primarily defined contribution schemes.

At 31 December 2023, the weighted average durations of the UK and US defined benefit pension obligations were 13 years (2022 13 years) and 11 years (2022 12 years), respectively.

The split of the defined benefit pension liability on a funding basis between active, deferred and pensioner members for the Main Scheme and US schemes in aggregate is set out below:

	Active %	Deferred %	Pensioner %
Main Scheme[1]	28	21	51
US schemes[2]	24	16	60

1. Source: 31 March 2021 actuarial valuation reports.
2. Source: Annual updates of the US schemes as at 1 January 2023.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

Regulatory framework

The funded UK schemes are registered and subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund as set out in the Pension Act 2004. These schemes were established under trust and the responsibility for their governance lies jointly with the Trustees and the Group.

The funded US schemes are tax-qualified pension schemes regulated by the Pension Protection Act 2006 and insured by the Pension Benefit Guaranty Corporation (PBGC) up to certain limits. These schemes were established under, and are governed by, the US Employee Retirement Income Security Act 1974 and the BAE Systems Administrative Committee is a named fiduciary with the authority to manage their operation. The schemes' assets are held in the BAE Systems Master Pension Investment Trust and the trustee is The Northern Trust Company. The US schemes received a favourable determination letter from the Internal Revenue Service (IRS) dated 6 July 2017, stating that the US schemes and related Master Trust are designed in accordance with applicable sections of the IRS Code and, therefore, are exempt from taxation. Once qualified, the US schemes are required to operate in conformity with the Code to maintain qualification.

Benefits

The UK defined benefit schemes provide benefits to members in the form of a set level of pension payable for life based on members' final salaries. The benefits attract inflation-related increases both in deferment and payment. All UK defined benefit schemes are closed to new entrants, with benefits for new employees being provided through a defined contribution scheme. The Normal Retirement Age for the majority of active members of the Main Scheme is 65. Specific benefits applicable to members differ between schemes. Further details on the benefits provided by each scheme are provided on the BAE Systems Pensions website: baesystems.com/en-pensions/home

The US defined benefit schemes cover eligible employees of BAE Systems, Inc. and certain adopting affiliates providing benefits based on each employee's final salary and service. The US defined benefit schemes ceased to be final salary schemes in January 2013. Since then an annual accrual of $1,000 is credited to participants' accumulated plan benefits. Vested benefits are payable upon retirement, death, disability, and in certain circumstances upon termination of employment. The Normal Retirement Age for the US pension schemes is 65.

Other post-employment benefits

The Group operates a number of non-pension retirement benefit schemes, under which certain employees are eligible to receive benefits after retirement or on leaving the Group, the majority of which relate to the provision of medical benefits to retired employees of the Group's subsidiaries in the US.

Funding

Introduction

Disclosures in respect of pension funding are provided below. Disclosures in respect of pension accounting under IAS 19 are provided on pages 195 to 202.

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 195. 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.

24. Post-employment benefits continued

Funding continued

UK valuations

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

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

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

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

The valuations were determined using the following mortality assumptions:

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

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

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

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

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

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

US valuations

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

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

Funding continued

Contributions

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

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

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

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

Risk management

The defined benefit pension schemes expose the Group to actuarial risks, including market (investment) risk, interest rate risk, inflation risk and longevity risk.

Risk	Mitigation
Market (investment) risk Asset returns may not move in line with the liabilities and may be subject to volatility.	The investment portfolios are highly diversified, investing in a wide range of assets, in order to reduce the exposure of the total portfolio to a materially adverse impact from a single security or type of security. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of index-linked bonds, gilts and swaps, designed to mirror movements in corresponding liabilities. Some 36% (2022 42%) of the Group's pension scheme assets are held in equities and pooled investment vehicles due to the higher expected level of return over the long term. The UK Main Scheme reduced its allocation to equities significantly over the course of 2023, and closed out its equity option strategy to reflect its limited resultant exposure to equity markets. Environmental (including exposure to climate related risks), Social and Governance (ESG) factors are incorporated into the investment analysis and decision-making process carried out by the Trustees of the UK schemes. There is alignment between the UK Main Scheme and Company's climate change objectives with consistent long-term net zero ambitions.
Interest rate risk Liabilities are sensitive to movements in interest rates, with lower interest rates leading to an increase in the valuation of liabilities.	As part of the funding valuation finalised during 2022, the main UK Scheme has adopted a cash flow matching strategy, whereby contractual income from assets is designed to directly match benefits paid to members each year. A portfolio of assets with contractual income has been structured to match benefits already in payment, representing around half of the liabilities. This inherently hedges the associated interest rate risk. As members retire and become pensioners, additional matching assets will be purchased to keep pace. Interest rate risk associated with the remaining purchase of matching assets is mitigated via a hedging strategy involving mainly physical assets and derivatives. The overall level of interest rate hedging on the funding basis has increased compared to 2022.
Inflation risk Liabilities are sensitive to movements in inflation, with higher inflation leading to an increase in the valuation of liabilities.	The main UK Scheme's cash flow matching strategy includes aligning asset income to the inflation-linked members' benefit payments. Inflation risk is mitigated by the presence of caps on most inflation-linked benefits and via a hedging strategy, executed with several banks to reduce counterparty risk. The overall level of inflation hedging on the funding basis has increased compared 2022. The Group's US scheme benefits are not indexed with inflation. In 2014, the Main Scheme implemented a pension increase exchange to allow retired members to elect for a higher current pension in exchange for foregoing certain rights to future pension increases.
Longevity risk Liabilities are sensitive to life expectancy, with increases in life expectancies leading to an increase in the valuation of liabilities.	Longevity adjustment factors are used in the majority of the UK pension schemes in order to adjust the pension benefits payable so as to share the cost of people living longer with employees. In 2013, with the agreement of the Company, the Trustees of the 2000 Plan, Royal Ordnance Pension Scheme and Shipbuilding Industries Pension Scheme (SIPS) entered into arrangements with Legal & General to insure against longevity risk for the current pensioner population, covering a total of £4.4bn of pension scheme liabilities. These arrangements reduce the funding volatility relating to increasing life expectancy. This longevity risk cover with Legal & General remains in place following the 2019 merger of the 2000 Plan and SIPS into the Main Scheme.

Virgin Media case

The Company is aware of the ongoing 'Virgin Media v NTL Pension Trustees Ltd and others' case and that there is a potential for the outcome of the case to have an impact on the UK schemes. The case affects defined benefit schemes that provided contracted-out benefits before 6 April 2016 based on meeting the reference scheme test. Where scheme rules were amended, potentially impacting benefits accrued from 6 April 1997 to 6 April 2016, schemes needed the actuary to confirm that the reference scheme test was still being met by providing written confirmation under Section 37 of the Pension Schemes Act 1993. In the Virgin Media case the judge ruled that alterations to the scheme rules were void and ineffective because of the absence of written actuarial confirmation required under Section 37 of the Pension Schemes Act 1993. The case has been taken to The Court of Appeal, with the hearing set for June 2024. The potential impact on the UK schemes is not yet known but continues to be assessed.

24. Post-employment benefits continued

IAS 19 accounting

The disclosures below relate to post-retirement benefit schemes in the UK, US and other countries which are accounted for as defined benefit schemes in accordance with IAS 19.

Principal actuarial assumptions

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

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

Discount rate

The discount rate assumptions are derived through discounting the projected benefit payments using a third-party AA corporate bond yield curve to produce a single equivalent discount rate for the UK and US territories. This inherently captures the maturity profile of the expected benefit payments. For the UK territory, the discount rate used for future service differs from that used for past service as it only uses the cash flows relating to active members, which have a different duration. Further information on the duration of the schemes is detailed on page 191.

Retail Prices Index (RPI) and Consumer Prices Index (CPI) inflation

In the UK, the inflation assumptions are derived by reference to the difference between the yields on index-linked and fixed-interest long-term government bonds. Index-linked government bond prices contain a premium that investors are willing to pay to mitigate the risk that RPI inflation is higher than expected. To account for this, the RPI assumption includes an inflation risk premium deduction.

The inflation risk premium deduction has been set at 0.55% per annum (2022 0.55%) and the CPI assumption has been set at 0.7% per annum (2022 0.7%) lower than RPI. The resulting RPI assumption is 2.8% per annum and the CPI assumption is 2.1% per annum. The 0.7% per annum RPI-CPI differential is a weighted average of a 1% per annum differential pre-2030 and 0.1% per annum differential post-2030; this reflects the anticipated change to the RPI index from 2030. In the US, inflation assumptions are not relevant as the Group's US pension schemes are not indexed with inflation.

Rate of increase in salaries

The rate of increase in salaries for the UK schemes is assumed to be RPI inflation of 2.8% (2022 RPI inflation of 3.0%), plus a promotional scale. From 1 January 2013, employees in the US schemes no longer accrue salary-related benefits.

Rate of increase in deferred pensions

The rate of increase in deferred pensions for the UK schemes is based on CPI inflation of 2.1% (2022 CPI inflation of 2.3%), with the exception of the legacy 2000 Plan, which is based on RPI inflation of 2.8% (2022 RPI inflation of 3.0%). For all UK schemes, the rate of increase in deferred pensions is subject to inflation caps.

Rate of increase in pensions in payment

The rate of increase in pensions in payment differs between UK schemes. Different tranches of the schemes' benefits increase at rates based on either RPI or CPI inflation, and some are subject to an inflation cap. With the exception of two smaller schemes, the rate of increase in pensions in payment is based on RPI inflation.

Life expectancy

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

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

For the majority of the US schemes, the mortality tables used at 31 December 2023 are a blend of the fully generational PRI-2012 White Collar table and the PRI-2012 Blue Collar table, both projected using Scale MP-2021.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

US healthcare schemes

The latest valuations of the principal schemes, covering retiree medical and life insurance schemes in certain US subsidiaries, were performed by independent actuaries as at 1 January 2023. These valuations were rolled forward to reflect the information at 31 December 2023. The method of accounting for these is similar to that used for defined benefit pension schemes.

Long-term healthcare cost is assumed to increase at 5.0% per annum (2022 4.7%). This is based on an assumed increase in 2023 of 7.75% for pre-retirement and 6.25% for post-retirement, with both rates then reducing to 4.5% by 2033 and remaining at 4.5% per annum each year thereafter.

Summary of movements in post-employment benefit obligations

	UK £m	US and other £m	Total £m
Total net IAS 19 surplus/(deficit) at 1 January 2023 (net of withholding tax)	1,236	(483)	753
Add back: withholding tax on surpluses	722	–	722
Total net IAS 19 surplus/(deficit) at 1 January 2023	1,958	(483)	1,475
Actual return on assets excluding amounts included in net finance costs	(608)	124	(484)
Increase in liabilities due to changes in financial assumptions	(376)	(52)	(428)
Decrease/(increase) in liabilities due to changes in demographic assumptions	38	(1)	37
Experience losses	(111)	(22)	(133)
Contributions in excess of/(less than) service cost	151	(12)	139
Settlements	–	60	60
Net interest income/(expense)	106	(20)	86
Foreign exchange adjustments	–	19	19
Movement in other schemes	–	(33)	(33)
Total net IAS 19 surplus/(deficit) at 31 December 2023	**1,158**	**(420)**	**738**
Withholding tax on surpluses	(441)	–	(441)
Total net IAS 19 surplus/(deficit) at 31 December 2023 (net of withholding tax)	**717**	**(420)**	**297**
Allocated to equity accounted investments	(68)	–	(68)
Group's share of net IAS 19 surplus/(deficit) excluding Group's share of amounts allocated to equity accounted investments at 31 December 2023	**649**	**(420)**	**229**

Settlement gain

In May 2023, $1.2bn (£1.0bn) of the US defined benefit obligation liabilities were settled via a transfer to an insurance company. The premium of $1.1bn (£0.9bn) was approximately 95% of the IAS 19 liability carrying value, creating a one-off accounting gain. Since the half-year 2023 results, the asset valuations for the settlement have been finalised, resulting in an additional gain of £9m. The total gain is now $75m (£60m). This gain has been recognised in the Consolidated income statement, and as an adjusting item.

Surplus recognition

A number of schemes are in an accounting surplus position. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. On 22 November 2023, the UK government announced that the authorised surplus payments charge would be reduced from 35% to 25% from 6 April 2024. The legislation had not been legally enacted as at the date of issue of these financial statements. The surplus has been recognised net of withholding tax of 35% at 31 December 2023 (2022: 35%) based on the enacted legislation at that date. Should the legislation have been enacted at year-end, this would have resulted in an £0.1bn increase in the pension surplus. This tax would be levied prior to the future refunding of any surplus and therefore the surplus has been presented on a net basis as this is not deemed to be an income tax of the Group.

24. Post-employment benefits continued

IAS 19 accounting continued

Amounts recognised on the balance sheet

The table below shows a reconciliation between the gross assets and liabilities of the Group's UK, US and other post-employment benefit schemes and the amounts recognised on the Group's balance sheet after allocation to equity accounted investments.

	2023				
	UK defined benefit pension schemes £m	**US and other pension schemes £m**	**US healthcare schemes £m**	**Kingdom of Saudi Arabia end of service benefit £m**	**Total £m**
Present value of unfunded obligations	**(105)**	**(98)**	**–**	**(168)**	**(371)**
Present value of funded obligations	**(19,913)**	**(2,838)**	**(125)**	**–**	**(22,876)**
Fair value of scheme assets	**21,176**	**2,629**	**180**	**–**	**23,985**
Total net IAS 19 surplus/(deficit)	**1,158**	**(307)**	**55**	**(168)**	**738**
Withholding tax on surpluses	**(441)**	**–**	**–**	**–**	**(441)**
Allocated to equity accounted investments	**(68)**	**–**	**–**	**–**	**(68)**
Group's share of net IAS 19 surplus/(deficit)	**649**	**(307)**	**55**	**(168)**	**229**
Represented by:					
Post-employment benefit surpluses	**747**	**2**	**55**	**–**	**804**
Post-employment benefit obligations	**(98)**	**(309)**	**–**	**(168)**	**(575)**
	649	**(307)**	**55**	**(168)**	**229**
Group's share of net IAS 19 surplus of equity accounted investments	**22**	**–**	**–**	**–**	**22**

The US unfunded pension obligations have associated assets held in deferred compensation schemes with a fair value of £53m (2022 £57m), which are shown in Other Investments. The funds held in these trusts can be used solely for the satisfaction of the unfunded obligations.

	2022				
	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Present value of unfunded obligations	(104)	(105)	–	(142)	(351)
Present value of funded obligations	(19,462)	(3,927)	(128)	–	(23,517)
Fair value of scheme assets	21,524	3,629	190	–	25,343
Total net IAS 19 surplus/(deficit)	1,958	(403)	62	(142)	1,475
Withholding tax on surpluses	(722)	–	–	–	(722)
Allocated to equity accounted investments	(107)	–	–	–	(107)
Group's share of net IAS 19 surplus/(deficit)	1,129	(403)	62	(142)	646
Represented by:					
Post-employment benefit surpluses	1,224	11	62	–	1,297
Post-employment benefit obligations	(95)	(414)	–	(142)	(651)
	1,129	(403)	62	(142)	646
Group's share of net IAS 19 surplus of equity accounted investments	38	–	–	–	38

Total cumulative actuarial losses recognised in equity since the transition to IFRS are £1.8bn (2022 £1.1bn).

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

Changes in the fair value of scheme assets before allocation to equity accounted investments

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Value of scheme assets at 1 January 2022	26,947	4,415	218	–	31,580
Interest income	490	132	6	–	628
Actual return on assets excluding amounts included in interest income	(5,094)	(1,199)	(48)	–	(6,341)
Actual return on assets	(4,604)	(1,067)	(42)	–	(5,713)
Contributions by employer	257	10	–	14	281
Contributions by employer in respect of employee salary sacrifice arrangements	72	–	–	–	72
Total contributions by employer	329	10	–	14	353
Members' contributions	5	–	–	–	5
Administrative expenses	(18)	(7)	(1)	–	(26)
Foreign exchange translation	–	521	26	–	547
Benefits paid	(1,135)	(243)	(11)	(14)	(1,403)
Value of scheme assets at 31 December 2022	21,524	3,629	190	–	25,343
Interest income	1,010	170	9	–	1,189
Actual return on assets excluding amounts included in interest income	(608)	124	3	–	(481)
Actual return on assets	402	294	12	–	708
Contributions by employer	265	9	–	13	287
Contributions by employer in respect of employee salary sacrifice arrangements	72	–	–	–	72
Total contributions by employer	337	9	–	13	359
Members' contributions	5	–	–	–	5
Settlements	–	(894)	–	–	(894)
Administrative expenses	(24)	(15)	(1)	–	(40)
Foreign exchange translation	–	(185)	(11)	–	(196)
Benefits paid	(1,068)	(209)	(10)	(13)	(1,300)
Value of scheme assets at 31 December 2023	**21,176**	**2,629**	**180**	**–**	**23,985**

24. Post-employment benefits continued

IAS 19 accounting continued

Assets of defined benefit pension schemes

	2023								
	UK			US and other			Total		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:									
UK[1]	**1**	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Overseas	**226**	**–**	**226**	**–**	**–**	**–**	**226**	**–**	**226**
Pooled investment vehicles[2]	**–**	**7,706**	**7,706**	**655**	**–**	**655**	**655**	**7,706**	**8,361**
Fixed-interest securities:									
UK gilts	**2,376**	**–**	**2,376**	**–**	**–**	**–**	**2,376**	**–**	**2,376**
UK corporates	**2,884**	**1,752**	**4,636**	**–**	**–**	**–**	**2,884**	**1,752**	**4,636**
Overseas government	**35**	**–**	**35**	**595**	**–**	**595**	**630**	**–**	**630**
Overseas corporates	**1,721**	**–**	**1,721**	**1,276**	**–**	**1,276**	**2,997**	**–**	**2,997**
Index-linked securities:									
UK gilts	**2,193**	**–**	**2,193**	**–**	**–**	**–**	**2,193**	**–**	**2,193**
UK corporates	**1,084**	**–**	**1,084**	**–**	**–**	**–**	**1,084**	**–**	**1,084**
Overseas government	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Overseas corporates	**41**	**–**	**41**	**–**	**–**	**–**	**41**	**–**	**41**
Property[3]	**–**	**1,441**	**1,441**	**–**	**29**	**29**	**–**	**1,470**	**1,470**
Derivatives[4]	**–**	**(1,285)**	**(1,285)**	**–**	**5**	**5**	**–**	**(1,280)**	**(1,280)**
Cash:									
Sterling	**577**	**174**	**751**	**–**	**–**	**–**	**577**	**174**	**751**
Foreign currency	**244**	**–**	**244**	**69**	**–**	**69**	**313**	**–**	**313**
Other	**–**	**6**	**6**	**–**	**–**	**–**	**–**	**6**	**6**
Total	**11,382**	**9,794**	**21,176**	**2,595**	**34**	**2,629**	**13,977**	**9,828**	**23,805**

	2022								
	UK			US and other			Total		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:									
UK[1]	209	–	209	–	–	–	209	–	209
Overseas	624	–	624	–	–	–	624	–	624
Pooled investment vehicles[2]	3	8,892	8,895	793	–	793	796	8,892	9,688
Fixed-interest securities:									
UK gilts	2,397	–	2,397	–	–	–	2,397	–	2,397
UK corporates	1,832	2,416	4,248	–	–	–	1,832	2,416	4,248
Overseas government	29	–	29	599	–	599	628	–	628
Overseas corporates	1,248	56	1,304	2,105	–	2,105	3,353	56	3,409
Index-linked securities:									
UK gilts	2,050	–	2,050	–	–	–	2,050	–	2,050
UK corporates	–	952	952	–	–	–	–	952	952
Overseas corporates	9	–	9	–	–	–	9	–	9
Property[3]	–	1,731	1,731	–	37	37	–	1,768	1,768
Derivatives[4]	–	(1,595)	(1,595)	–	–	–	–	(1,595)	(1,595)
Cash:									
Sterling	566	84	650	–	–	–	566	84	650
Foreign currency	12	(1)	11	95	–	95	107	(1)	106
Other	–	10	10	–	–	–	–	10	10
Total	8,979	12,545	21,524	3,592	37	3,629	12,571	12,582	25,153

1. Includes £nil (2022 £3m) of the Company's own ordinary shares.
2. Primarily invested in private markets and exchange traded funds. The amounts classified as unquoted primarily comprise investments in private markets, with the majority held in infrastructure, alternatives and direct funds, valued in accordance with International Private Equity and Venture Capital Valuation Guidelines.
3. Valued on the basis of open market value at the end of the year determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Note contained therein. Includes £233m (2022 £223m) of property occupied by Group companies.
4. Includes forward foreign exchange contracts, futures, and interest rate, inflation and longevity swaps. In addition, the total derivative figures shown are net of £449m (2022 £520m) of repurchase agreements. The valuations are based on valuation techniques using underlying market data and discounted cash flows.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

Longevity swap

The Group holds longevity insurance contracts for some of its UK defined benefit pension schemes. These provide long-term protection and income to the underlying pension scheme in the event that insured members live longer than expected.

The value of the longevity insurance contracts held by the Group are calculated by an actuary. They are measured by discounting the difference between the projected fixed and floating cash flows payable under the contracts, excluding the value of future projected fees. The significant assumptions used for this valuation are the discount rate and mortality assumptions; fair values for these assumptions are advised by an actuary based on external data and characteristics of the insured member population.

At 31 December 2023, the longevity swap valuation leads to a negative adjustment to the assets which reflects that experience to date on the contracts has been higher than expected deaths.

Changes in the present value of the defined benefit obligations before allocation to equity accounted investments

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Defined benefit obligations at 1 January 2022	(28,920)	(4,643)	(150)	(153)	(33,866)
Current service cost	(231)	(12)	(1)	(27)	(271)
Contributions by employer in respect of employee salary sacrifice arrangements	(72)	–	–	–	(72)
Total current service cost	(303)	(12)	(1)	(27)	(343)
Members' contributions	(5)	–	–	–	(5)
Past service cost – plan amendments	14	2	(1)	–	15
Actuarial gain due to changes in financial assumptions	10,745	1,067	32	47	11,891
Actuarial loss due to changes in demographic assumptions	(39)	–	–	–	(39)
Experience (losses)/gains	(1,672)	(6)	3	(4)	(1,679)
Interest expense	(521)	(138)	(4)	(5)	(668)
Foreign exchange translation	–	(545)	(18)	(14)	(577)
Benefits paid	1,135	243	11	14	1,403
Defined benefit obligations at 31 December 2022	(19,566)	(4,032)	(128)	(142)	(23,868)
Current service cost	(90)	(6)	(2)	(20)	(118)
Contributions by employer in respect of employee salary sacrifice arrangements	(72)	–	–	–	(72)
Total current service cost	(162)	(6)	(2)	(20)	(190)
Members' contributions	(5)	–	–	–	(5)
Past service cost – plan amendments	–	–	(2)	–	(2)
Settlements	–	954	–	–	954
Actuarial loss due to changes in financial assumptions	(376)	(52)	(4)	(13)	(445)
Actuarial gain/(loss) due to changes in demographic assumptions	38	(1)	–	–	37
Experience losses	(111)	(22)	(1)	(5)	(139)
Interest expense	(904)	(190)	(6)	(8)	(1,108)
Foreign exchange translation	–	204	8	7	219
Benefits paid	1,068	209	10	13	1,300
Defined benefit obligations at 31 December 2023	**(20,018)**	**(2,936)**	**(125)**	**(168)**	**(23,247)**

24. Post-employment benefits continued

IAS 19 accounting continued

Amounts recognised in the income statement after allocation to equity accounted investments

	2023			
	UK defined benefit pension schemes £m	**US and other pension schemes £m**	**Other schemes £m**	**Total £m**
Included in operating costs:				
Current service cost	**(85)**	**(6)**	**(22)**	**(113)**
Past service cost – plan amendments	**–**	**–**	**(2)**	**(2)**
Administrative expenses	**(22)**	**(15)**	**(1)**	**(38)**
	(107)	**(21)**	**(25)**	**(153)**
Included in other income:				
Pensions settlement gain	**–**	**60**	**–**	**60**
Included in net finance costs:				
Net interest income/(expense) on post-employment benefit obligations	**66**	**(20)**	**(5)**	**41**
Group defined benefit schemes included in share of results of equity accounted investments:				
Group's share of equity accounted investments' operating costs	**(5)**	**–**	**–**	**(5)**
Group's share of equity accounted investments' net finance income	**3**	**–**	**–**	**3**

	2022			
	UK defined benefit pension schemes £m	US and other pension schemes £m	Other schemes £m	Total £m
Included in operating costs:				
Current service cost	(210)	(12)	(28)	(250)
Past service cost – plan amendments	13	2	(1)	14
Administrative expenses	(16)	(7)	(1)	(24)
	(213)	(17)	(30)	(260)
Included in net finance costs:				
Net interest expense on post-employment benefit obligations	(28)	(6)	(3)	(37)
Group defined benefit schemes included in share of results of equity accounted investments:				
Group's share of equity accounted investments' operating costs	(10)	–	–	(10)
Group's share of equity accounted investments' net finance costs	(1)	–	–	(1)

Defined contribution schemes

The Group incurred a charge of £309m (2022 £299m) in relation to defined contribution schemes for employees.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

Sensitivity analysis

The sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 December 2023 and keeping all other assumptions as set out on page 195.

The pension schemes hold a number of unquoted pooled investment vehicles, which are investments in private markets. These are valued based on latest available valuation reports, and as noted on page 158, these valuations are subject to estimation uncertainty as their valuation techniques incorporate a number of assumptions, including those associated with the impact of climate change. Should these funds' actual valuations at 31 December 2023 be on average 2% different to those assumed, this would result in a £0.2bn (2022 £0.2bn) change in the valuation of the assets.

Financial assumptions

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

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

	(Increase)/decrease in pension obligation[1] £bn	Increase/(decrease) in scheme assets[1] £bn
Inflation:		
0.1 percentage point increase/decrease	(0.1)/0.1	0.2/(0.2)
0.5 percentage point increase/decrease	(0.7)/0.7	0.8/(0.8)
1.0 percentage point increase/decrease	(1.4)/1.3	1.8/(1.5)

Demographic assumptions

Changes in the life expectancy assumption, including the benefit of longevity swap arrangements (see longevity risk on page 194), would have the following effect on the total net IAS 19 surplus:

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

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

25. Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax risk-free discount rate.

Warranties and after-sales services

Where warranties and after-sales services are provided in the normal course of business, provisions for associated costs are made based on an assessment of future claims with reference to past experience. A provision for warranties is recognised when the underlying products and services are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Reorganisations

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected. The costs associated with the reorganisation programmes are supported by detailed plans and based on previous experience as well as other known factors. Future operating costs are not provided for.

Legal, contractual and environmental

The Group holds provisions for expected legal, contractual and environmental costs that it expects to incur over an extended period. Management exercises judgement to determine the amount of these provisions. Provision is made for known issues based on past experience of similar items and other known factors. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount, being the single most likely amount in a range of possible outcomes.

	Warranties and after-sales services £m	Reorganisations £m	Legal, contractual and environmental £m	Other £m	Total £m
Non-current	57	9	244	28	338
Current	52	25	129	43	249
At 1 January 2023	109	34	373	71	587
Created	43	8	106	43	200
Utilised	(27)	(15)	(77)	(10)	(129)
Transfer from other balance sheet categories	2	–	–	–	2
Released	(18)	(8)	(37)	(19)	(82)
Net present value adjustments	–	–	7	1	8
Foreign exchange adjustments	(4)	(1)	(10)	(3)	(18)
At 31 December 2023	**105**	**18**	**362**	**83**	**568**
Represented by:					
Non-current	55	7	236	34	332
Current	50	11	126	49	236
	105	**18**	**362**	**83**	**568**

Warranties and after-sales services

Warranty and after-sales services provisions are generally utilised within three years post-delivery. Whilst actual events could result in potentially significant differences to the value, but not the timing, of the outflows in relation to the provisions, management has reflected current knowledge in assessing the provision levels.

Reorganisations

Reorganisation provisions are generally utilised within one to three years. There is limited volatility around the timing and amount of the ultimate outflows related to these provisions.

Legal, contractual and environmental

Reflecting the inherent uncertainty within many legal proceedings, the amount of the outflows could differ significantly from the amount provided. While the timing of the outflows is also uncertain, the Group expects these provisions to be utilised over a period of approximately 25 years.

Other

There are no individually significant provisions included within other provisions.

Notes to the Consolidated financial statements continued

26. Share capital and other reserves

Share capital

	Equity		Non-equity		Total
	Ordinary shares of 2.5p each		Special Share of £1		
	Number of shares m	Nominal value £m	Number of shares	Nominal value £	Nominal value £m
Issued and fully paid					
At 1 January 2022	3,404	85	1	1	85
Shares cancelled	(107)	(3)	–	–	(3)
At 31 December 2022	3,297	82	1	1	82
Shares cancelled	(58)	(1)	–	–	(1)
At 31 December 2023	**3,239**	**81**	**1**	**1**	**81**

Special Share

One Special Share of £1 in the Company is held on behalf of the Secretary of State for Business and Trade (the Special Shareholder). Certain provisions of the Company's Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company, the requirement that the majority of the directors are British, and the requirement that the Chief Executive or any executive Chair are British. The effect of these requirements can also be amended by regulations made by the directors and approved by the Special Shareholder.

The Special Shareholder may require the Company at any time to redeem the Special Share at par or to convert the Special Share into one ordinary voting share. The Special Shareholder is entitled to attend a general meeting, but has no right to vote or any other rights at such meeting, other than to speak in relation to any business in respect of the Special Share.

Treasury shares

As at 31 December 2023, 204,041,705 (2022 220,086,959) ordinary shares of 2.5p each with an aggregate nominal value of £5,101,043 (2022 £5,502,174) were held in treasury. During 2023, 16,045,254 (2022 16,720,072) treasury shares were used to satisfy awards and options under the Share Incentive Plan, International Share Incentive Plan, Performance Share Plan, the Performance Shares and Restricted Shares elements of the Long-Term Incentive Plan, the Executive Share Option Plan, the Group Free Shares Plan and the International Profit Sharing Scheme.

BAE Systems Employee Share Option Plan (ESOP) Trust

The Group has an ESOP discretionary trust to administer the share plans and to acquire Company shares, using funds loaned by the Group, to meet commitments to Group employees. Dividend waivers were in operation for shares within the ESOP Trust, other than those owned beneficially by the participants, for the dividends paid in the year.

At 31 December 2023, the ESOP Trust held 8,665,966 (2022 7,268,002) ordinary shares of 2.5p each, with a market value of £96m (2022 £62m). The shares held by the ESOP Trust are recorded at cost and deducted from retained earnings until such time as the shares vest unconditionally to employees.

A dividend waiver was also in operation for the dividends paid in the year over shares within the Company's share incentive plan trusts other than those shares owned beneficially by the participants.

Own shares held

Own shares held, including treasury shares and shares held by BAE Systems ESOP Trust, are recognised as a deduction from retained earnings.

26. Share capital and other reserves continued

Equity dividends

Equity dividends on ordinary share capital are recognised as a liability on the date that the shareholder's right to receive payment is established.

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

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

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

Other reserves

	Merger reserve £m	Statutory reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2022	4,589	202	10	5	51	1,030	5,887
Subsidiaries:							
Currency translation on foreign currency net investments	–	–	–	–	–	1,151	1,151
Reclassification of cumulative currency translation reserve on disposal of subsidiary	–	–	–	–	–	(17)	(17)
Net amounts debited to hedging reserve	–	–	–	–	(65)	–	(65)
Equity accounted investments (net of tax)	–	–	–	–	3	(11)	(8)
Purchase of own shares	–	–	–	3	–	–	3
At 31 December 2022	4,589	202	10	8	(11)	2,153	6,951
Subsidiaries:							
Currency translation on foreign currency net investments	–	–	–	–	–	(502)	(502)
Net amounts debited to hedging reserve	–	–	–	–	(58)	–	(58)
Equity accounted investments (net of tax)	–	–	–	–	5	6	11
Purchase of own shares	–	–	–	1	–	–	1
At 31 December 2023	**4,589**	**202**	**10**	**9**	**(64)**	**1,657**	**6,403**

Notes to the Consolidated financial statements continued

26. Share capital and other reserves continued

Other reserves continued

Merger reserve

The merger reserve arose on the acquisition of the Marconi Electronic Systems (MES) business by British Aerospace in 1999 to form BAE Systems, and represents the amount by which the fair value of the shares issued by British Aerospace as consideration exceeded their nominal value.

Statutory reserve

Under Section 4 of the British Aerospace Act 1980, this reserve may only be applied in paying up unissued shares of the Company to be allotted to members of the Company as fully paid bonus shares.

Revaluation reserve

The revaluation reserve relates to the revaluation at fair value of the net assets of the BVT joint venture previously held as an equity accounted investment on the acquisition of the remaining 45% interest in 2009.

Capital redemption reserve

The capital redemption reserve represents the cumulative nominal value of the Company's ordinary shares repurchased and subsequently cancelled.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Capital

The Group funds its operations through a mixture of equity funding and debt financing, including bank and capital market borrowings.

At 31 December 2023, the Group's capital was £10,787m (2022 £11,411m), which comprised total equity of £10,723m (2022 £11,400m), excluding amounts accumulated in equity relating to cash flow hedges of £(64)m (2022 £(11)m). Net debt (excluding lease liabilities) was £1,022m (2022 £2,023m).

The capital structure of the Group reflects the judgement of the directors of an appropriate balance of funding required. The Group's policy is to maintain an investment grade credit rating and ensure operating flexibility, whilst:

- meeting its pension obligations;
- investing in research and technology and pursuing other organic investment opportunities;
- paying dividends in line with the Group's policy of long-term sustainable cover of around two times underlying earnings (see page 228);
- making accelerated returns of capital to shareholders when the balance sheet allows and when the return from doing so is in excess of the Group's Weighted Average Cost of Capital; and
- investing in value-enhancing acquisitions, where market conditions are right and where they deliver on the Group's strategy.

Purchase of own shares

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

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

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

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

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

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

27. Movement in assets and liabilities arising from financing activities

	As at 1 January 2023 £m	Cash flow[1] £m	Non-cash movements: Foreign exchange movements £m	Leases £m	Fair value adjustments £m	Net finance costs £m	Other movements[2] £m	As at 31 December 2023 £m
Assets								
Other financial assets[3]	**170**	**(200)**	**–**	**–**	**166**	**7**	**–**	**143**
	170	**(200)**	**–**	**–**	**166**	**7**	**–**	**143**
Liabilities								
Loans	**(5,242)**	**35**	**299**	**–**	**–**	**(203)**	**–**	**(5,111)**
Lease liabilities	**(1,616)**	**346**	**60**	**(157)**	**–**	**(53)**	**–**	**(1,420)**
Other financial liabilities[3]	**(114)**	**406**	**–**	**–**	**(441)**	**(19)**	**–**	**(168)**
	(6,972)	**787**	**359**	**(157)**	**(441)**	**(275)**	**–**	**(6,699)**
		587						
Other interest paid		**95**						
Purchase of own shares		**561**						
Equity dividends paid		**857**						
Dividends paid to non-controlling interests		**88**						
Net cash flow from financing activities		**2,188**						

	As at 1 January 2022 £m	Cash flow[1] £m	Non-cash movements: Foreign exchange movements £m	Leases £m	Fair value adjustments £m	Net finance costs £m	Other movements[2] £m	As at 31 December 2022 £m
Assets								
Other financial assets[3]	122	(550)	–	–	581	17	–	170
	122	(550)	–	–	581	17	–	170
Liabilities								
Loans	(5,061)	615	(584)	–	–	(212)	–	(5,242)
Lease liabilities	(1,295)	284	(95)	(464)	–	(48)	2	(1,616)
Other financial liabilities[3]	(163)	205	–	–	(155)	(1)	–	(114)
	(6,519)	1,104	(679)	(464)	(155)	(261)	2	(6,972)
		554						
Other interest paid		23						
Purchase of own shares		788						
Equity dividends paid		802						
Dividends paid to non-controlling interests		166						
Net cash flow from financing activities		2,333						

1. Cash flow movements represent both payments or receipts of principal and payments of interest, which are presented separately in the Consolidated cash flow statement.
2. Other movements includes movements arising on the acquisition or disposal of businesses.
3. Excluding cash flow hedges, for which the cash flow is reported in line with the underlying transaction. See note 15 for an analysis of other financial assets and liabilities.

Notes to the Consolidated financial statements continued

28. Fair value measurement

Fair value of financial instruments

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

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

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

- the fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate balance sheet rates;
- the fair values of both interest rate and cross-currency swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate balance sheet rates; and
- the fair values of money market funds are calculated by multiplying the net asset value per share by the investment held at the balance sheet date.

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

Due to the variability of the valuation factors, the fair values presented at 31 December may not be indicative of the amounts the Group will realise in the future.

Fair value hierarchy

The fair value measurement hierarchy is as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Carrying amounts and fair values of certain financial instruments

	Note	2023 Carrying amount £m	2023 Fair value £m	2022 Carrying amount £m	2022 Fair value £m
Financial instruments measured at fair value:					
Non-current					
Other investments at fair value through other comprehensive income	13	**84**	**84**	99	99
Other financial assets	15	**227**	**227**	322	322
Other financial liabilities	15	**(227)**	**(227)**	(272)	(272)
Current					
Other financial assets	15	**205**	**205**	252	252
Money market funds	19	**1,375**	**1,375**	1,149	1,149
Other financial liabilities	15	**(295)**	**(295)**	(328)	(328)
Financial instruments not measured at fair value:					
Non-current					
Loans	21	**(4,432)**	**(4,045)**	(5,189)	(4,588)
Current					
Loans	21	**(679)**	**(672)**	(53)	(53)

All of the financial assets and liabilities measured at fair value are classified as level 2 using the fair value hierarchy, except for money market funds, which are classified as level 1, and other investments, which are at a combination of level 1 and level 3. The total value of investments classified as level 3 is immaterial. There were no transfers between levels during the year. Alternative valuation techniques would not materially change the valuations presented.

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

29. Share-based payments

The Group has granted equity-settled share options and Long-Term Incentive Plan arrangements which are measured at fair value at the date of grant using an option pricing model. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will actually vest.

Details of the terms and conditions of each share-based payment plan are given in the Annual remuneration report on pages 107 to 134.

Expense in year

	2023 £m	2022 £m
Executive Share Option Plan	**8**	10
Performance Share Plan	**43**	35
Restricted Share Plan	**12**	10
	63	55

The Group also incurred a charge of £47m (2022 £46m) in respect of the equity-settled all-employee Free Shares and Matching Partnership Shares elements of the Share Incentive Plan.

Executive Share Option Plan

	2023		2022	
	Number of shares '000	**Weighted average exercise price £**	Number of shares '000	Weighted average exercise price £
Outstanding at 1 January	**34,814**	**5.58**	47,280	5.16
Granted during the year	**–**	**–**	8,141	7.39
Exercised during the year	**(9,380)**	**5.01**	(18,020)	5.30
Expired during the year	**(1,012)**	**6.10**	(2,587)	5.50
Outstanding at 31 December	**24,422**	**5.78**	34,814	5.58
Exercisable at 31 December	**8,284**	**5.21**	8,271	5.38

	2023	2022
Range of exercise price of outstanding options (£)	**4.12 – 7.83**	3.89 – 7.83
Weighted average remaining contracted life (years)	**7**	7
Weighted average fair value of options granted (£)	**–**	1.87

Performance Share Plan and Restricted Share Plan

	Performance Share Plan		Restricted Share Plan	
	2023 Number of shares '000	2022 Number of shares '000	**2023 Number of shares '000**	2022 Number of shares '000
Outstanding at 1 January	**27,343**	27,915	**5,805**	5,413
Granted during the year	**10,897**	6,799	**1,705**	2,205
Exercised during the year	**(4,293)**	(3,719)	**(1,688)**	(1,383)
Expired during the year	**(942)**	(3,652)	**(241)**	(430)
Outstanding at 31 December	**33,005**	27,343	**5,581**	5,805
Exercisable at 31 December	**1,508**	387	**108**	38

	2023	2022	**2023**	2022
Weighted average remaining contracted life (years)	**5**	5	**5**	5
Weighted average fair value of awards granted (£)	**9.73**	7.32	**9.78**	7.49

The exercise price for the Performance Share Plan and Restricted Share Plan is £nil (2022 £nil).

Notes to the Consolidated financial statements continued

29. Share-based payments continued

Details of options/awards granted in the year

The fair value of equity-settled options/awards granted in the year has been measured using the weighted average inputs below and the following valuation models:

Executive Share Option Plan – Binomial
Performance Share Plan – Monte Carlo
Restricted Share Plan – Dividend valuation

	2023	2022
Range of share price at date of grant (£)	**9.75 – 10.14**	7.35 – 7.83
Expected option/award life (years)	**3 – 7**	3 – 10
Volatility (%)	**31**	29
Risk-free interest rate (%)	**3 – 4**	1 – 3

Volatility was calculated with reference to the Group's weekly share price volatility, after allowing for dividends, for the greater of 30 weeks or for the period until vest date.

The average share price in the year was £9.77 (2022 £7.53).

30. Related party transactions

The Group has a related party relationship with its directors and key management personnel (see below), equity accounted investments (note 12) and pension schemes (note 24).

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:

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties[1]		Management recharges[1]	
Related party	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Eurofighter Jagdflugzeug GmbH	**1,377**	1,219	**303**	442	**32**	67	**116**	91	**–**	–
FADEC International LLC	**118**	73	**–**	–	**26**	–	**–**	–	**–**	–
MBDA SAS	**15**	19	**258**	76	**2**	6	**1,390**	949	**8**	8
Panavia Aircraft GmbH	**33**	22	**38**	49	**1**	1	**1**	2	**–**	–
BAE Systems Pension Schemes	**–**	–	**24**	20	**–**	–	**202**	193	**–**	–
Other	**143**	11	**35**	28	**18**	3	**37**	27	**–**	–
	1,686	1,344	**658**	615	**79**	77	**1,746**	1,262	**8**	8

1. Also relates to disclosures under IAS 24 Related Party Disclosures, for the parent company, BAE Systems plc. At 31 December 2023, £1,509m (2022 £1,021m) was owed by BAE Systems plc and £237m (2022 £241m) by other Group subsidiaries.

The Group also manages certain treasury functions on behalf of some of their equity accounted investments. This includes entering into foreign exchange derivatives on their behalf. As at 31 December 2023, we entered into forward contracts to purchase €297m, purchase $47m and purchase £12m worth of other currencies (2022 purchase €313m, sell $21m and purchase £14m worth of other currencies) on their behalf. No service fee is charged for these arrangements.

The Group considers key management personnel, as defined under IAS 24 Related Party Disclosures, to be the members of the Group's Executive Committee and the Company's non-executive directors. Fuller disclosures on directors' remuneration are set out in the Annual remuneration report on pages 115 to 134. Total emoluments for directors and key management personnel charged to the Consolidated income statement were:

	2023 £'000	2022 £'000
Short-term employee benefits	**22,146**	22,238
Post-employment benefits	**1,534**	677
Share-based payments	**15,655**	12,023
	39,335	34,938

31. Contingent liabilities

Contingent liabilities are potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business. Various Group undertakings are parties to legal actions and claims which arise in the normal course of business. Provision is made for any amounts that the directors consider may become payable (see note 25).

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

32. Acquisition of businesses

Businesses acquired during 2023

Eurostep acquisition

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

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

Businesses acquired during 2022

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

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

Acquisition consideration and fair value of net assets acquired

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

Notes to the Consolidated financial statements continued

32. Acquisition of businesses continued

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

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

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

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

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

1. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 227. It is presented here as our internal measure of segmental performance, to provide additional information on performance to the user.

33. Business disposals

Business disposals during 2023

There were no business disposals in 2023. The Group incurred cash outflows of £8m in the current year relating to the 2022 disposal of the financial crime detection business from Digital Intelligence, which had been fully provided for in 2022.

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**

34. Events after the reporting period

Ball Aerospace acquisition

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

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

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

Air Astana IPO

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

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

Malloy Aeronautics acquisition

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

Notes to the Consolidated financial statements continued

35. Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries, joint ventures, associated undertakings, and significant holdings in undertakings other than subsidiary undertakings of the Group at 31 December 2023 is disclosed below. All subsidiary undertakings are subsidiary undertakings of their immediate parent undertaking(s) pursuant to section 1162 (2) (a) of the Companies Act 2006 unless otherwise indicated. Unless otherwise stated, the aggregate percentage of capital held by the Group is 100%, the Group's shareholding represents ordinary shares of equal value and voting rights held indirectly by BAE Systems plc, the year end is 31 December, the country of incorporation is the United Kingdom and the address of the registered office is Victory Point, Lyon Way, Frimley, Camberley, Surrey GU16 7EX, England. For companies incorporated outside of the United Kingdom, the country of incorporation is shown in the address. No subsidiary undertakings have been excluded from the consolidation.

Subsidiary undertakings – wholly-owned

4219 Lafayette, LLC[1]
4219 Lafayette Center Drive, Chantilly VA 20151, United States

Aircraft Research Association Limited[2]
Manton Lane, Bedford MK41 7PF, United Kingdom

Alvis Limited

Alvis Pension Scheme Trustees Limited[3]

Alvis Vickers Limited

Armstrong Whitworth Aircraft Limited[3]

ASC Shipbuilding Pty Limited
Bldg 01, Level 2, 640 Mersey Road North, Osborne SA 5017, Australia

Australian Marine Engineering Corporation (Finance) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Avro International Aerospace Limited[3]

BAE Systems (Al Diriyah C4i) Limited[3]

BAE Systems (Canada) Inc.
220 Laurier Avenue West, Suite 1200, Ottawa ON K1P 5Z9, Canada

BAE Systems (Combat and Radar Systems) Limited
Charter Place, 23/27 Seaton Place, St. Helier, Jersey JE1 1JY

BAE Systems (Corporate Air Travel) Limited

BAE Systems (Defence Systems) Limited

BAE Systems (Dynamics) Limited

BAE Systems (Farnborough 3) Limited

BAE Systems (Finance) Limited

BAE Systems (Funding Four) Unlimited Company
Riverside One, Sir John Rogerson's Quay, Dublin D02 X576, Ireland

BAE Systems (Funding Three) Limited

BAE Systems (Funding Two) Limited

BAE Systems (Gripen Overseas) Limited

BAE Systems (Holdings) Limited[3]

BAE Systems (International) Limited

BAE Systems (Kazakhstan) Limited

BAE Systems (Kuwait) Limited

BAE Systems (Land and Sea Systems) Limited[4]

BAE Systems (Malaysia) Sdn Bhd
Level 25 Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia

BAE Systems (MEH) Limited

BAE Systems (Military Air) Overseas Limited

BAE Systems (Nominees) Limited[3]

BAE Systems (Oman) Limited

BAE Systems (Operations) Limited[5]

BAE Systems (Operations) Singapore Pte Limited
One Marina Boulevard #28-00, Singapore 018989, Singapore

BAE Systems (Overseas Holdings) Limited

BAE Systems (Poland) Sp. z o.o.
ul. Abp. A. Baraniaka 88, 61-131 Poznan, Poland

BAE Systems (Projects) Limited

BAE Systems (Property Investments) Limited

BAE Systems 2000 Pension Plan Trustees Limited[3]

BAE Systems AB[6]
Box 5676, SE-114 86 Stockholm, Sweden

BAE Systems Air Japan KK[7]
1-1 Katamachi, Shinjuku-ku, Tokyo, Japan

BAE Systems Applied Intelligence (Asia Pacific) Pte Limited
United Square, 101 Thomson Road, #25-03/04, 307591, Singapore

BAE Systems Applied Intelligence (Connect) A/S
c/o Kromann Reumert, Sundkrogsgade 5, Copenhagen East, 2100, Denmark

BAE Systems Applied Intelligence (GCS) Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Applied Intelligence (Integration) Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Applied Intelligence (International) Limited
Priestley Road, Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom

BAE Systems Applied Intelligence (Japan) KK
12/F Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo, 107-6024, Japan

BAE Systems Applied Intelligence (Spain) S.A.
Paseo de la Castellana, 141, Cuzco IV, 28046 Madrid, Spain

BAE Systems Applied Intelligence (UK) Limited

BAE Systems Applied Intelligence A/S
c/o Kromann Reumert, Sundkrogsgade 5, Copenhagen East, 2100, Denmark

BAE Systems Applied Intelligence GCS Inc.[7]
800 Towers Crescent Drive, 13th Floor #1382, Vienna VA 22182, United States

BAE Systems Applied Intelligence Integrated Computer Solutions (Kuwait) (S.P.C.)
Al Hamra Tower, Office Number 3503, 35th Floor, East Maqwa, Kuwait City, Kuwait

BAE Systems Applied Intelligence Limited
Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom

BAE Systems Applied Intelligence LLC[1]
8000 Towers Crescent Blvd, 13th Floor, Vienna VA 22182, United States

BAE Systems Applied Intelligence Malaysia Sdn Bhd
Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia

BAE Systems Australia (Electronic Systems) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia (NSW) Holdings Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia (NSW) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Datagate Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Defence Holdings Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Defence Pty Limited[9]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Holdings Limited[3]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Logistics Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Sea Sentinel Project Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Avionics Singapore Pte Limited
One Marina Boulevard, #28-00, Singapore 018989, Singapore

BAE Systems Bofors AB
SE-691 80 Karlskoga, Sweden

BAE Systems Bofors Holdings Sdn Bhd
Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia

BAE Systems C-ITS AB
Repslagaregatan 25, Linkoping SE-58222, Sweden

BAE Systems Communications Solutions LLC[1]
Knowledge Oasis, Building 4, Second Floor, 0402-Z427, Knowledge Oasis Muscat, PO Box 16, Postal Code 135, Muscat, Oman

BAE Systems Controls Inc.[10]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Creole Inc.[11]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Datagate Holdings Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Deployed Systems Limited[12]

BAE Systems Digital Intelligence Pty Limited
Level 26, 459 Collins Street, Melbourne VIC 3000, Australia

BAE Systems do Brasil Ltda
SCN Quadra 5 Bloco A, Ed. Brasilia Shopping, Torre Norte, Sala 426, Brasilia, DF CEP:70715-900, Brazil

BAE Systems Electronic Systems (Overseas) Limited

BAE Systems Electronics Limited

BAE Systems Enterprises Limited

BAE Systems Executive Pension Scheme Trustees Limited[3]

BAE Systems Finance Inc.[7]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Flight Training (Australia) Pty Limited[13]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Funds Management[3,14]

BAE Systems GCS International Limited

BAE Systems Global Combat Systems Munitions Limited

BAE Systems Global LLC[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Hägglunds AB
Bjornavagen 2, Ornskoldsvik SE-89182, Sweden

BAE Systems Hawaii Shipyards Inc.[7]
3049 Ualena Street, Suite 915, Honolulu, HI, 96819, United States

35. Information about related undertakings continued

Subsidiary undertakings – wholly-owned continued

BAE Systems Holding GmbH
Hauptstrasse 48, 82433 Bad Kohlgrub, Germany

BAE Systems Holdings (South Africa) (Pty) Limited
Central Office Park No. 5, 257 Jean Avenue, Centurion, Gauteng, 0157, South Africa

BAE Systems Holdings B.V.
c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands

BAE Systems Holdings Inc.[10]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Holdings International LLC[1]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Imaging Solutions Inc.[10]
1841 Zanker Road, Suite 50, San Jose, CA, 95112, United States

BAE Systems India (Homeland Security) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Services) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Technology) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Ventures) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems Information and Electronic Systems Integration Inc.[7]
65 Spit Brook Road, Nashua, NH, 03061, United States

BAE Systems Insurance (Isle of Man) Limited
Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man

BAE Systems Integrated System Technologies (KSA) Limited

BAE Systems Integrated System Technologies (Overseas) Limited

BAE Systems Integrated System Technologies Limited

BAE Systems International Inc.[7]
65 Spit Brook Road, Nashua, NH, 03061, United States

BAE Systems Jacksonville Ship Repair LLC[1]
8500 Hecksher Drive, Jacksonville FL 32226, United States

BAE Systems Japan GK
Ark Mori Building, 1-12-32 Akasaka, Minato-Ku, Tokyo, Japan

BAE Systems Land & Armaments Holdings LLC[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Land & Armaments Inc.[7]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Land & Armaments L.P.[1]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Land Systems (Finance) Limited

BAE Systems Land Systems (Investments) Limited

BAE Systems Land Systems ATF Limited

BAE Systems Land Systems FMTV International Inc.[11]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Land Systems Pinzgauer (Holdings) Limited

BAE Systems Land Systems Pinzgauer Limited

BAE Systems MAI Turkey Hava Sistemleri A.Ş.
Üniversiteler Mahallesi, Beytepe Lodumlu Köy Yolu Cad. No: 5/348 Çankaya, Ankara, Turkey

BAE Systems Marine (Holdings) Limited

BAE Systems Marine (YSL) Limited

BAE Systems Marine Limited

BAE Systems Netherlands B.V.
c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands

BAE Systems Norfolk Ship Repair Inc.[7]
750 West Berkley Avenue, VA 23523, Norfolk, United States

BAE Systems Oman LLC[1]
PO Box 74, Postal Code 111, Seeb, Oman

BAE Systems Ordnance Systems Inc.[7]
4509 West Stone Drive, Kingsport, TN 37660-9982, United States

BAE Systems Overseas Inc.[7]
65 Spit Brook Road, Nashua, NH, 03061, United States

BAE Systems Pension Funds CIF Trustees Limited[3]

BAE Systems Pension Funds Investment Management Limited[3,16]

BAE Systems Pension Funds Trustees Limited[3]

BAE Systems Project Services Limited

BAE Systems Projects (Canada) Limited

BAE Systems Properties Limited

BAE Systems Quest Limited[3,8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Regional Aircraft Colombia SAS[17]
c/o Brigard & Urrutia, Calle 70 A No. 4-41, Bogotá, Colombia

BAE Systems Resolution Inc.[7]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems S&S Operations Inc.[7]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems San Diego Ship Repair Inc.[7]
2205 East Belt Street, Foot of Sampson Street, CA 92113, San Diego, United States

BAE Systems Saudi America Limited
Riyadh Kingdom Centre 28th Floor (REGUS), PO Box 23088, Riyadh 11321, Central Province, Riyadh, Kingdom of Saudi Arabia

BAE Systems Saudi Arabia (Maintenance and Equipment Services) Limited
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Saudi Arabia (Vehicles and Equipment Holdings) Limited[3]

BAE Systems Saudi Arabia (Vehicles and Equipment Nominees) Limited[3]

BAE Systems Saudi Limited
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Serviços de Aviônicos Ltda.
Rua Ambrósio Molina, No. 1090. Bloco F, Eugênio de Melo, São José dos Campos, São Paulo 12.247-000, Brazil

BAE Systems Share Plans Trustee Limited[3,8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Services Limited

BAE Systems Shared Services Inc.[7]
11215 Rushmore Drive, Charlotte, NC, 28277, United States

BAE Systems Ship Repair Inc.[7]
750 West Berkley Ave., Norfolk, VA, 23523, United States

BAE Systems Southeast Shipyards AMHC Inc.[7]
8500 Heckscher Drive, Jacksonville, FL, 32226, United States

BAE Systems Surface Ships (Holdings) Limited

BAE Systems Surface Ships (Overseas) Limited

BAE Systems Surface Ships (Projects) Limited

BAE Systems Surface Ships Integrated Support Limited

BAE Systems Surface Ships Intermediate Holdings Limited[8]

BAE Systems Surface Ships International Limited

BAE Systems Surface Ships Limited

BAE Systems Surface Ships Maritime Limited

BAE Systems Surface Ships Portsmouth Limited[8]

BAE Systems Surface Ships Projects (Malaysia) Sdn Bhd
Level 29 Menara Binjai, No 2 Jalan Binjai, Off Jalan Ampang, 50450 Kuala Lumpur, Malaysia

BAE Systems Surface Ships Property Services Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Surface Ships Support Limited[5]

BAE Systems SWS Defence AB
SE-691 80 Karlskoga, Sweden

BAE Systems Tactical Vehicle Systems LP[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Technology LLC
Office No. 458, Building No. 47, 90th North Street, Section 1, New Cairo, 5th Settlement, Cairo, Egypt

BAE Systems Technology Solutions & Services Inc.[7]
520 Gaither Road, Rockville, MD, 20850, United States

BAE Systems Training Services Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems TVS Holdings LLC[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Ukraine LLC
23-A Building, Yaroslaviv Val Street, Kyiv City, 01054, Ukraine

BAE Systems Zephyr Corporation[10]
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States

BAE Systems Zephyr Fifth Corporation[10]
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States

BAE Systems Zephyr Fourth Corporation[10]
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States

BAE Systems Zephyr Second Corporation[10]
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States

BAE Systems Zephyr Third Corporation[10]
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States

BAE Systems, Inc.[7]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BIS Invest S.à.r.l.
2, Place de Strasbourg, L-2562, Luxembourg, Grand Duchy of Luxembourg

Bohemia Interactive Australia Pty Ltd[18]
Unit 2, Building A, 2 Technology Place, Williamtown NSW 2318, Australia

Bohemia Interactive Simulations GK
Karolinská, 654/2, Karin, 186 00 Prague 8, Czech Republic (incorporated in Japan)

Notes to the Consolidated financial statements continued

35. Information about related undertakings continued

Subsidiary undertakings – wholly-owned continued

Bohemia Interactive Simulations GmbH
Vistra Corporate Services, Westendstraße 28, 60325, Frankfurt am Main, Germany

Bohemia Interactive Simulations, Inc.[7]
3050 Technology Pkwy, Suite 110, Orlando, FL, 32746, United States

Bohemia Interactive Simulations K.S.[1]
Karolinská, 654/2, Karin, 186 00 Prague 8, Czech Republic

Bohemia Interactive Simulations Korea Ltd
Karolinská, 654/2, Karin, 186 00 Prague 8, Czech Republic (incorporated in the Republic of Korea)

Bohemia Interactive Simulations sp z.o.o.
Ul. Ostrobramska 101, 04-041, Warsaw, Poland

Bohemia Interactive Simulations (UK) Limited
31 Hercules Way, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6UU, United Kingdom

Bohemia Invest One Ltd

Bohemia Invest Two Ltd

Brabazon Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

British Aerospace (Far East) Limited[19]
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

British Aerospace (Malaysia) Sdn Bhd[19]
Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia

British Aircraft Corporation (Pension Fund Trustees) Limited[3]

British Aircraft Corporation Limited[3]

CPS International, Inc.[11]
Benedetti & Benedetti, Comosa Building, 21st Floor, PO Box 850120, Panama 5, Panama

Creole (Nigeria) Limited[5]
9th Floor, St. Nicholas House, 26 Catholic Mission Street, Lagos, Nigeria

Detica Group Limited

Detica Mexico S. de R.L. de C.V.
Torre Esmeralda II, Blvd Manuel Avila Camacho No. 36 Piso 18, Lomas de Chapultepec, 11000 D.F., Mexico

Detica Services, Inc.[7]
5th Floor, Suite 1920, 256 Franklin Street, Boston, MA 02110, United States

Dividend Training Limited

ETI Engineering, Inc.[7]
1676 International Drive, 10th Floor, Suite 1000, McLean VA 22102, United States

Eurostep AB
Gustavslundsvägen 137, SE-167 51 Bromma, Sweden

Eurostep Limited
Unit 16 Ffordd Richard Davies, St. Asaph Business Park, St. Asaph, Denbighshire LL17 0LJ, Wales

Eurostep Oy
Metsänneidonkuja 12 02130 Espoo Finland

Eurostep S.à.r.l.
8 rue Germain Soufflot 78180 Montigny-le-Bretonneux, France

EVU Czech, S.R.O.
Pernerova 691/42, Karlin, 186 00 Prague 8, Czech Republic

Gloster Aircraft Limited[3]

H-B Utveckling, H-B Development AB
Nybrogatan 7, SE-114 34 Stockholm, Sweden

Hadrian Holdings, Inc.
521 Fifth Avenue, New York NY 101075, United States

Hadrian Trustees Limited[2]

Hägglunds Vehicle GmbH
Ernst-Grote Strasse 13, 30916 Isernhagen, Germany

Hawker Siddeley Aviation Limited[3]

Hawker Siddeley Dynamics Limited[3]

HSA/HSD Pension Fund Trustees Limited[3]

Hunter Aerospace Corporation Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

In-Space Missions Limited
8 Oriel Court, Omega Park, Alton GU34 2YT, England

International Military Sales Limited

Jetstream Aircraft Limited[3]
Prestwick International Airport, Prestwick, Ayrshire KA9 2RW, United Kingdom

MES Holdco Limited
Charter Place, 23/27 Seaton Place, St. Helier, Jersey JE1 1JY

MES Interco[14]

Meslink Limited

Newcombe Properties Limited

Pitch Technologies AB
Repslagaregatan 25, SE-582 22 Linköping, Sweden

Pitch Technologies Limited
Sweden House, 5 Upper Montagu Street, London W1H 2AG, United Kingdom

Prismatic Limited[5]
2 Omega Park, Alton GU34 2QE, England

PT. BAE Systems Services[7]
Wisma 46, Kota BNI, 34th Floor, Suite 34.01.A, Jl. Jenderal Sudirman Kavling 71, Jakarta 10220, Indonesia

Pulse Power and Measurement Inc.
1717 Pennsylvania Avenue, NW Suite, 1025 Washington DC 20006, United States

Pulse Power and Measurement Limited[20]
65 Shrivenham Hundred Business Park, Watchfield, Swindon, Wiltshire SN6 8TY, United Kingdom

Representaciones SSTS, CA[11]
Ave Francisco de Miranda, Centro Lido El Rosal Oficina 71B, Caracas, Venezuela

Riptide Autonomous Solutions Canada Company
600-1741 Lower Water Street, Halifax, N/A, NS, B3J 3P6, Canada

Royal Ordnance (Crown Service) Pension Scheme Trustees Limited

Royal Ordnance Senior Staff Pension Scheme Trustees Limited

Scottish Aviation Limited[3]
Prestwick International Airport, Prestwick, Ayrshire KA9 2RW, United Kingdom

Sepia, LLC[1]
4219 Lafayette Center Drive, Chantilly VA 20151, United States

Shipbuilding (MSF) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Shipbuilding (VIC) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Simulation Technologies S.A.S.
8 rue de La Michodière, Paris, 75002, France

Stewart & Stevenson Operations (Nigeria) Limited[11]
9th Floor, St. Nicholas House, 26 Catholic Mission Street, Lagos, Nigeria

Stewart & Stevenson TVS UK Limited

Stratsec.net Sdn Bhd
Unit F-3-1, Blok F, Third Floor, CBD Perdana 3, Jalan Perdana, Cyber 12, 63000 Cyberjaya, Selangor Darul Ehsan, Malaysia

Support Solutions General Services and Contracting Company/Limited Liability company[1,17]
House No. 145, Street No. 1, Qtr. 611, Al Andulous Area, Al Mansour, Baghdad, Iraq

TDS International Holdings Pty Limited[21]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

TDS International Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Techmodal Limited

Techmodal Ventures Limited

TerraSim, Inc.[7]
600 Grant Street, Suite 1080, Pittsburgh PA, 15219, United States

The Blackburn Aeroplane & Motor Co Limited[3]

The Bristol Aviation Company Limited[3]

The British & Colonial Aeroplane Co. Limited[3]

The Supermarine Aviation Works Limited[3,4]

Thomas Sopwith Aviation Company Limited[3]

TMB International Logistics Limited

VSEL Birkenhead Limited

Westover Controls Incorporated[7]
1098 Clark Street, Endicott NY 13760, United States

35. Information about related undertakings continued

Subsidiary undertakings – not wholly-owned

Advanced National Company for Aircraft Maintenance Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Saudi Development and Training Company Limited (50.98%)[22]
PO Box 67775, Riyadh 11517, Kingdom of Saudi Arabia

BAE Systems SDT (UK) Limited (51%)

Flight Control System Management GmbH (66.6%)[23]
PO Box 801109, 81663 Munich, Germany

Granada Enterprises Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Hadrian Properties, Inc. (95%)[10]
521 Fifth Avenue, New York NY 101075, United States

International Systems Engineering Company Limited (46.2%)[24]
PO Box 54002, Riyadh 11514, Kingdom of Saudi Arabia

Overhaul and Maintenance Company Holding (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Saudi Maintenance & Supply Chain Management Company Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Saudi Technology & Logistics Services Limited (65%)[3]
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

SMSCMC (UK) Limited (51%)

Equity accounted investments

Abercromby Property International (20.42%)
521 Fifth Avenue, New York NY 101075, United States

Air Astana (49%)[10]
4A Zakarpatskaya Street, Turksib District, Almaty, 050039, Republic of Kazakhstan

AMSH B.V. (50%)[25]
Coolsingel 61, 7th Floor – right, 3012 AB Rotterdam, Netherlands

BAE Systems Strategic Aerospace Services WLL (49%)
Building 58, Street 850, Area 23, Qatari Bin Al Fajaa, Doha, Qatar

BAeHAL Software Limited (40%)[3,15]
Airport Lane, HAL Estate, Bangalore 560010, India

BHIC Bofors Defense Asia Sdn Bhd (49%)
Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia

Canadian Naval Support Limited (50%)[26]
3099 Barrington Street, Halifax NS B3K 5M7, Canada

Corsair Pty Ltd (51%)[27]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

CTA International SAS (50%)
13 Route De La Miniere, 78034 Versailles Cedex, France

Data Link Solutions L.L.C. (50%)[1,19]
350 Collins Road, Northeast Cedar Rapids IA 52498, United States

Eurofighter Jagdflugzeug GmbH (33%)[3]
Am Soldnermoos 17, 85399 Hallbergmoos, Germany

FADEC International LLC (50%)[1]
1098 Clark Street, Endicott NY 13760, United States

FAST Holdings Limited (50%)[15,21]

FAST Training Services Limited (50%)[15]

FNSS Savunma Sistemleri A.S (49%)[21]
Oğulbey Mahallesi, Oğulbey Kumeevleri, No. 441/A, 441/B, Gölbaşı, Ankara, Turkey

Innovaero Holdings Pty Ltd (51%)[27]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Innovaero Operations Pty Ltd (51%)[27]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Innovaero Pty Ltd (51%)[27]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

KBS Maritime Limited (50%)[28]
Victory Building (Pp 72), Rm. 233, The Parade, HM Naval Base, Portsmouth PO1 3LS, England

MBDA B.V. (37.5%)
Coolsingel 61, 7th Floor – right, 3012 AB Rotterdam, Netherlands

MBDA Holdings S.A.S. (25%)
1 avenue Réaumur, 92350 Le Plessis-Robinson, France

MBDA S.A.S. (37.5%)
1 avenue Réaumur, 92350 Le Plessis-Robinson, France

Nobeli Business Support AB (34%)
SE-691 80 Karlskoga, Sweden

Panavia Aircraft GmbH (42.5%)[3]
Am Soldnermoos 17, 85399 Hallbergmoos, Germany

Promoveo Solutions JV LLC (49%)
260 Peachtree Street NW, #2200, Atlanta GA 30303, United States

Reaction Engines Limited (15.5%)
Building F5, Culham Campus, Abingdon OX14 3DB, England

Rheinmetall BAE Systems Land Limited (45%)
Hadley Castle Works, PO Box 106, Telford TF1 6QW, England

Saab Bofors Test Center AB (30%)
Box 418, SE-691 27 Karlskoga, Sweden

Sealand Support Services Limited (33.3%)[8,29]
45 Gresham Street, London, EC2V 7BG, United Kingdom

Winner Developments Limited (33.3%)

Notes

1. Unincorporated entity for which the address given is the principal place of business.
2. Company limited by guarantee.
3. Directly owned by BAE Systems plc.
4. Ownership held in class of A shares, B shares and preference shares.
5. Ownership held in class of A shares and B shares.
6. Ownership held in ordinary shares and preference shares.
7. Ownership held in common shares.
8. In members' voluntary liquidation (MVL).
9. Ownership held in ordinary shares and redeemable preference shares.
10. Ownership held in common stock.
11. Ownership held in authorized shares.
12. 40% directly owned by BAE Systems plc.
13. Ownership held in ordinary shares, ordinary A and ordinary B shares.
14. Unlimited company.
15. Year end 31 March.
16. Year end 5 April.
17. In liquidation.
18. Ownership held in ordinary A shares.
19. Year end 30 September.
20. Ownership held in class of A, B, C, D, E, F and G ordinary shares.
21. Ownership held in class of A shares.
22. 1% directly owned by BAE Systems plc.
23. 33.3% directly owned by BAE Systems plc.
24. Subsidiary due to unilateral controlling rights.
25. Ownership held in class of B shares.
26. Ownership held in common shares (50%) and B Preferred shares (100%).
27. Not deemed a subsidiary due to rights of other shareholder.
28. Ownership held in ordinary shares (50%) and preference shares (75%).
29. Ownership held in ordinary shares (33.3%) and A Cumulative Preference Shares (75%).

BAE SYSTEMS 2022 ANNUAL FINANCIAL STATEMENTS

Independent Auditor's report

to the members of BAE Systems plc only

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of BAE Systems plc (the Parent Company) and its subsidiaries (the Group) give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated and Parent Company statements of comprehensive income;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated and Parent Company balance sheets;
- the consolidated cash flow statement;
- the related notes 1 to 37 in the consolidated Group financial statements, including the associated accounting policies; and
- the related notes 1 to 13 in the Parent Company financial statements, including the associated accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent Company for the year are disclosed in note 2 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- revenue and margin recognition on long-term contracts;
- carrying value of goodwill; and
- valuation of post-employment benefit obligations.

Within this report, key audit matters are identified as follows:

- ∧ Increased level of risk
- ≈ Similar level of risk
- ∨ Decreased level of risk

Materiality

The materiality that we used for the Group financial statements was £87.5m which was determined on the basis of profit before tax adjusted for adjusting items as well as fair value and foreign exchange adjustments on financial instruments as described further in section 6 below.

Scoping

Twenty-seven components were subject to audit procedures (2021: thirty-one components). Of these, six components (2021: the same six components) were subject to a full-scope audit. Of the remaining twenty-one components, nineteen (2021: twenty-one, with four different components now within this scope) were subject to an audit of specified account balances and two (2021: four with two now removed from scope) were subject to specified audit procedures.

The components, which were either subject to a full-scope audit or audit of specified account balances, contribute 89% of revenue (2021: 87%), 86% of profit before tax (2021: 84%) and 91% of total assets (2021: 92%). The remaining components were subject to other procedures, including conducting analytical reviews, making enquiries, and evaluating and testing management's Group-wide controls.

Significant changes in our approach

There have been no significant changes in our approach from the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls over the going concern models prepared by management, including the review of the inputs and assumptions used in those models;
- testing the accuracy of management's models, including agreement to the most recent Board approved budgets and forecasts;
- challenging the key assumptions of these forecasts by:
  - reading analyst reports, industry data and other external information and comparing these with management's estimates;
  - comparing forecast revenue with the Group's order book and historical performance;
  - evaluating the historical accuracy of forecasts prepared by management;
  - considering potential macro-economic impacts on the forecasts as a consequence of the current geo-political environment;
  - assessing the sensitivity of the headroom and management's forecasts; and
  - assessing the sufficiency of the Group's disclosure concerning the going concern basis.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Revenue and margin recognition on long-term contracts ≈

Refer to page 145 (Audit Committee report) and Note 1 (accounting policy and financial disclosures)

Revenue:
£21,258m (2021: £19,521m)

Key audit matter description

The estimation of both overall lifetime contract margin and the appropriate level of revenue and profit to recognise in any single accounting period requires the exercise of judgement. Within BAE Systems' contract portfolio there are a number of programmes where the estimates required in reaching these judgements are complex and could lead to a material error within the financial statements if reached incorrectly. Consequently, we consider that revenue and margin recognition represent a significant risk to our audit and a key audit matter.

We focus a greater proportion of audit effort on a number of contracts where we consider there to be the highest degree of judgement required and design contract specific procedures to mitigate the associated risks.

In order to identify the key contracts where there is a significant risk of material misstatement, we undertook a contract risk assessment process at each component utilising data analytics, the latest contract information, our understanding of the business, the results of prior audits and review of external information about market and geo-political conditions which might impact certain contracts. We held meetings with key finance and contract managers, attended quarterly business review meetings and other key management meetings, read and understood underlying contract documentation, and obtained management support for key contract judgements. In addition, we looked for contracts that might have higher levels of judgement associated with the risk of schedule delivery or technical complexity, fixed price contracts which increase the risk of contract losses and other indicators such as any potential climate-related risks, that could increase the risk of a material impact on the financial statements.

As a result of our risk assessment, we identified two contracts where we consider there to be the highest degree of judgement required in estimating the outturn margin position. These are:

- Type 26 frigates; and
- Armored Multi-Purpose Vehicles (AMPV), specifically Low-Rate Initial Production 2 (LRIP2).

We consider the level of risk associated with this key audit matter has remained consistent with the prior year due to a similar level of judgement existing and no significant changes to the forecast revenues on the contracts.

How the scope of our audit responded to the key audit matter

Our contract testing approach included:

Testing the relevant controls

- We obtained an understanding of and tested relevant manual and IT controls within management's Lifecycle Management (LCM) Framework and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for.
- As part of this, we observed the controls in operation by attending a sample of project contract status review meetings, quarterly business review meetings and Group-level meetings to validate the various levels of challenge applied to the forecasts.

Challenging assumptions and estimates

To gain assurance over the contract judgements and estimates made, our work included:

- making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end;
- analysing historical contract performance and understanding the reason for in-year movements or changes;
- conducting production site visits to inform our challenge of the cost to complete estimate and understanding of contract status;
- testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract alongside associated contingencies. As part of this we considered historical forecasting accuracy of costs, including on similar programmes, and challenged future cost expectations with reference to those data points;
- examining external correspondence to assess the timeframe for delivery of the product or service and any judgements made in respect of these;
- examining external evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence and, for certain contracts, meeting with the customer directly;
- enquiring with in-house and external legal counsel regarding contract-related litigation and claims;
- considering the potential impact of the Ukraine conflict and supply chain issues, such as inflation, on the cost to complete estimate for significant contracts; and
- considering whether there were any indicators of management override of controls or bias in arriving at their reported position, including a stand back assessment of the contract position.

Key observations

The results of our testing were satisfactory.

Through our testing of the contracts in relation to this key audit matter we consider the judgements made by the Group in recognising revenue and profit to be reasonable.

5.2. Carrying value of goodwill ≈

Refer to page 145 (Audit Committee report) and Note 8 (accounting policy and financial disclosures)

Goodwill:
£11,819m (2021: £10,910m)

Key audit matter description

The Group holds material goodwill balances, the majority of which are in the US. Management performs an impairment review of the carrying value of each Cash Generating Unit (CGU) on an annual basis in line with the requirements of IAS 36.

The impairment assessment involves judgement in considering whether the carrying value of the CGU is recoverable. Determining the recoverable amount involves significant estimation including:

- forecasting future cash flows;
- determining the discount rate; and
- determining long-term growth rates.

As outlined in Note 8, in the current year, the Group has changed the basis on which goodwill is monitored and assessed for impairment, alongside the reorganisation of the Group's segments and changes made to its internal processes.

As a result, in the current year the key audit matter has focused on the change in basis for assessing goodwill for impairment in addition to the annual impairment assessment performed.

Change in basis for assessing goodwill for impairment

Determining the level in the Group's reporting structure at which goodwill is assessed for impairment requires judgement and changes should only be made when there has been a change in the way in which the Group is organised or managed and/or when there has been a change in the processes and responsibility for monitoring goodwill for impairment at a particular level in the Group.

We therefore determined there to be an increased risk surrounding two aspects of this change:

1) that the basis for the change is not appropriate based on the relevant facts and circumstances; and
2) in making the change, there is a risk that an impairment that would otherwise have been identified on the previous basis could be overlooked. We pinpointed this specific aspect of the risk to the Land Munitions CGU. This was as a result of the lower headroom in comparison to the other CGUs during 2021.

An impairment assessment was performed by management prior to the transition to the new basis, to assess whether an impairment would have arisen for the Land Munitions CGU. The Land Munitions CGU held £427m of goodwill at 31 December 2021 and 30 June 2022, the latter date being the point at which management changed the basis of assessing goodwill for impairment.

Annual goodwill impairment assessment

Through our risk assessment, we determined there to be a heightened level of impairment risk in relation to the carrying value of goodwill, amounting to £3,753m associated with the Platforms & Services (P&S) CGU. The basis on which management is assessing this goodwill for impairment has not changed.

Through our risk assessment, we determined that the key drivers of future cash flows in the P&S CGU were future demand, long-term contract margin and operating cash flow assumptions, predominantly within the Combat Mission Systems business. In addition, given the macro-economic environment, we identified that both the Land Munitions and P&S CGUs were sensitive to movements in the discount rate and long-term growth rate.

The size of the balance, level of judgement applied, both in revising the basis on which goodwill is assessed for impairment and also in carrying out the annual impairment review, combined with the audit effort involved in challenging these risk areas means we consider this to be a key audit matter.

How the scope of our audit responded to the key audit matter

We have performed a series of specific audit procedures to address the key audit matter identified above.

Change in basis for assessing goodwill for impairment

In respect of the change in the level at which goodwill is assessed for impairment, we performed the following to address the two risks noted above:

- we obtained a detailed understanding of the changes made by management to the Group's operating segments, and also to relevant financial processes and responsibilities for monitoring goodwill and assessing it for impairment. This included challenging the underlying rationale behind the changes and the impact of these changes on the way the sectors and lines of business are managed, and goodwill is monitored;
- we challenged management on the timing of changes and the appropriate date at which amendments to the level at which goodwill is assessed should become effective, in particular given this impacted the point at which the Land Munitions CGU was considered for impairment on the previous basis and thus which discount rate to apply;
- we challenged management's impairment assessment of the Land Munitions CGU on the previous basis in the same way as outlined for the annual goodwill impairment assessment below;
- we considered available contradictory evidence and whether an impairment should first be recorded under the previous basis before transition to the current basis of assessment; and
- we assessed the extent of disclosures provided in the financial statements with respect to the rationale behind the change and its overall impact on goodwill impairment assessment.

Annual goodwill impairment assessment

A number of procedures were performed in relation to the annual impairment assessment of the P&S CGU and in considering whether there was any impairment at the date of change in basis for assessing goodwill of the Land Munitions CGU. These included the following:

- we obtained a detailed understanding of management's process and tested key controls for performing the CGU impairment assessment. Specific focus was given to understanding management's process and controls over forecasting future cash flows, forecasting for the impact of climate-change and determination of the key assumptions as detailed above;
- we challenged forecast performance with reference to the recent and historical performance of the CGU, historical forecasting accuracy and external industry benchmarks. This included performing sensitivity analysis to evaluate the impact of changing a range of assumptions including suppressed growth, lower margin assumptions, changes in the discount rate and impacts of the higher inflationary environment;
- we assessed the risks and opportunities identified by management in their forecasts and modelled different scenarios to understand the impact of both adverse and positive changes to the future forecasts and the level of associated headroom;
- we challenged the long-term growth rate assumption with reference to market, industry and economic data combined with an evaluation of the underlying key contracts that underpin the future growth assumptions;
- in the case of P&S, where management's forecasts have assumed significant contract renewals or an extension to existing contracts (i.e. moving from initial to full rate of production), we challenged those judgements with operational management and, where relevant, correspondence with the customer over contract renewal;
- operating cash flow and working capital assumptions were challenged, including the impact of climate change-related risks, with reference to our revenue contract audit work for key programmes, as well as historical trends for each line of business;
- we tested the integrity of management's impairment model used to derive the recoverable amount; and
- we involved our valuation specialists to support our challenge of the applicable discount rate.

Key observations

We have undertaken audit procedures on the forecasts for the P&S and Land Munitions businesses and are satisfied that the assumptions are reasonable and justifiable based on available evidence, both internal and external.

We completed our assessment of the change in basis of monitoring and assessing goodwill for impairment and concluded that the approach taken is appropriate and reflects underlying changes to the business, including specifically the level at which goodwill is monitored for performance purposes internally. We are also satisfied that a material impairment would not have arisen for the Land Munitions CGU on the previous basis of assessment, prior to the change.

The Group concluded that no reasonably possible change in a key assumption would lead to impairment, and we concur with that conclusion.

5.3. Valuation of post-employment benefit obligations ≈

Refer to page 145 (Audit Committee report) and Note 25 (accounting policy and financial disclosures)

Group's share of the net IAS 19 surplus after allocation to equity accounted investments (EAI):
£646m (2021: £2,124m net deficit)

Valuation of post-employment benefit obligation assets before allocation to equity accounted investments:
£25,343m (2021: £31,580m)

Valuation of post-employment benefit obligation liabilities before allocation to equity accounted investments:
£23,868m (2021: £33,866m)

Key audit matter description

The principal post-employment benefit schemes are held in the UK and US and are funded defined benefit schemes, with assets held in separate trustee-administered funds.

We identified the following areas which were the focus of our procedures in auditing the Group's net post-employment benefit surplus as a key audit matter:

Net surplus position

A number of the Group's post-employment benefit schemes have moved from a net deficit position to a net surplus position during 2022. As outlined in note 25, the ability to recognise the net surplus on the balance sheet is dependent on the legal rights of the scheme employer and the practical ability of the Group to recover the surplus, which then determines the necessary tax treatment. The surplus is a function of the value of the scheme assets, less the value of the defined benefit obligation liability.

Assets

Given the size and nature of the scheme assets there is significant audit effort required in ensuring the valuation of assets is appropriate.

Certain asset classes are inherently more judgemental to value and have a higher level of associated valuation risk, namely:

- private equity investments;
- pooled investment vehicles without published market prices;
- private placements;
- longevity swap derivatives; and
- property assets.

Liabilities

The key judgements relating to the post-employment benefit obligation liabilities include:

- inflation assumptions for the UK schemes, including the basis for determining the inflation risk premium;
- discount rates; and
- mortality assumptions.

Given the significant size of the post-employment benefit obligations at year-end, small changes to these input assumptions can lead to material changes in the net IAS 19 surplus. Assumptions are also made in the determination of the Group's share of assets and liabilities of multi-employer schemes in which it participates and the corresponding amounts attributed to other participating employers, including BAE Systems plc on a company-only basis and MBDA, as an EAI.

Whilst new risks have emerged in the current year as regards the need to consider the recognition of a surplus and the related tax treatment, we consider the overall level of risk associated with this key audit matter is consistent with the prior year.

How the scope of our audit responded to the key audit matter

Net surplus position

In relation to the recognition of the net surplus position, and the related tax treatment, we have performed the following procedures:

- in conjunction with our legal and actuarial experts we inspected the legal agreements for the relevant pension schemes and the legal advice received by the Company as to its right to recover the surplus;
- we challenged management's assessment of the basis on which the net surplus could be recovered by the Group in the future including with input from our legal and actuarial experts; and
- in conjunction with our tax specialists, we evaluated the tax treatment of the pension surplus taking into account the above assessment and the rationale for which the withholding tax charge has been netted off against the surplus position rather than being recognised gross.

Assets

In relation to asset valuations, we have performed the following procedures with increased focus on those assets with a higher valuation risk as noted above:

- we obtained a detailed understanding and performed walkthroughs of management's process and reviewed relevant internal controls reports from service providers, with specific focus on understanding key controls relating to the valuation of certain asset classes. We then tested the pension asset valuation controls for a number of the asset classes operated both by management and relevant service providers;
- we sought and obtained third party confirmation from asset managers and/or custodians or other supporting evidence as appropriate;
- in conjunction with our actuarial specialists, we challenged the fair value assumptions used to value the longevity swaps including the future projected mortality rates and discount rate;
- we assessed publicly-available information on the assets (including fact sheets and prospectuses), comparing to internal and external benchmarks (i.e. market prices, relevant indices or comparably priced instruments) and reconciling inputs used by management to determine the asset values; and
- in the case of specialist asset classes, such as properties, we involved relevant specialists to challenge the third-party valuations performed with reference to recent market transactions, rental yields, and movements in the MSCI Real Estate index.

Liabilities

In relation to post-employment benefit obligations, we have performed the following procedures:

- we obtained a detailed understanding and performed walkthroughs of management's process, with specific focus on understanding key controls relating to the valuation of the post-employment benefit obligation including maintenance of membership data;
- in conjunction with our actuarial specialists, we challenged the assumptions used in the IAS 19 valuation, including assessing and challenging the reasonableness of the assumptions against available market data and benchmarking against peers;
- we gave specific focus to challenging the basis on which the Group determined the inflation rate actuarial assumptions for the UK and US Schemes, with reference to our own determined ranges, and other market data sources;
- we considered the adjustment made by management to the CMI (Continuous Mortality Investigation) 2021 mortality tables to apply a weighting factor to reflect its assessment of the potential COVID-19 mortality impact, with reference to advice the Group has received from its actuaries;
- we assessed the relevant control environment of the third-party administrators who maintain membership data on behalf of the Group through review of their ISAE 3402 controls reporting, including considering and responding to any findings therein;
- we agreed a sample of cash contributions made into the pension funds; and
- we assessed the competence, capabilities and objectivity of the actuaries engaged by management to perform the valuations of the schemes.

Key observations

We concluded our testing of the assets and are satisfied that they are appropriately valued.

When taken together, we consider the discount rate, inflation and other key pension assumptions used in calculating the post-employment benefit obligation to be within our independently developed reasonable range.

We are satisfied that the judgement taken on the relevant tax rate to apply to the pension surplus and the net presentation of the surplus position is appropriate.

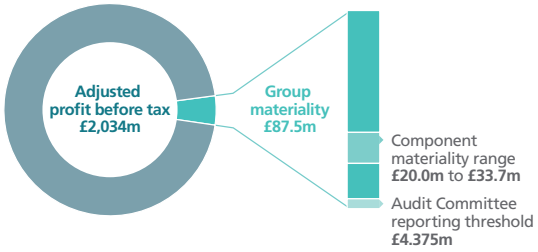
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£87.5m (2021: £82.5m)	£34.2m (2021: £39.5m)
Basis for determining materiality	4.3% of adjusted profit before tax of £2,034m (2021: 4.7% of adjusted profit before tax of £1,769m). This reflects adjusting items of £91m and fair value adjustments and foreign exchange movements on financial instruments of £136m, detailed in notes 1 and 5 of the financial statements.	0.7% of net assets of £4,712m (2021: 0.9% of net assets of £4,341m).
Rationale for the benchmark applied	Adjusted profit before tax was considered to be the most relevant benchmark as it is considered the most stable and comparable profit metric. The adjustments relate to items we consider one-off in nature and not reflective of the underlying performance of the business. We consider the measure suitable having also considered the other relevant benchmarks of profit before taxation, where our materiality equates to 4.4%, or net assets, where our materiality equates to 0.8%.	We consider net assets the key benchmark used by members of the Parent Company in assessing financial performance.
Component materiality	The work performed on components identified in our Group audit scope (excluding the Parent Company) was completed to a component materiality level between £20.0m and £33.7m (2021: £20.4m and £31.7m).	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent Company financial statements
Performance materiality	70% (2021: 70%) of Group materiality	70% (2021: 70%) of Parent Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: – the quantum and nature of the uncorrected misstatements identified in the prior year audit; – our assessment of the potential for uncorrected misstatements in the current year; – our risk assessment, including our assessment of the overall control environment; – no substantial changes to the business have been noted from the prior year; and – the size and nature of the contract-based significant risks of material misstatement identified.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £4.375m (2021: £4.125m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

We performed our scoping of the Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the audit risks. This exercise has considered the relative size of each reporting unit's contribution to revenue, profit before tax and adjusted profit before tax, alongside further financial or contractual risks, which we consider to be present.

We have considered units that contribute more than 10% of the Group's revenue or adjusted profit before tax to be 'financially significant' and requiring a full scope audit. In addition, as part of our risk assessment procedures and using our knowledge of the business, we assess where else we consider it appropriate to perform a full scope audit. This resulted in full scope audits for six components located in the UK, the Kingdom of Saudi Arabia and the US, and included the Group's largest joint venture, Matra BAE Dynamics Alenia (MBDA).

Additionally, our audit planning identified twenty-one non-financially significant components, located in the UK, the Kingdom of Saudi Arabia, Australia, and the US, where we consider there to be a reasonable possibility of material misstatement in specific balances within the financial statements. As a result of our risk assessment procedures and the detailed scoping exercise performed at the planning stage of our audit, we determined that it was appropriate to rotate certain non-financially significant components in and out of our Group audit scope in the current year. We have directed component auditors to perform an audit of specified account balances or specified audit procedures on the respective income statements and balance sheets for these components.

For all components designated financially significant or subject to an audit of specified account balances, revenue was determined to be in scope for the audit.

For all other reporting units not included in full-scope, specified account balance scope or specified audit procedure scope, we performed centrally directed analytical review procedures to confirm our conclusion that there was no significant risk of material misstatement in the residual population.

We also audited the consolidation process and performed audit procedures on centrally managed balances including treasury, post-employment benefit obligations, litigation and claims, goodwill, tax, and head office costs.

As each of the business units maintains separate financial records, we have engaged component auditors from the Deloitte member firms in the US, UK, Kingdom of Saudi Arabia and Australia to perform procedures at all the wholly-owned components under our direction and supervision. This approach also allows us to engage local auditors who have appropriate knowledge of local regulations to perform the audit work, under a common Deloitte audit approach.

In respect of MBDA, we have engaged with the entity's non-Deloitte auditors to perform a full-scope audit under our direction, supervision and review.

The Parent Company is located in the United Kingdom and audited directly by the Group audit team.

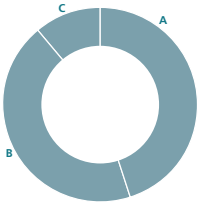
The twenty-five components within either full or specified account balance scope contribute the following proportions to total Group results.

7.2. Our consideration of the control environment

The Group operates a range of IT systems which underpin the financial reporting process. These vary by business and/or by geography. For all components that were subject to either a full scope or audit of specified balances, we identified relevant IT systems for the purpose of our audit work. These were typically the principal Enterprise Resource Planning (ERP) systems for each business that underpin the general ledger and contract accounting balances, and in some cases also included ancillary/feeder systems into the main ERP.

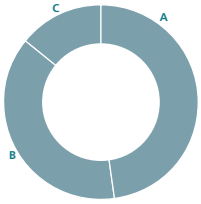
In the current year our controls approach was principally designed to inform our risk assessment and also to allow us to test the operating effectiveness of certain relevant revenue controls. We also assessed relevant general IT controls. The Group continues to invest in its IT systems and there is an ongoing programme of remediating any control findings where they are identified through its own assurance framework, including Internal Audit, or through the external audit. As part of our controls work in the prior and current year, we identified certain control deficiencies that management is in the process of remediating as disclosed in the Audit Committee report on page 145. In the current year this included identifying a new change management segregation of duties deficiency within the ERP system of one of the Group's overseas businesses. Where deficiencies have been identified and the remediation activity remained ongoing during the current year, or the remediated controls were not in place for a sufficient enough period prior to the year-end, we did not seek to place reliance on those relevant IT systems for the purpose of our audit.

Revenue



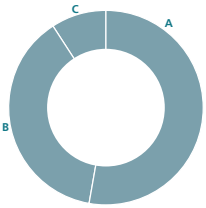
A	Full audit scope	**45%**
B	Specified account balances	**44%**
C	Specified audit procedures and review at Group level	**11%**

Profit before tax



A	Full audit scope	**48%**
B	Specified account balances	**38%**
C	Specified audit procedures and review at Group level	**14%**

Total assets



A	Full audit scope	**53%**
B	Specified account balances	**38%**
C	Specified audit procedures and review at Group level	**9%**

The majority of the focus of our controls assessment is in relation to the Group's contract accounting processes, the Lifecycle Management Framework (LCM). For each component where revenue is in scope, we obtain an understanding of key contract controls, such as with respect to the estimation of contract costs and the amount of contract revenue to recognise in the period. In the current year we have also sought to test certain relevant revenue controls. At each business unit we also consider key controls relevant to other income statement and balance sheet items where they are considered relevant to our audit for risk assessment purposes.

We have also considered head office controls relating to central balances and processes such as pension accounting, consolidation and financial reporting, treasury, tax, and the Group's planning and budgeting process.

During the course of our audit, we placed reliance on a number of relevant contract accounting controls and certain valuation controls in relation to pension assets.

7.3. Our consideration of climate-related risks

We have engaged with both the central finance and sustainability functions to gain an understanding of BAE's assessment of, and the process undertaken to both identify and quantify, the Group's climate-related risks. We have engaged our climate specialists in our assessment to consider broader industry and market-wide practice.

We completed an independent climate-based risk assessment in order to consider the potential impact of climate change on the Group's financial statements incorporating both business specific knowledge and wider industry awareness. We used this to assess the completeness of the Group's identified risks. In addition, component teams have considered the local regulatory and legal environment, and therefore the likelihood of unidentified environmental claims arising. As set out by management in pages 222 and 223 to the financial statements, the areas of financial reporting principally impacted are those reliant on future forecasts or future performance, notably recoverability of goodwill and revenue recognition on long-term contracts.

In relation to the Group's future forecasts, we considered the appropriateness of amounts included by management in relation to climate change in the context of the underlying businesses' specific needs and existing asset base, including engaging with segment management to understand the process undertaken to identify required activities to achieve the Group's Net Zero ambition. In considering the disclosures presented as part of the Strategic Report, we engaged our climate specialists to assess compliance with the Task Force on Climate-Related Financial Disclosures (TCFD) and the recommendations made by both the Task Force and FRC as set out in their thematic reviews. We have also assessed whether these disclosures reflect our understanding of the Group's approach to climate. With respect to the financial statements, we considered whether the current assessed impact of climate change required further or enhanced disclosure as part of critical accounting estimates. However, we concluded the current presentation as a factor within the estimate of revenue and goodwill, rather than a material driver of these estimates, is proportionate to the relative risk of the Group and current assessed potential financial impact.

For further information regarding our assessment of revenue recognition on long-term contracts and the carrying value of goodwill, please refer to sections 5.1 and 5.2 above.

7.4. Working with other auditors

Our oversight of component auditors included directing the planning of their audit work and understanding their risk assessment process to identify key areas of estimates and judgement, as well as supervising the execution of their audit work. We issued detailed referral instructions to the component auditors, reviewed and supervised their work through a number of visits to each of the component auditors during the planning and performance stages of our audit, alongside frequent remote communication. Further, we challenged the related component inter-office reporting and findings from their work, reviewed underlying audit files, attended component audit closing meetings in person, or virtually where in person attendance was not possible, and held regular remote communication to interact on any related audit and accounting matters which arose.

Additionally, all teams were involved in our annual planning workshop, which was led by the Group audit team. Visits to meet with component teams in the UK, US, Australia and Kingdom of Saudi Arabia were also conducted by either the lead audit partner or senior members of the engagement team (including at a partner or director level).

The BAE Systems, Inc. business units in the US are subject to a Department of Defence Special Security Arrangement (SSA), which is a government requirement setting out specific protocol that foreign controlled companies must comply with in order to be able to undertake government defence contracts. As part of this there is restriction on the flow of information outside of the US. Therefore, for the US components there are restrictions around access to the audit file and specific workpapers for non-US nationals. As such, and consistent with previous years, we have designed alternative procedures, including involvement of an additional independent US national partner, to ensure appropriate oversight of the US component team.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal legal counsel, internal audit, directors and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations, including obtaining an understanding of the Group's bribery and corruption and whistleblowing policies;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the level of judgement involved in estimating costs to complete on long-term contracts and the subsequent impact on revenue and margin recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pension legislation, and taxation legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty, including in respect of export controls, defence contracting and anti-bribery and corruption legislation.

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue and margin recognition on long-term contracts as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee, in-house legal counsel and where appropriate, circularising external legal counsel, concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with relevant regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 127;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 126;
- the directors' statement on fair, balanced and understandable set out on page 148;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 126;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 138; and
- the section describing the work of the Audit Committee set out on page 145.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the members on 10 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years covering 31 December 2018 to 31 December 2022.

16. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements will form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (ESEF RTS). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS. We have been engaged to provide assurance on whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS and will publicly report separately to the members on this.

John Adam
Senior Statutory Auditor

For and on behalf of
Deloitte LLP Statutory Auditor

London, United Kingdom
22 February 2023

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Group accounting policies

Accounting policies are included within the relevant note to the Group accounts.

Preparation of the consolidated financial statements

Basis of preparation

The consolidated financial statements of BAE Systems plc have been prepared on a going concern basis, as discussed in the Directors' report on page 127, and in accordance with UK-adopted international accounting standards and the Companies Act 2006 applicable to companies reporting under IFRS.

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).

Transactions in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date, with the resulting exchange differences recognised in the income statement.

Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out in the relevant notes. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the consolidated financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Group's financial performance and position.

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 value 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:

Accounting policy	Description	Notes
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. As shown in note 1, the Group has 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 it may not reflect the full potential impact on the contract receivables and contract liabilities balances.	1

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 that most appropriately reflects the Group's circumstances. If estimates relating to these actuarial assumptions are no longer valid or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly. Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macroeconomic issues. The impact of estimates made with regard to mortality projections may also change. Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions including the impact of climate change on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months. Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgement is then required to determine the presentation of any tax payable in recovering a surplus. Note 25 provides information on the key assumptions and analysis of their sensitivities.	25

In preparing the consolidated financial statements management has considered the potential impact of climate change, in the context of the disclosures included in the Strategic report this year and the impact of the Group's net zero ambitions. Estimates and judgement are required in establishing how the Group will pursue its net zero targets, as well as further mitigating actions identified as part of the detailed review of climate risks and opportunities. These have been factored in to the future business plans of the Group, through the IBP process, and are not considered to have a material impact on the financial reporting estimates and judgements. The following additional areas of estimation were considered in reaching this conclusion:

- estimates of future cash flows to support impairment assessments of the carrying value of non-current assets and the assessment of going concern and the longer-term viability of the Group;
- an assessment of the useful economic lives of assets; and
- potential climate-related impacts on the Group's environmental provisions, in particular with regard to legislative changes.

Critical judgements made in applying accounting policies

In the course of preparing the financial statements and when applying its accounting policies, the Group has been required to make judgements with regard to the actions required to enable the business to continue to meet customers' requirements, in an operating environment still dominated by uncertainties arising from global economic uncertainties. No critical judgements have been made in the process of applying the Group's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the financial statements.

Changes in accounting policies

The following standards, interpretations and amendments to existing standards became effective on 1 January 2022 and have not had a material impact on the Group:

- Amendments to IFRS 3 Business Combinations, effective from 1 January 2022;
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use effective from 1 January 2022;
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract effective from 1 January 2022; and
- Annual Improvements to IFRS Accounting Standards 2018–2020 Cycle effective from 1 January 2022.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2022. These either have been, or are expected to be endorsed by the UK Endorsement Board and are not expected to have a material impact on the Group:

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023;
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1 January 2023;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023.

Consolidation

The financial statements of the Group consolidate the results of the Company and its subsidiary entities, and include its share of its equity accounted investments' results accounted for under the equity method.

A subsidiary is an entity controlled by the Group. The Group controls a subsidiary when it is exposed, or has the rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The results of subsidiaries are included in the income statement from the date of acquisition.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Joint ventures are accounted for under the equity method where the Consolidated income statement includes the Group's share of their profits and losses, and the Consolidated balance sheet includes its share of their net assets within equity accounted investments.

The assets and liabilities of overseas subsidiaries and equity accounted investments are translated at the exchange rates ruling at the balance sheet date. The income statements of such entities are translated at average rates of exchange during the year. All resulting exchange differences are recognised directly in a separate component of equity. Translation differences that arose before the transition date to IFRS (1 January 2004) are presented in equity, but not as a separate component. When a foreign operation is sold, the cumulative exchange differences recognised in equity since 1 January 2004 are recognised in the income statement as part of the profit or loss on sale.

Consolidated income statement for the year ended 31 December

	Notes	2022 £m	2022 Total £m	2021 £m	2021 Total £m
Continuing operations					
Revenue	1		**21,258**		19,521
Operating costs	2		**(19,269)**		(17,743)
Other income	4		**215**		472
Share of results of equity accounted investments	1		**180**		139
Operating profit	1		**2,384**		2,389
Financial income		**47**		32	
Financial expense		**(442)**		(311)	
Net finance costs	5		**(395)**		(279)
Profit before taxation			**1,989**		2,110
Taxation expense	6		**(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	7				
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

	Notes	2022 Other reserves[1] £m	2022 Retained earnings £m	2022 Total £m	2021 Other reserves[1] £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	6	**–**	**(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	20	**(17)**	**–**	**(17)**	(9)	–	(9)
Fair value (loss)/gain arising on hedging instruments during the year	15	**(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	6	**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

1. An analysis of other reserves is provided in note 27.

Consolidated statement of changes in equity for the year ended 31 December

	Notes	Attributable to equity holders of BAE Systems plc: Issued share capital £m	Share premium £m	Other reserves[1] £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)	32	–	–	–	94	94	–	94
Cumulative fair value gain on hedging instruments transferred to the balance sheet (net of tax)		–	–	(35)	–	(35)	–	(35)
Ordinary share dividends	27	–	–	–	(777)	(777)	(202)	(979)
Purchase of own shares	27	(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)	32	–	–	–	127	127	–	127
Cumulative fair value loss on hedging instruments transferred to the balance sheet (net of tax)		–	–	8	–	8	–	8
Ordinary share dividends	27	–	–	–	(802)	(802)	(166)	(968)
Purchase of own shares	27	(3)	–	3	(793)	(793)	–	(793)
At 31 December 2022		**82**	**1,252**	**6,951**	**2,930**	**11,215**	**185**	**11,400**

1. An analysis of other reserves is provided in note 27.

Consolidated balance sheet as at 31 December

	Notes	2022 £m	2021 £m
Non-current assets			
Intangible assets	8	**12,644**	11,716
Property, plant and equipment	9	**3,235**	2,852
Right-of-use assets	10	**1,425**	1,091
Investment property	11	**63**	67
Equity accounted investments	12	**787**	554
Other investments	13	**99**	76
Other receivables	14	**618**	551
Post-employment benefit surpluses	25	**1,297**	483
Other financial assets	15	**322**	305
Deferred tax assets	16	**338**	622
	21	**20,828**	18,317
Current assets			
Inventories	17	**976**	811
Trade, other and contract receivables	14	**6,166**	4,825
Current tax	18	**133**	71
Other financial assets	15	**252**	194
Cash and cash equivalents	19	**3,107**	2,917
		10,634	8,818
Total assets		**31,462**	27,135
Non-current liabilities			
Loans	22	**(5,189)**	(4,604)
Lease liabilities	10	**(1,375)**	(1,083)
Contract liabilities	23	**(945)**	(519)
Other payables	24	**(1,441)**	(1,248)
Post-employment benefit obligations	25	**(651)**	(2,607)
Other financial liabilities	15	**(272)**	(302)
Deferred tax liabilities	16	**(5)**	(77)
Provisions	26	**(338)**	(331)
		(10,216)	(10,771)
Current liabilities			
Loans and overdrafts	22	**(53)**	(457)
Lease liabilities	10	**(241)**	(212)
Contract liabilities	23	**(3,882)**	(2,874)
Trade and other payables	24	**(4,990)**	(4,636)
Other financial liabilities	15	**(328)**	(214)
Current tax	18	**(103)**	(27)
Provisions	26	**(249)**	(276)
		(9,846)	(8,696)
Total liabilities		**(20,062)**	(19,467)
Net assets		**11,400**	7,668
Capital and reserves			
Issued share capital	27	**82**	85
Share premium		**1,252**	1,252
Other reserves	27	**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	6	**315**	198
Adjustment in respect of research and development expenditure credits	4	**(35)**	(16)
Share of results of equity accounted investments	1	**(180)**	(139)
Net finance costs	5	**395**	279
Depreciation, amortisation and impairment	2	**767**	720
Gain on disposal of property, plant and equipment, and investment property	2,4	**(3)**	(192)
Gain in respect of held for sale assets and business disposals	2,4	**(93)**	(158)
Gain on disposal of non-current investments	4	**(7)**	–
Cost of equity-settled employee share schemes	3	**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	12	**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	12	**–**	(3)
Purchase of subsidiary undertakings, net of cash and cash equivalents acquired	35	**(162)**	(30)
Cash flow in respect of business disposals, net of cash and cash equivalents disposed	20	**124**	215
Net cash flow from investing activities		**(422)**	66
Interest paid		**(269)**	(247)
Equity dividends paid	27	**(802)**	(777)
Purchase of own shares	27	**(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	29	**(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 Group accounts

1. Segmental analysis and revenue recognition

Revenue and profit recognition

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

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. Revenue and cost estimates are reviewed and updated at least quarterly, and more frequently as determined by events and circumstances.

The Group typically enters into the following types of contracts with customers:

- to design, build or create assets uniquely available to the customer such as ships and aircraft;
- to service or maintain assets over a period of time;
- to give access to software and licences; and
- to offer bespoke services to customers, for example through training or the offering of cyber, intelligence and security capabilities.

Revenue is recognised against each of these types of contracts in line with the following accounting policies.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

In some cases, the Group provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations. A provision for warranties is recognised when the underlying products and services are sold (see note 26 for further detail).

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as variable price mechanisms, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are typically no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles.

Whilst payment terms vary from contract to contract, on many of the Group's contracts, an element of the transaction price is received in advance of delivery. When cash is received in advance of goods or services being delivered, a contract liability is recognised. The Group therefore has significant contract liabilities (note 23). The Group's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price. UK Ministry of Defence contracting rules prohibit the inclusion of financing in the sales price. Negotiations on competitive international export contracts do not make allowance for the cash payment profile.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that most of its contracts satisfy the over-time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it is performed (typically services or support contracts, for example in the case of ongoing maintenance and support of aircraft and flying capability), or the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically development or production contracts, such as in the production of ships or aircraft to customers' unique specifications).

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks including the impact of global economic uncertainties and climate change. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method appropriately depicts the Group's performance in transferring control of the goods and services to the customer.

1. Segmental analysis and revenue recognition continued

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Software licences

The Group sells software licences either separately or together with other goods and services, including computer hardware and implementation, hosting and support. Revenue recognition in respect of software licences sold as part of a bundle of goods and services is considered separately when the licence is determined to be a separate performance obligation. Software licences either represent a right to access the Group's intellectual property as it exists throughout the licence period or a right to use the Group's intellectual property as it exists at the point in time at which the licence is granted. Revenue in respect of right to access licences is recognised over the licence term or, in relation to perpetual licences, over the related customer relationship and revenue in respect of right to use licences is recognised on delivery of the software to the customer or, if the customer chooses not to access and take delivery of the software, on expiry of the licence arrangement. A software licence is considered to be a right to access the Group's intellectual property as it exists throughout the licence period if all of the following criteria are satisfied:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property; and
- the licence directly exposes the customer to the effects of those activities; and
- those activities do not result in the transfer of a good or service to the customer.

Contract modifications

The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

1. prospectively, as an additional, separate contract;
2. prospectively, as a termination of the existing contract and creation of a new contract; or
3. as part of the original contract using a cumulative catch-up.

The majority of the Group's contract modifications are treated under either 1 (for example, the requirement for additional distinct goods or services) or 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

Costs to obtain a contract

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Costs to fulfil a contract

Contract fulfilment costs in respect of over-time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

Reporting segments

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

- **Electronic Systems** 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;
- **Platforms & Services** 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;
- **Air** comprises the Group's UK-based air activities for European and International Markets, US Programmes and development of future combat air systems alongside its businesses in the Kingdom of Saudi Arabia, together with its 37.5% interest in the European MBDA joint venture;
- **Maritime** comprises the Group's UK-based maritime and land activities, as well as its Australia business;
- **Cyber & Intelligence** comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business, which have been aggregated together due to the similarities of the services offered. Together, they cover the Group's cyber security and secure government activities; and
- **HQ** comprises the Group's head office and UK-based shared services activities, together with a 49% interest in Air Astana.

The Board (the chief operating decision maker as defined by IFRS 8 Operating Segments) monitors the results of these reporting segments to assess performance and make decisions about the allocation of resources. Segmental performance is evaluated based on Key Performance Indicators – sales[1] (see page 232) and underlying EBIT[1] (see page 233). Finance costs and taxation expense are managed on a Group basis.

1. Sales and underlying EBIT are alternative performance measures defined in the Financial glossary on page 302.

1. Segmental analysis and revenue recognition continued

Sales[1] and revenue by reporting segment

	Sales[1]		Deduct Share of revenue of equity accounted investments		Add Subsidiaries' revenue from equity accounted investments		Revenue	
	2022 £m	2021[2] £m	**2022 £m**	2021[2] £m	**2022 £m**	2021[2] £m	**2022 £m**	2021[2] £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[2] £m	**2022 £m**	2021[2] £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

1. Sales is an alternative performance measure defined in the Financial glossary on page 302. 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.
2. 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 structure.

Sales[1] and revenue by customer location

	Sales[1]		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

1. Sales is an alternative performance measure defined in the Financial glossary on page 302. 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.

1. Segmental analysis and revenue recognition continued

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

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 structure.

Revenue by major customer

Revenue from the Group's three principal customers, which individually represent over 10% of total revenue, is as follows:

	2022 £m	2021 £m
US Department of Defense	**7,439**	7,008
UK Ministry of Defence	**4,721**	4,185
Kingdom of Saudi Arabia Ministry of Defence and Aviation	**2,425**	2,380

Revenue from the UK Ministry of Defence and the US Department of Defense was generated by the five reporting segments, excluding HQ. Revenue from the Kingdom of Saudi Arabia Ministry of Defence and Aviation was generated by the Air and Maritime segments.

Operating profit/(loss) by reporting segment

	Underlying EBIT[1]		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[2] £m	**2022 £m**	2021[2] £m	**2022 £m**	2021[2] £m	**2022 £m**	2021[2] £m	**2022 £m**	2021[2] £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

1. Underlying EBIT is an alternative performance measure defined in the Financial glossary on page 302. 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.
2. 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 structure.
3. 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.

1. Segmental analysis and revenue recognition continued

Share of results of equity accounted investments within reporting segments

	Underlying EBIT[1]		Adjusting items[2]		Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles		Financial and taxation expense		Share of results of equity accounted investments	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Electronic Systems	**4**	4	**–**	–	**–**	–	**–**	–	**4**	4
Platforms & Services	**11**	9	**–**	–	**–**	–	**(4)**	(6)	**7**	3
Air	**164**	151	**–**	–	**–**	–	**(38)**	(45)	**126**	106
Maritime	**11**	11	**–**	–	**–**	–	**(4)**	(3)	**7**	8
HQ	**65**	29	**–**	–	**–**	–	**(29)**	(11)	**36**	18
	255	204	**–**	–	**–**	–	**(75)**	(65)	**180**	139

1. Underlying EBIT is an alternative performance measure defined in the Financial glossary on page 302. 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.
2. 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 categories of items could be considered recurring in nature.

Adjusting items

2022

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 the pension schemes.

2021

Adjusting items in 2021 reflect a gain of £350m, comprising a gain in HQ on the sale of the Filton and Broughton sites (£182m), gains on disposal of Advanced Electronics Company in the Air segment (£132m, of which £63m is attributable to non-controlling interests – see note 20), and on disposal of a business in our Electronic Systems segment (£26m), and a net £10m gain relating to historical and current year acquisitions.

Performance obligations

The Group's order book[1], 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[1]	**48.9**	35.5

1. Order book represents the transaction price allocated to unsatisfied and partially satisfied performance obligations as defined by IFRS 15 Revenue from Contracts with Customers.
2. Order backlog is an alternative performance measure defined in the Financial glossary on page 302. 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.

The Group expects that approximately 33% (2021 41%) of the order book will be recognised as revenue during the next year, with the remainder largely recognised over the following four (2021 four) years.

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method appropriately depicts the Group's performance in transferring control of the goods and services to the customer. Accordingly, revenue of £0.3bn (2021 £0.3bn) was recognised during the year in respect of performance obligations satisfied or partially satisfied in previous years.

1. Segmental analysis and revenue recognition continued

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[1]			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[1]			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. Sales and underlying EBIT are alternative performance measures defined in the Financial glossary on page 302. 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.

2. Operating costs

Research and development

The Group undertakes research and development activities either on its own behalf or on behalf of customers.

Group-funded expenditure on research, and on development activities not meeting the conditions for capitalisation, is written off as incurred and charged to the income statement.

Customer-funded expenditure on research and development activities is recognised in the income statement in accordance with the Group's revenue recognition policy (note 1).

	2022 £m	2021 £m
Raw materials, subcontracts and other bought-in items used	**7,088**	6,934
Change in inventories of finished goods and work-in-progress	**6**	27
Staff costs (note 3)	**7,495**	6,667
Depreciation	**549**	513
Amortisation	**215**	188
Impairment – property, plant and equipment (note 9), and right-of-use assets (note 10)	**2**	4
Impairment – intangible assets (note 8)	**1**	15
Current and historical business transaction costs	**16**	3
Loss on disposal of property, plant and equipment, and investment property	**2**	2
Other operating charges	**3,895**	3,390
Operating costs	**19,269**	17,743

Operating costs includes research and development expenditure of £276m (2021 £251m) funded by the Group. Development investment of £11m (2021 £4m) was capitalised during the year (see note 8).

Fees payable to the Company's auditor and its associates included in operating costs

	2022			2021		
	UK £'000	**Overseas £'000**	**Total £'000**	UK £'000	Overseas £'000	Total £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**2,963**	**–**	**2,963**	2,349	–	2,349
Fees payable to the Company's auditor and its associates for other services to the Group:						
The audit of the Company's subsidiaries	**5,184**	**7,413**	**12,597**	4,154	5,561	9,715
Total audit fees	**8,147**	**7,413**	**15,560**	6,503	5,561	12,064
Audit-related assurance services[1]	**805**	**3**	**808**	632	3	635
Other non-audit services	**1**	**–**	**1**	–	–	–
Total non-audit fees[2]	**806**	**3**	**809**	632	3	635
Total fees payable to the Company's auditor and its associates	**8,953**	**7,416**	**16,369**	7,135	5,564	12,699

1. Audit-related assurance services principally comprises fees in respect of the review of the Group's Half-yearly Report and, in 2022, ESG assurance work.
2. In addition to the amounts shown above, the auditor received fees of £446k (2021 £nil) for the audit of the BAE Systems UK pension schemes and £534k (2021 £453k) for the audit of BAE Systems pension schemes in the US.

3. Employees

The average and year-end numbers of employees, excluding those in equity accounted investments, were as follows:

	Average		At year end	
	2022 Number '000	2021[1] Number '000	**2022 Number '000**	2021[1] Number '000
Electronic Systems	**16**	16	**16**	16
Platforms & Services	**12**	12	**12**	12
Air	**19**	20	**19**	19
Maritime	**23**	22	**24**	22
Cyber & Intelligence	**11**	10	**11**	11
HQ	**2**	2	**2**	2
	83	82	**84**	82

The aggregate staff costs of Group employees, excluding employees of equity accounted investments, were as follows:

	2022 £m	2021 £m
Wages and salaries	**6,350**	5,643
Social security costs	**485**	428
Share-based payments (note 32)	**101**	92
Pension costs – defined contribution plans (note 25)	**299**	246
Pension costs – defined benefit plans (note 25)	**230**	233
Other post-employment benefit costs (note 25)	**30**	25
	7,495	6,667

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 structure.

4. Other income

Leases

Lease income under operating leases is recognised in the income statement on a straight-line basis over the lease term.

	2022 £m	2021 £m
Research and development expenditure credits	**35**	16
Operating lease income from investment property (note 10)	**3**	9
Operating lease income from subleasing right-of-use assets (note 10)	**1**	1
Profit on disposal of businesses	**94**	158
Profit on disposal of non-current investment	**7**	–
Gain on sale of property, plant and equipment	**1**	–
Profit on disposal of investment property	**4**	194
Management recharges to equity accounted investments (note 33)	**8**	19
Royalties	**30**	17
Gain on historical acquisition	**–**	13
Other	**32**	45
Other income	**215**	472

5. Net finance costs

Interest income and borrowing costs

Interest income and borrowing costs are recognised in the income statement in the period in which they are incurred.

	2022 £m	2021 £m
Interest income on cash and other financial instruments	**34**	29
Interest income on finance lease receivables (note 10)	**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 (note 10)	**(48)**	(43)
Net present value adjustments on provisions and other payables	**(4)**	–
Net interest expense on post-employment benefit obligations (note 25)	**(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 302. It is presented here to provide additional information on performance to the user, and to reconcile to the equivalent IFRS measure.

6. Taxation expense

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- related to investments in subsidiaries and equity accounted investments to the extent that it is probable that they will not reverse in the foreseeable future; and
- arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Taxation expense

	2022 £m	2021 £m
Current taxation		
UK:		
Current year	**(115)**	(114)
Adjustments in respect of prior years	**(1)**	96
	(116)	(18)
Overseas:		
Current year	**(354)**	(204)
Adjustments in respect of prior years	**(15)**	5
	(369)	(199)
Total current taxation	**(485)**	(217)
Deferred taxation		
UK:		
Origination and reversal of temporary differences	**11**	24
Adjustments in respect of prior years	**(3)**	–
Tax rate adjustment	**4**	10
	12	34
Overseas:		
Origination and reversal of temporary differences	**132**	(23)
Adjustments in respect of prior years	**27**	8
Tax rate adjustment	**(1)**	–
	158	(15)
Total deferred taxation	**170**	19
Taxation expense	**(315)**	(198)
UK	**(104)**	16
Overseas	**(211)**	(214)
Taxation expense	**(315)**	(198)

6. Taxation expense continued

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[2]	**–**	(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[1]	**19%**	18%

1. Underlying effective tax rate is an alternative performance measure defined in the Financial glossary on page 302.
2. 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.

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.

6. Taxation expense continued

Tax recognised in other comprehensive income

	2022			2021		
	Before tax £m	**Tax (expense)/ benefit £m**	**Net of tax £m**	Before tax £m	Tax (expense)/ benefit £m	Net of tax £m
Items that will not be reclassified to the income statement:						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**2,851**	**(285)**	**2,566**	2,451	(482)	1,969
Tax rate adjustment	**–**	**(72)**	**(72)**	–	88	88
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	**140**	**(24)**	**116**	85	(21)	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 subsidiary	**(17)**	**–**	**(17)**	(9)	–	(9)
Fair value (loss)/gain arising on hedging instruments during the year	**(102)**	**25**	**(77)**	11	(2)	9
Cumulative fair value loss/(gain) on hedging instruments reclassified to the income statement	**5**	**(1)**	**4**	(32)	6	(26)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	**(9)**	**1**	**(8)**	(1)	(3)	(4)
	4,040	**(356)**	**3,684**	2,537	(414)	2,123

	2022			2021		
	Other reserves £m	**Retained earnings £m**	**Total £m**	Other reserves £m	Retained earnings £m	Total £m
Current tax						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**–**	**57**	**57**	–	61	61
	–	**57**	**57**	–	61	61
Deferred tax						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**–**	**(342)**	**(342)**	–	(543)	(543)
Tax rate adjustment	**–**	**(72)**	**(72)**	–	88	88
Fair value tax loss/(gain) arising on hedging instruments during the year	**25**	**–**	**25**	(2)	–	(2)
Cumulative fair value tax (loss)/gain on hedging instruments reclassified to the income statement	**(1)**	**–**	**(1)**	6	–	6
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	**1**	**(24)**	**(23)**	(3)	(21)	(24)
	25	**(438)**	**(413)**	1	(476)	(475)
Tax on other comprehensive income	**25**	**(381)**	**(356)**	1	(415)	(414)

7. Earnings per share

The weighted average number of ordinary shares used for the purpose of calculating earnings per share is calculated by taking the number of ordinary shares outstanding at the start of the year *less* the weighted average number of shares repurchased, *plus* the weighted average number of shares issued within the year (including those issued from treasury), and those shares held in trust that are no longer contingently returnable (i.e. all performance conditions attached to them are met, excluding the passage of time). The number of ordinary shares outstanding at the start of the year is calculated by taking the total number of ordinary shares in issue, less treasury shares and shares held in trust which are contingently returnable (i.e. where the performance conditions attached to those shares have not been met, excluding the passage of time). The weighted average number of ordinary shares purchased, issued or released is calculated by reference to the day on which each transaction occurred.

The weighted average number of ordinary shares used in calculating diluted earnings per share is calculated by taking the weighted average number of ordinary shares outstanding, *plus* the number of ordinary shares which are considered potentially dilutive ordinary shares in respect of share incentive schemes, should the vesting conditions have been met as at the period end.

	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 6.
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. See note 20 for more details. The tax on adjusting items has been determined using the actual tax due on those items, see note 6 for details.
3. Underlying earnings per share is an alternative performance measure defined in the Financial glossary on page 302. 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.

8. Intangible assets

Intangible assets are carried at cost or valuation, less accumulated amortisation and impairment losses.

Cost or valuation

Goodwill

Under the acquisition method for business combinations, goodwill is the acquisition-date fair value of the consideration transferred, less the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of joint ventures and associates is included in the carrying value of equity accounted investments. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Software

Software includes:

- **Computer software licences acquired** for use within the Group are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software; and
- **Software development costs** that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Group-funded expenditure associated with enhancing or maintaining computer software programs for sale is recognised as an expense as incurred.

Development costs

Development costs funded by the Group on activities applied to a plan or design for the production of new or substantially improved products are capitalised as an internally generated intangible asset if certain conditions are met. The costs capitalised include materials, direct labour and related overheads.

Programme and customer-related

Intangible assets recognised by the Group include those relating to ongoing programmes within businesses acquired, mainly in respect of customer relationships and order backlog. These assets are initially recognised at their fair value at the acquisition date.

Other

Other intangible assets includes patents, trademarks and licences.

Amortisation

Goodwill is not amortised, but is tested annually for impairment, and carried at cost less accumulated impairment losses. Amortisation on intangible assets, excluding goodwill, is charged to the income statement on a straight-line basis over their estimated useful lives.

For programme-related intangibles, amortisation is set on a programme-by-programme basis over the life of the individual programme. Amortisation for customer-related intangibles is also set on an individual basis.

The estimated useful lives are as follows:

Software	up to 5 years
Development costs	up to 10 years
Programme and customer-related	up to 15 years
Other	up to 20 years

The Group has no indefinite-life intangible assets other than goodwill.

Impairment of intangible assets, property, plant and equipment, right-of-use assets, investment property and equity accounted investments

The carrying amounts of the Group's intangible assets (excluding goodwill), property, plant and equipment, right-of-use assets, investment property and equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment, as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, impairment testing is performed annually.

Goodwill is tested annually for impairment. For the purposes of impairment testing, goodwill is allocated to Cash-Generating Units (CGUs), or a group of CGUs on a consistent basis. The impairment calculations require the use of estimates of the future profitability and cash-generating ability of the CGU to determine its value in use based on the Group's five-year Integrated Business Plan and the pre-tax discount rate used in discounting these projected cash flows.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, which is the higher of its value in use, and its fair value less cost of disposal.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses are recognised in the income statement.

An impairment loss in respect of goodwill is not reversed. An impairment loss in respect of other intangible assets, property, plant and equipment, investment property and equity accounted investments is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

8. Intangible assets continued

	Goodwill £m	Software £m	Development costs £m	Programme and customer-related £m	Other £m	Total £m
Cost or valuation						
At 1 January 2021	15,555	837	111	542	99	17,144
Additions:						
Acquired separately	–	90	–	–	–	90
Internally developed	–	3	4	–	–	7
Business acquisitions (note 35)	20	2	–	6	9	37
Disposals[1]	–	(38)	–	–	–	(38)
Transfer from property, plant and equipment	–	1	–	–	–	1
Foreign exchange adjustments	49	(2)	1	3	2	53
At 31 December 2021	15,624	893	116	551	110	17,294
Additions:						
Acquired separately	–	76	–	–	–	76
Internally developed	–	6	11	–	–	17
Business acquisitions (note 35)	91	–	–	66	5	162
Disposals[1]	–	(34)	–	–	–	(34)
Business disposals	(191)	–	–	–	–	(191)
Transfer from property, plant and equipment	–	5	–	–	–	5
Foreign exchange adjustments	1,069	27	14	71	15	1,196
At 31 December 2022	**16,593**	**973**	**141**	**688**	**130**	**18,525**
Amortisation and impairment						
At 1 January 2021	4,709	487	75	94	34	5,399
Amortisation[2]	–	104	3	75	11	193
Impairment charge	–	15	–	–	–	15
Disposals[1]	–	(38)	–	–	–	(38)
Foreign exchange adjustments	5	1	1	1	1	9
At 31 December 2021	4,714	569	79	170	46	5,578
Amortisation[2]	–	106	2	95	15	218
Impairment charge	–	1	–	–	–	1
Disposals[1]	–	(34)	–	–	–	(34)
Business disposals	(168)	–	–	–	–	(168)
Foreign exchange adjustments	228	21	10	21	6	286
At 31 December 2022	**4,774**	**663**	**91**	**286**	**67**	**5,881**
Net book value						
At 31 December 2022	**11,819**	**310**	**50**	**402**	**63**	**12,644**
At 31 December 2021	10,910	324	37	381	64	11,716
At 1 January 2021	10,846	350	36	448	65	11,745

1. Includes intangible assets with £nil net book value no longer used by the Group.
2. Amortisation of £218m (2021 £193m) includes £215m (2021 £188m) charged to the income statement as an amortisation expense and £3m (2021 £5m) recoverable on customer contracts.

8. Intangible assets continued

Impairment testing

The recoverable amount of the Group's goodwill is based on value in use estimated using risk-adjusted future cash flow projections from the five-year Integrated Business Plan (IBP) and a terminal value based on the projections for the final year of that plan, with growth rate assumptions of 2% applied for each significant group of Cash-Generating Units (CGUs). The IBP process includes the use of historical experience, available government spending data and the Group's order backlog, as well as the impact of evolving issues such as global economic uncertainty and climate change. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital and adjusted for factors specific to the market in which the CGU operates, have been used in discounting these projected risk-adjusted cash flows.

Significant CGUs

Within the year, the Group restructured its operations (see note 1 for details) and changed elements of how it operates. As a result, the level at which goodwill is monitored has changed, resulting in goodwill being allocated to the group of CGUs within the Maritime segment (the 'Maritime CGU'), which is now identified as a significant CGU. Prior to the reallocation of goodwill, an impairment assessment was performed based on the previous allocation, and no impairment was identified.

A summary of the significant groups of CGUs is presented below.

		Allocated goodwill		Pre-tax discount rate	
Cash-Generating Unit	Key assumptions	**2022 £bn**	2021 £bn	**2022 %**	2021 %
Electronic Systems	Continued demand from the US government for electronic warfare systems (where the business has a leadership position), other technology-based solutions and growth in the commercial avionics market	**5.2**	4.9	**9**	9
Platforms & Services	Continued demand in the Group's principal markets for existing and successor military tracked vehicles, naval guns, missile launchers, artillery systems, munitions, upgrade programmes and support, and in the US for complex infrastructure, maritime and aviation services	**3.8**	3.3	**9**	9
Maritime	Continued demand, primarily from the UK and Australian governments, for existing and successor programmes for submarines, complex warships and munitions. This includes upgrade and sustainment programmes in these areas as well as in the field of air, electronic systems and wide-area surveillance	**1.5**	1.5	**10**	8

The headroom, calculated as the difference between net assets including allocated goodwill as at 31 December 2022 and the value in use calculations, for the CGUs listed above, is shown below. The table also shows the headroom assuming a 1% reduction in the terminal value growth rate assumption, a 2% increase in the discount rate and a 1% reduction in the operating margin used in the value in use calculations, considered to be reasonable worst-case scenarios in the current economic climate.

	Headroom as at 31 December		Headroom assuming a 1% reduction in the terminal value growth rate assumption		Headroom assuming a 2% increase in the discount rate		Headroom assuming a 1% reduction in operating margin	
Cash-Generating Unit	**2022 £bn**	2021 £bn	**2022 £bn**	2021 £bn	**2022 £bn**	2021 £bn	**2022 £bn**	2021 £bn
Electronic Systems	**5.4**	4.3	**3.8**	2.8	**2.0**	1.3	**4.5**	3.6
Platforms & Services	**2.1**	1.5	**1.3**	0.7	**0.3**	(0.1)	**1.5**	0.9
Maritime	**4.2**	5.1	**3.5**	4.1	**1.7**	3.1	**3.5**	4.3

Other CGUs

The remaining goodwill balance of £1.3bn (2021 £1.2bn) is allocated across multiple CGUs. No individual CGU exceeds 10% of the Group's total goodwill balance. The majority of the projected cash flows within these CGUs are primarily underpinned by expected levels of government spending on defence, aerospace and security, and the Group's ability to capture a broadly consistent market share.

Capital commitments

At 31 December 2022, capital expenditure of £41m (2021 £25m) in respect of intangible assets was contracted for but not provided for in the accounts.

9. Property, plant and equipment

Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred. The reimbursement of the cost of an item of property, plant and equipment by way of a government grant is presented as deferred income and recognised in the income statement on a basis consistent with the depreciation of the asset over its estimated useful life.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided, normally on a straight-line basis, to write off the cost of items of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Buildings	up to 50 years, or the lease term if shorter
Plant and machinery:	
Computing equipment and motor vehicles	4 to 5 years
Other equipment	10 to 20 years, or the project life if shorter

No depreciation is provided on freehold land and assets in the course of construction.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

Impairment

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 8.

9. Property, plant and equipment continued

	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2021	2,531	3,610	6,141
Additions[1]	239	262	501
Business acquisitions (note 35)	–	1	1
Transfer to intangible assets	–	(1)	(1)
Reclassification between categories	7	(7)	–
Disposals	(23)	(115)	(138)
Foreign exchange adjustments	–	6	6
At 31 December 2021	2,754	3,756	6,510
Additions[1]	302	289	591
Business acquisitions (note 35)	–	1	1
Transfer to intangible assets	–	(5)	(5)
Reclassification between categories	16	(16)	–
Disposals	(45)	(131)	(176)
Foreign exchange adjustments	143	227	370
At 31 December 2022	**3,170**	**4,121**	**7,291**
Depreciation and impairment			
At 1 January 2021	1,113	2,373	3,486
Depreciation charge for the year	94	202	296
Impairment charge	–	4	4
Reclassification between categories	4	(4)	–
Disposals	(22)	(112)	(134)
Foreign exchange adjustments	2	4	6
At 31 December 2021	1,191	2,467	3,658
Depreciation charge for the year	109	218	327
Impairment charge	–	2	2
Disposals	(40)	(125)	(165)
Business disposals	–	–	–
Foreign exchange adjustments	79	155	234
At 31 December 2022	**1,339**	**2,717**	**4,056**
Net book value			
At 31 December 2022	**1,831**	**1,404**	**3,235**
At 31 December 2021	1,563	1,289	2,852
At 1 January 2021	1,418	1,237	2,655

1. Includes £160m (2021 £149m) of land and buildings at Barrow-in-Furness, UK, funded by the UK government.

Assets in the course of construction

	Land and buildings £m	Plant and machinery £m	Total[1] £m
At 31 December 2022	**547**	**292**	**839**
At 31 December 2021	398	274	672

1. Includes £464m (2021 £262m) at Barrow-in-Furness, UK, funded by the UK government.

Capital commitments

At 31 December 2022, capital expenditure of £403m (2021 £210m) in respect of property, plant and equipment was contracted for but not provided for in the accounts.

10. Leases

The Group as lessee

All leases in which the Group is lessee (except as noted below) are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between repayment of the lease liability and finance cost. The finance cost is charged to the income statement over the lease term to produce a constant periodic rate of interest on the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease. Where this rate is not determinable, the Group's incremental borrowing rate is used, which is the interest rate the Group would have to pay to borrow the amount necessary to obtain an asset of similar value, in a similar economic environment with similar terms and conditions.

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs.

The carrying amounts of the Group's right-of-use assets are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 8.

Payments in respect of short-term leases, low-value leases and leases of intangible assets are charged to the income statement on a straight-line basis over the lease term.

The Group as lessor

Leases in which the Group is lessor are classified as finance leases or operating leases. If the lease transfers substantially all of the risks and rewards of ownership to the lessee, the lease is classified as a finance lease. All other leases are classified as operating leases.

A sublease where the Group is an intermediate lessor is classified as a finance lease when it transfers substantially all of the risks and rewards of the right-of-use asset arising from the head lease.

Lease income under operating leases is recognised in the income statement on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as a receivable discounted at the interest rate implicit in the lease. Finance lease income is recognised in the income statement over the lease term to produce a constant periodic rate of interest on the receivable.

The Group leases land, buildings, vehicles and equipment under non-cancellable lease arrangements. The leases have varying terms, including escalation clauses, renewal rights and purchase options. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations.

Right-of-use assets

	2022			2021		
	Land and buildings £m	**Plant and machinery £m**	**Total £m**	Land and buildings £m	Plant and machinery £m	Total £m
Net book value at 1 January	**1,075**	**16**	**1,091**	1,037	16	1,053
Additions during the year	**397**	**20**	**417**	117	9	126
Business acquisitions (note 35)	**1**	**–**	**1**	–	–	–
Lease modifications during the year	**50**	**1**	**51**	125	(1)	124
Depreciation charge for the year	**(205)**	**(12)**	**(217)**	(206)	(8)	(214)
Business disposals (note 20)	**(3)**	**–**	**(3)**	–	–	–
Foreign exchange adjustments	**85**	**–**	**85**	2	–	2
Net book value at 31 December	**1,400**	**25**	**1,425**	1,075	16	1,091

10. Leases continued

Lease liabilities

A maturity analysis of the future undiscounted lease payments in respect of the Group's lease liabilities is presented in the table below:

	2022 £m	2021 £m
Payments due:		
Within one year	**290**	240
Between one and five years	**632**	586
Later than five years	**1,227**	683
Total undiscounted gross payments	**2,149**	1,509
Deduct: Impact of discounting	**(533)**	(214)
Lease liabilities	**1,616**	1,295

The Group is also committed to future undiscounted lease payments of £5m in respect of leases which had not yet commenced at 31 December 2022 (2021 £214m).

The total cash outflow for leases in the year ended 31 December 2022, including short-term leases and low-value leases, amounted to £314m (2021 £281m).

Amounts recognised in the income statement

	2022 £m	2021 £m
Included in operating costs:		
Depreciation on right-of-use assets	**(217)**	(214)
Short-term lease expense	**(25)**	(19)
Low-value lease expense	**(5)**	(4)
	(247)	(237)
Included in other income:		
Operating lease income from investment property	**3**	9
Operating lease income from subleasing right-of-use assets	**1**	1
	4	10
Included in net finance costs:		
Interest income on finance lease receivables	**1**	1
Interest expense on lease liabilities	**(48)**	(43)
	(47)	(42)

10. Leases continued

Operating leases

The Group is party to operating leases in which it is the lessor, primarily relating to investment property. Under the terms of the lease agreements, no contingent rents are receivable. The leases have varying terms including escalation clauses and renewal rights. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations.

A maturity analysis of the future undiscounted lease receipts from operating leases, in which the Group is lessor, is presented in the table below:

	2022 £m	2021 £m
Receipts due:		
Within one year	**3**	2
Between one and two years	**3**	1
Between two and three years	**2**	1
Between three and four years	**2**	1
Between four and five years	**2**	1
Later than five years	**6**	2
	18	8

Finance lease receivables

A sublease is classified as a finance lease when it transfers substantially all of the risks and rewards of the right-of-use asset arising from the head lease.

A maturity analysis of the future undiscounted lease receipts from finance leases, in which the Group is lessor, is presented in the table below:

	2022 £m	2021 £m
Receipts due:		
Within one year	**11**	11
Between one and two years	**10**	11
Between two and three years	**5**	10
Between three and four years	**4**	5
Between four and five years	**4**	4
Later than five years	**2**	7
Total undiscounted gross receipts	**36**	48
Deduct: Impact of discounting	**(2)**	(4)
Finance lease receivables (note 14)	**34**	44

11. Investment property

Cost

Land and buildings that are leased to non-Group entities are classified as investment property. The Group measures investment property at its cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided, on a straight-line basis, to write off the cost of investment property over its estimated useful life of up to 50 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Impairment

The carrying amounts of the Group's investment property are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 8.

	£m
Cost	
At 1 January 2021	200
Additions	17
Disposals	(141)
At 31 December 2021	76
Additions	5
Disposals	(4)
At 31 December 2022	**77**
Depreciation and impairment	
At 1 January 2021	72
Depreciation charge for the year	3
Disposals	(66)
At 31 December 2021	9
Depreciation charge for the year	5
Disposals	–
At 31 December 2022	**14**
Net book value	
At 31 December 2022	**63**
At 31 December 2021	67
At 1 January 2021	128

Fair value	
At 31 December 2022	**76**
At 31 December 2021	82

The fair values above are based on and reflect current market values as prepared by in-house professionals who have the appropriate professional qualifications and recent experience of valuing properties in the location and of the type being valued.

Capital commitments

At 31 December 2022, capital expenditure of £14m (2021 £20m) in respect of investment property was contracted for but not provided for in the accounts.

12. Equity accounted investments

Equity accounted investments comprises joint ventures and associates. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. An associate is an entity over which the Group has significant influence but not control or joint control.

The Group recognises its share of the profit or loss and other comprehensive income of equity accounted investments as a separate line in the Consolidated income statement and Consolidated statement of comprehensive income, respectively.

The carrying value of an equity accounted investment comprises the Group's share of net assets and purchased goodwill, and is assessed for impairment as a single asset. The carrying amounts of the Group's equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 8.

Principal equity accounted investments

Joint venture	Principal activities	Shareholding	Principally operates in
Eurofighter Jagdflugzeug	Management and control of the European Typhoon programme	33%	Germany
MBDA	Development and manufacture of guided weapons	37.5%	Europe

The following tables summarise the financial information of the Group's principal equity accounted investments included in their own financial statements, as adjusted for fair value adjustments at acquisition and differences in accounting policies, and reconcile this to the Group's interest in those equity accounted investments.

	2022		2021	
	Eurofighter Jagdflugzeug £m	**MBDA £m**	Eurofighter Jagdflugzeug £m	MBDA £m
Revenue (100%)	**3,693**	**3,590**	3,165	3,513
Underlying EBIT[1] excluding depreciation and amortisation	**19**	**574**	6	512
Depreciation and amortisation	**(4)**	**(152)**	–	(117)
Financial income	**2**	**25**	2	7
Financial expense	**(2)**	**(13)**	(2)	(12)
Taxation expense	**(6)**	**(105)**	(3)	(107)
Profit for the year (100%)	**9**	**329**	3	283
Remeasurements on post-employment benefit schemes, net of tax	**–**	**310**	–	172
Amounts (debited)/credited to hedging reserve, net of tax	**–**	**(4)**	–	17
Foreign exchange adjustments	**(5)**	**(24)**	–	13
Total comprehensive income for the year (100%)	**4**	**611**	3	485
Group's share of total comprehensive income for the year	**1**	**230**	1	182
Non-current assets	**30**	**2,464**	32	2,280
Cash and cash equivalents	**42**	**2,650**	24	2,367
Current assets excluding cash and cash equivalents	**8,591**	**4,697**	7,630	4,210
Current assets	**8,633**	**7,347**	7,654	6,577
Non-current financial liabilities excluding trade and other payables, and provisions	**–**	**(10)**	–	(5)
Other non-current liabilities	**(47)**	**(20)**	(62)	(527)
Non-current liabilities	**(47)**	**(30)**	(62)	(532)
Current financial liabilities excluding trade and other payables, and provisions	**(10)**	**–**	(7)	–
Other current liabilities	**(8,581)**	**(8,416)**	(7,590)	(7,424)
Current liabilities	**(8,591)**	**(8,416)**	(7,597)	(7,424)
Net assets (100%)	**25**	**1,365**	27	901

1. Underlying EBIT is an alternative performance measure defined in the Financial glossary on page 302.

12. Equity accounted investments continued

	2022			2021		
	Eurofighter Jagdflugzeug £m	**MBDA £m**	**Total £m**	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m
Group's share of net assets	**8**	**512**	**520**	9	338	347
Goodwill adjustment	**–**	**8**	**8**	–	7	7
Carrying value	**8**	**520**	**528**	9	345	354

	2022			2021		
	Eurofighter Jagdflugzeug £m	**MBDA £m**	**Total £m**	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m
Dividends received	**3**	**80**	**83**	2	41	43

Group summary

The Group also has a number of individually immaterial joint ventures and associates, the carrying values of the most significant at 31 December 2022 are as follows: Rheinmetall BAE Systems Land (RBSL) (£82m), FADEC International (£48m), Air Astana (£63m), FNSS (£22m) and Panavia Aircraft (£18m). The following table shows a reconciliation of opening to closing carrying value for both the Group's principal and immaterial joint ventures and associates in aggregate.

	Principal equity accounted investments £m	Other joint ventures £m	Other associates £m	Total £m
At 1 January 2021	231	96	82	409
Group's share of profit for the year	107	28	4	139
Group's share of remeasurements on post-employment benefit schemes	85	–	–	85
Tax on items that will not be reclassified to the income statement	(21)	–	–	(21)
Foreign exchange adjustments	6	–	(1)	5
Amounts credited to hedging reserve	8	4	–	12
Tax on items that may be reclassified to the income statement	(2)	(1)	–	(3)
Group's share of total comprehensive income for the year	183	31	3	217
Equity accounted investment funding	–	3	–	3
Dividends received from equity accounted investments	(43)	(14)	–	(57)
Foreign exchange adjustments	(17)	(1)	–	(18)
At 31 December 2021	354	115	85	554
Group's share of profit for the year	126	46	8	180
Group's share of remeasurements on post-employment benefit schemes	140	–	–	140
Tax on items that will not be reclassified to the income statement	(24)	–	–	(24)
Foreign exchange adjustments	(10)	–	(1)	(11)
Amounts (debited)/credited to hedging reserve	(2)	4	–	2
Tax on items that may be reclassified to the income statement	1	–	–	1
Group's share of total comprehensive income for the year	231	50	7	288
Dividends received from equity accounted investments	(83)	(11)	–	(94)
Foreign exchange adjustments	26	13	–	39
At 31 December 2022	**528**	**167**	**92**	**787**

Contingent liabilities

The Group is not aware of any material contingent liabilities in respect of its equity accounted investments.

13. Other investments

Other investments are carried at fair value through other comprehensive income.

	2022 £m	2021 £m
Fair value through other comprehensive income	**99**	76

14. Trade, other and contract receivables

Trade and contract receivables are measured at amortised cost under IFRS 9 Financial Instruments as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Contract receivables represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprise costs incurred plus attributable margin.

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

The Group writes off a receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

US deferred compensation plan assets are measured at fair value in accordance with IAS 19 Employee Benefits.

	2022 £m	2021 £m
Non-current		
Contract receivables	**20**	21
Prepayments	**201**	70
Accrued income	**1**	1
US deferred compensation plan assets	**328**	376
Finance lease receivables (note 10)	**24**	33
Other receivables	**44**	50
	618	551
Current		
Contract receivables	**3,473**	2,671
Trade receivables	**1,506**	1,043
Amounts owed by equity accounted investments (note 33)	**75**	34
Prepayments	**509**	444
Accrued income	**62**	53
Finance lease receivables (note 10)	**10**	11
Other receivables[1]	**531**	569
	6,166	4,825

1. Includes £329m (2021 £419m) in relation to VAT receivable in the Kingdom of Saudi Arabia.

Trade receivables are stated net of a provision for expected credit losses. Disclosures relating to the ageing of trade receivables and movements in the provision for expected credit losses are provided in note 15.

15. Other financial assets and liabilities and financial risk management

Derivative financial instruments and hedging activities

The international nature of the Group's business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the Group's policy is to hedge all material firm transactional exposures.

The Group uses interest rate derivative instruments to manage the Group's exposure to interest rate fluctuations on its borrowings and deposits by varying the proportion of fixed rate debt relative to floating rate debt over the forward time horizon.

The Group uses foreign exchange derivative instruments to manage the Group's exposure to currency fluctuations on its borrowings and deposits with the Group's subsidiaries and equity accounted investments.

In accordance with its treasury policy, the Group does not hold derivative financial instruments for trading purposes.

The Group aims to achieve hedge accounting treatment for all derivatives that hedge material foreign currency exposures.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the balance sheet date. The fair values are estimated by discounting expected future cash flows and then adjusting for credit risk and market risk.

Fair value through profit or loss

Gains and losses on derivative financial instruments that are not designated as cash flow hedges are recognised within finance costs in the income statement for the year.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows relating to a highly probable forecast transaction (income or expense) or recognised asset or liability, the effective portion of any change in the fair value of the instrument is recognised in other comprehensive income and presented in the hedging reserve in equity. Amounts recognised in equity are removed from the hedging reserve and included in the cost of the underlying transaction or reclassified to the income statement when the underlying transaction affects profit or loss. These amounts are presented within the same line item in the income statement as the underlying transaction, typically revenue or operating costs. The ineffective portion of any change in the fair value of the instrument is recognised in the income statement within finance costs immediately. The Group treats the foreign currency basis element of the designated foreign exchange derivative hedging instruments as a cost of hedging and as such it is excluded from the hedge designation. Any hedges entered into on behalf of equity accounted investments (note 33) are classified as cash flow hedges.

	2022		2021	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Cash flow hedges – foreign exchange contracts	**175**	**(237)**	191	(172)
Debt-related derivative financial instruments	**147**	**(35)**	114	(130)
	322	**(272)**	305	(302)
Current				
Cash flow hedges – foreign exchange contracts	**229**	**(249)**	186	(181)
Other foreign exchange/interest rate contracts	**23**	**(79)**	8	(33)
	252	**(328)**	194	(214)

Debt-related derivative financial instruments

The debt-related derivative financial instruments represent the fair value of cross-currency, interest rate and foreign exchange derivatives relating to the US$800m 3.8% bond, repayable 2024, the US$500m 7.5% bond, repayable 2027, the US$1,300m 3.4% bond, repayable 2030, and the US$400m 5.8% bond, repayable 2041 (see note 22). These derivatives have been entered into specifically to manage the Group's exposure to foreign exchange or interest rate risk.

15. Other financial assets and liabilities and financial risk management continued

Interest rate risk

The Group's objective is to manage its exposure to interest rate fluctuations on borrowings through varying the proportion of fixed rate debt relative to floating rate debt with derivative instruments, including interest rate and cross-currency swaps.

The Group's interest rate management policy is that a minimum of 50% (2021 50%) and a maximum of 90% (2021 90%) of gross debt is maintained at fixed interest rates. At 31 December 2022, the Group had 85% (2021 87%) of fixed rate debt and 15% (2021 13%) of floating rate debt based on a gross debt of £5.0bn (2021 £5.1bn), including debt-related derivative financial assets.

Based on contracted maturities and/or repricing dates, the following amounts are exposed to interest rate risk over the future as shown below:

	2022			2021		
	Within one year £m	**Between one and two years £m**	**Later than two years £m**	Within one year £m	Between one and two years £m	Later than two years £m
Cash and cash equivalents	**3,107**	**–**	**–**	2,917	–	–
Loans and overdrafts	**745**	**745**	**745**	661	661	661

The floating rate debt has been predominantly achieved by entering into interest rate swaps which swap the fixed rate US dollar interest payable on debt into either floating rate sterling or US dollars. At the end of 2022, the Group had a total of $0.9bn (2021 $0.9bn) of this type of swap outstanding with a weighted average duration of 1.8 years (2021 2.8 years). In respect of the fixed rate debt, the weighted average period in respect of which interest is fixed was 12.9 years (2021 12.2 years). Given the level of short-term interest rates during the year, the average cost of the floating rate debt was 4.2% (2021 2.6%) on US dollars. The cost of the fixed rate debt was 3.7% (2021 3.8%).

IBOR reform

The Group has interest rate swaps that reference USD LIBOR, with a combined notional value of $0.9bn, that mature in October 2024. During the year, the Group adhered to the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol, which will be used to calculate the USD floating rates applicable for these interest rate swaps between the period post cessation of USD LIBOR and maturity of the swaps. The Group has no other derivatives that reference IBOR benchmarks.

The Group's undrawn committed Revolving Credit Facility of £2bn, contracted until April 2025, was amended on 27 October 2021 to migrate the benchmark interest rate applicable away from LIBOR to risk-free rates, SOFR and SONIA.

Sensitivity analysis

A change of 100 basis points in short-term rates applied to the average fixed/floating mix and level of borrowings would vary the interest cost to the Group by approximately £7.3m (2021 £7m).

In respect of cash deposits, given the fluctuation in the Group's working capital requirements, cash is generally invested for short-term periods based at floating interest rates. A change of 100 basis points in the average interest rates during the year applied to the average cash deposits would vary the interest receivable by approximately £19m (2021 £21m). Should interest rates fluctuate by a different rate to those disclosed, the impact can be linearly interpolated.

15. Other financial assets and liabilities and financial risk management continued

Liquidity risk

Contractual cash outflows on financial liabilities

The contracted cash outflows on loans and overdrafts, derivative financial instruments and other financial instruments at the reporting date are shown below, classified by maturity. The cash outflows are shown on a gross basis, are not discounted, are translated at the spot rate and include estimated interest payments where applicable. Contracted cash outflows reflect the gross cash outflow on derivative financial instruments and exclude the broadly offsetting cash inflows for the receive leg of derivatives that are settled separately to the pay leg.

	2022					2021				
		Contracted cash outflow					Contracted cash outflow			
	Carrying amount £m	**Within one year £m**	**Between one and five years £m**	**Later than five years £m**	**Total £m**	Carrying amount £m	Within one year £m	Between one and five years £m	Later than five years £m	Total £m
Cash outflows without directly offsetting inflows										
Accruals[1]	**(2,025)**	**(1,997)**	**(28)**	**–**	**(2,025)**	(1,855)	(1,832)	(23)	–	(1,855)
Trade and other payables[2]	**(2,154)**	**(2,126)**	**(28)**	**–**	**(2,154)**	(1,867)	(1,846)	(21)	–	(1,867)
Lease liabilities	**(1,616)**	**(290)**	**(632)**	**(1,227)**	**(2,149)**	(1,295)	(240)	(586)	(683)	(1,509)
Loans and overdrafts	**(5,242)**	**(199)**	**(2,377)**	**(4,893)**	**(7,469)**	(5,061)	(593)	(1,785)	(4,848)	(7,226)
	(11,037)					(10,078)				
Cash outflows with largely offsetting inflows[3]										
Cash flow hedges – financial assets	**404**	**(7,434)**	**(4,444)**	**(443)**	**(12,321)**	377	(6,509)	(4,081)	(173)	(10,763)
Cash flow hedges – financial liabilities	**(486)**	**(8,258)**	**(5,758)**	**(741)**	**(14,757)**	(353)	(6,204)	(4,963)	(214)	(11,381)
Other foreign exchange/interest rate contracts – financial assets	**23**	**(2,364)**	**–**	**–**	**(2,364)**	8	(417)	–	–	(417)
Other foreign exchange/interest rate contracts – financial liabilities	**(79)**	**(1,693)**	**–**	**–**	**(1,693)**	(33)	(2,247)	(3)	–	(2,250)
Debt-related derivatives – financial assets[4]	**147**	**(58)**	**(534)**	**(1,124)**	**(1,716)**	114	(489)	(127)	(360)	(976)
Debt-related derivatives – financial liabilities[4]	**(35)**	**(47)**	**(47)**	**–**	**(94)**	(130)	(486)	(141)	(1,123)	(1,750)
	(26)					(17)				
	(11,063)					(10,095)				

1. Accruals presented in the table excludes £719m (2021 £646m) of accruals which are non-financial liabilities.
2. Trade and other payables excludes other taxes and social security costs, deferred income and US deferred compensation plan liabilities (see note 24) on the basis that these are non-financial liabilities. The prior year included other taxes and social security costs, which have been removed in the current year. The prior year has been re-presented in the current year to reflect this change.
3. Cash outflows in relation to derivatives presented in this table do not include the cash inflows which would be received when closing out the trades. These cash inflows are expected to largely offset all outflows presented within this table.
4. Cash outflows in relation to debt-related derivatives were presented net of the associated cash inflows in the prior year. These have been presented without the associated inflow in the current year, and the prior year comparatives have been re-presented to reflect this change.

Borrowing facilities

The Group's objective is to maintain adequate undrawn committed borrowing facilities.

At 31 December 2022, the Group had a committed Revolving Credit Facility (RCF) of £2bn (2021 £2bn). The RCF was undrawn throughout the year. The RCF also acts as a backstop to Commercial Paper issued by the Group. At 31 December 2022, the Group had no Commercial Paper in issue (2021 £nil).

15. Other financial assets and liabilities and financial risk management continued

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 currency and notional amount of the designated hedging instruments match the currency and principal amounts of the forecast transactions being hedged, therefore the hedging instruments and hedged items have values which will generally move in opposite directions because of the same hedged risk. As the critical terms of the hedging instruments match those of the hedged items, an economic relationship can be demonstrated on an ongoing basis.

The hedge ratio is 1:1 on the basis that the notional amount of the designated hedging instruments matches the principal amount of the forecast foreign currency sales/purchases designated as the hedged items. The Group does not designate groups of items with offsetting risk positions as hedged items.

The Group considers the potential sources of hedge ineffectiveness to be:

– valuation adjustments for credit risk made to derivative hedging instruments at each hedge effectiveness measurement date;

– changes to the timing and amount of forecast transactions; and

– non-occurrence of the designated hedged items.

Ineffectiveness due to foreign currency basis was highly immaterial.

The Group enters into derivative contracts with varying maturities up to 2032. The following table presents the sterling nominal amounts of the foreign currency contracts used to hedge foreign currency risk, split by maturity profile, along with the exchange rate:

		2022				2021			
		Currency purchased		Currency sold		Currency purchased		Currency sold	
(Purchase)/sale contracts	Maturity date	Weighted average hedged rate	Notional value of currency purchased £m	Weighted average hedged rate	Notional value of currency sold £m	Weighted average hedged rate	Notional value of currency purchased £m	Weighted average hedged rate	Notional value of currency sold £m
Sterling/US dollar	Within one year	**1.23**	**(2,790)**	**1.24**	**3,060**	1.36	(1,937)	1.35	2,347
	Between one and five years	**1.28**	**(1,423)**	**1.30**	**2,171**	1.36	(1,047)	1.36	2,210
	Later than five years	**1.40**	**(31)**	**1.29**	**19**	1.41	(64)	1.41	13
Sterling/euro	Within one year	**1.12**	**(3,689)**	**1.12**	**3,299**	1.14	(3,471)	1.13	3,117
	Between one and five years	**1.09**	**(2,576)**	**1.09**	**2,583**	1.09	(2,823)	1.09	2,727
	Later than five years	**1.08**	**(383)**	**1.07**	**388**	1.05	(161)	1.04	159
Other	Within one year	**n/a**	**(2,873)**	**n/a**	**2,869**	n/a	(2,073)	n/a	2,060
	Between one and five years	**n/a**	**(1,437)**	**n/a**	**1,455**	n/a	(617)	n/a	620
	Later than five years	**n/a**	**(379)**	**n/a**	**378**	n/a	(13)	n/a	13
Cash flow hedges			**(15,581)**		**16,222**		(12,206)		13,266

The effect of cash flow hedges on the Group's financial position and performance for the year is as follows:

	2022				2021			
(Purchase)/sale contracts	Change in the value of hedging instruments since 1 January £m	Change in the value of hedged items since 1 January £m	Notional amount £m	Carrying amount £m	Change in the value of hedging instruments since 1 January £m	Change in the value of hedged items since 1 January £m	Notional amount £m	Carrying amount £m
Sterling/US dollar	**(106)**	**106**	**1,006**	**(102)**	11	(11)	1,522	24
Sterling/euro	**9**	**(9)**	**(378)**	**17**	5	(5)	(452)	10
Other	**(5)**	**5**	**13**	**3**	(5)	5	(10)	(10)
Cash flow hedges	**(102)**	**102**	**641**	**(82)**	11	(11)	1,060	24

15. Other financial assets and liabilities and financial risk management continued

Currency risk continued

Sensitivity analysis

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.

The carrying amount of the Group's financial assets represents the maximum exposure to credit risk.

Movements on the provision for expected credit losses are as follows:

	2022 £m	2021 £m
At 1 January	**15**	36
Net remeasurement of loss allowance	**7**	(19)
Amounts written off	**(2)**	(2)
At 31 December	**20**	15

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.

The Group writes off a receivable when there is evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation. None of the trade receivables that were written off during the year are still subject to enforcement activity. The ageing of trade receivables is detailed below:

	2022			2021		
	Gross £m	**Provision £m**	**Net £m**	Gross £m	Provision £m	Net £m
Not past due	**969**	**–**	**969**	783	–	783
Up to 180 days overdue	**499**	**(1)**	**498**	223	(1)	222
Past 180 days overdue	**58**	**(19)**	**39**	52	(14)	38
	1,526	**(20)**	**1,506**	1,058	(15)	1,043

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.

Surplus cash held by the businesses over and above balances required for working capital management is loaned to the Group's centralised treasury department. Surplus cash is invested in instant-access current accounts, short-term deposits and money market funds, choosing instruments with appropriate maturities or sufficient liquidity to provide adequate headroom as determined by cash forecasts.

The Group's objective is to monitor and control counterparty credit risk and credit limit utilisation. The Group adopts a conservative approach to the investment of its surplus cash which is deposited with financial institutions with investment-grade (BBB- and above) credit ratings for short periods. The cash and cash equivalents balance at 31 December 2022 of £3,107m (2021 £2,917m) was invested with 44 (2021 36) financial institutions. A credit limit is allocated to each institution taking account of its market capitalisation, credit rating and credit default swap price. The cash and cash equivalents of the Group are invested in non-speculative financial instruments which are usually highly liquid, such as short-term deposits. The Group therefore believes it has reduced its exposure to counterparty credit risk through this process.

15. Other financial assets and liabilities and financial risk management continued

Credit risk continued

The cash and cash equivalents balance is subject to review for impairment under IFRS 9 as set out below:

Counterparty credit rating at 31 December	2022	2021
AAA to AA-	**67%**	68%
A+ to A-	**32%**	31%
BBB+ to BBB-	**1%**	1%

Offsetting financial assets and liabilities

	2022			2021		
	Balance sheet £m	**Amounts not offset £m**	**Net balances £m**	Balance sheet £m	Amounts not offset £m	Net balances £m
Assets						
Other financial assets	**574**	**(455)**	**119**	499	(383)	116
Liabilities						
Other financial liabilities	**(600)**	**455**	**(145)**	(516)	383	(133)

16. Deferred tax

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

As at 31 December 2021, the most significant recognised deferred tax assets relate to the deficits on the Group's pension/post-employment schemes (see below). This is because post-employment benefit costs are deducted in determining accounting profit as service is provided by employees, but deducted in determining taxable profit either when contributions are paid to the pension/post-employment schemes or when post-employment benefits are paid. As at 31 December 2022, the majority of the UK post-employment benefit schemes were in surplus, therefore the deferred tax asset balance in relation to deficits is much smaller.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Property, plant and equipment	**48**	42	**(126)**	(101)	**(78)**	(59)
Intangible assets	**15**	17	**(2)**	(2)	**13**	15
Capitalised research and development	**149**	–	**–**	–	**149**	–
Provisions and accruals	**233**	203	**–**	–	**233**	203
Goodwill	**–**	–	**(352)**	(302)	**(352)**	(302)
Pension/post-employment schemes:						
Deficits	**97**	430	**–**	–	**97**	430
Additional contributions and other[1]	**162**	228	**–**	–	**162**	228
Share-based payments	**64**	28	**–**	–	**64**	28
Financial instruments	**17**	–	**(1)**	(9)	**16**	(9)
Other items	**27**	24	**(2)**	(19)	**25**	5
Rolled over capital gains	**–**	–	**(14)**	(13)	**(14)**	(13)
Capital losses carried forward	**14**	13	**–**	–	**14**	13
Trading losses carried forward	**4**	6	**–**	–	**4**	6
Deferred tax assets/(liabilities)	**830**	991	**(497)**	(446)	**333**	545
Set off of tax	**(492)**	(369)	**492**	369	**–**	–
Net deferred tax assets/(liabilities)	**338**	622	**(5)**	(77)	**333**	545

1. Includes deferred tax assets on US deferred compensation plans and relief to be claimed in future periods on UK pension contributions.

16. Deferred tax continued

Movement in temporary differences during the year

	At 1 January 2022 £m	Foreign exchange adjustments £m	Acquisitions and disposals £m	Recognised in income £m	Recognised in equity £m	**At 31 December 2022 £m**
Property, plant and equipment	(59)	(12)	–	(7)	–	**(78)**
Intangible assets	15	2	(13)	9	–	**13**
Capitalised research and development	–	4	–	145	–	**149**
Provisions and accruals	203	25	–	5	–	**233**
Goodwill	(302)	(39)	–	(11)	–	**(352)**
Pension/post-employment schemes:						
Deficits	430	3	–	20	(356)	**97**
Additional contributions and other[1]	228	13	–	(21)	(58)	**162**
Share-based payments	28	–	–	12	24	**64**
Financial instruments	(9)	1	–	3	21	**16**
Other items	5	3	–	17	–	**25**
Rolled over capital gains	(13)	–	–	(1)	–	**(14)**
Capital losses carried forward	13	–	–	1	–	**14**
Trading losses carried forward	6	–	–	(2)	–	**4**
	545	–	(13)	170	(369)	**333**

	At 1 January 2021 £m	Foreign exchange adjustments £m	Acquisitions and disposals £m	Recognised in income £m	Recognised in equity £m	At 31 December 2021 £m
Property, plant and equipment	(70)	(1)	–	12	–	(59)
Intangible assets	4	–	(3)	14	–	15
Provisions and accruals	199	1	–	3	–	203
Goodwill	(279)	(2)	–	(21)	–	(302)
Pension/post-employment schemes:						
Deficits	845	(1)	–	11	(425)	430
Additional contributions and other[1]	251	1	–	6	(30)	228
Share-based payments	19	–	–	7	2	28
Financial instruments	(18)	–	–	(3)	12	(9)
Other items	14	–	–	(9)	–	5
Rolled over capital gains	(11)	–	–	(2)	–	(13)
Capital losses carried forward	11	–	–	2	–	13
Trading losses carried forward	7	–	–	(1)	–	6
	972	(2)	(3)	19	(441)	545

1. Includes deferred tax assets on US deferred compensation plans and relief to be claimed in future periods on UK pension contributions.

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items:

	2022		2021	
	Gross amount £m	**Unrecognised deferred tax asset £m**	Gross amount £m	Unrecognised deferred tax asset £m
Deductible temporary differences, including tax credits	**9**	**9**	6	5
Capital losses carried forward	**227**	**55**	196	45
Trading and other losses carried forward	**237**	**38**	231	37
	473	**102**	433	87

These assets have not been recognised as the incidence of future profits in the relevant countries and legal entities cannot be accurately predicted at this time.

The Group has not recognised any deferred tax liability on temporary differences totalling £189m (2021 £390m) relating to potentially taxable unremitted earnings of overseas subsidiaries and equity accounted investments because the Group is in a position to control the timing of the reversal of the temporary differences and none are expected to reverse in the foreseeable future.

16. Deferred tax continued

Changes in tax rates

Both recognised and unrecognised UK deferred tax balances as at 31 December 2022 have been calculated at a blended rate of 24.2% (2021 22.8%). As at 31 December 2022, an increase in the UK current tax rate has been enacted, from 19% to 25% with effect from 1 April 2023. An adjustment has been made to reflect the fact that most of the UK deferred tax balances are expected to unwind at 25%. Including the impact of tax changes in other jurisdictions, this adjustment has been recorded as an adjusting item of £3m in the Consolidated income statement and as a loss of £72m in the Consolidated statement of comprehensive income.

17. Inventories

Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value. Inventory cost is valued using the most appropriate method based on the business use of inventory. In the majority of cases this is moving average unit cost, with some businesses using standard cost or first in first out (FIFO) as methods more indicative of their use of inventory.

	2022 £m	2021 £m
Raw materials and consumables	**535**	432
Work-in-progress	**372**	312
Finished goods and goods for resale	**69**	67
	976	811

The Group recognised £26m (2021 £13m) as a write down of inventories to net realisable value.

18. Current tax

Current tax for the current and prior years is recognised as a liability to the extent that it has not yet been settled, and as an asset to the extent that the amounts already paid exceed the amount due or the benefit of a tax loss can be carried back to recover current tax of a prior year. Current tax assets and liabilities are measured at the amount expected to be paid to or recovered from taxation authorities, using the rates that have been enacted or substantively enacted by the balance sheet date.

	2022 £m	2021 £m
Tax provisions	**(145)**	(106)
Research and development expenditure credits receivable	**131**	81
Other	**44**	69
	30	44
Represented by:		
Current tax assets	**133**	71
Current tax liabilities	**(103)**	(27)
	30	44

Tax provisions of £145m (2021 £106m) are in respect of known tax issues, of which £87m (2021 £54m) relates to the US, £56m (2021 £50m) relates to the UK and £2m (2021 £2m) relates to overseas territories.

19. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, call and term deposits, investments in money market funds and other short-term liquid investments with original maturities of three months or less and which are subject to an insignificant risk of change in value. For the purpose of the cash flow statement, cash and cash equivalents also includes bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management.

	2022 £m	2021 £m
Cash	**484**	903
Money market funds	**1,149**	1,171
Short-term deposits	**1,474**	843
	3,107	2,917

Cash and cash equivalents includes £55m (2021 £83m) which is subject to regulatory restrictions and is therefore not available for general use by other entities within the Group.

20. Business disposals

Assets and liabilities of disposal groups classified as held for sale comprise assets and liabilities that are expected to be recovered primarily through sale rather than continuing use. Assets and liabilities of disposal groups classified as held for sale are measured at the lower of their carrying value and fair value less costs to sell.

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

Advanced Electronics Company

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.

20. Business disposals continued

Business disposals during 2021 continued

The gain recognised on disposal was as follows:

	2021 £m
Cash received or receivable:	
Cash	182
Deferred consideration	32
Total disposal consideration	214
Carrying amount of net assets sold (see below)	(91)
Gain on sale before tax and reclassification of foreign currency translation reserve	123
Reclassification of foreign currency translation reserve	9
Gain on sale before tax	132
Attributable to:	
Equity shareholders	69
Non-controlling interests	63
	132
Net cash inflow arising on disposal:	
Cash consideration received	193
Less: cash and cash equivalents disposed	–
	193

Of the total consideration receivable, £32m was deferred to be received over the 18 months following disposal. £11m of this contingent consideration was received in 2021 in relation to the sale of AEC, in addition to the cash received on disposal. The gain on disposal has been included in the profit for the year from continuing operations as a component of Other income, and recognised as an adjusting item.

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

	£m
Intangible assets including goodwill	16
Property, plant and equipment	8
Equity accounted investments	67
Net assets disposed	91

BAE Systems Rokar International

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

21. Geographical analysis of assets

Analysis of non-current assets by geographical location

Asset location	Notes	**2022 £m**	2021 £m
UK		**4,563**	4,222
Rest of Europe		**1,965**	1,475
US		**10,719**	9,713
Kingdom of Saudi Arabia		**586**	449
Australia		**518**	487
Rest of Asia and Pacific		**5**	5
		18,356	16,351
Other investments	13	**99**	76
Other receivables	14	**416**	480
Post-employment benefit surpluses	25	**1,297**	483
Other financial assets	15	**322**	305
Deferred tax assets	16	**338**	622
Non-current assets		**20,828**	18,317

22. Loans and overdrafts

Loans and overdrafts are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, loans and overdrafts are stated at amortised cost. Any difference between the amount initially recognised and the redemption value is recognised in the income statement over the period of the borrowings.

	2022 £m	2021 £m
Non-current		
US$800m 3.8% bond, repayable 2024	**664**	589
US$750m 3.85% bond, repayable 2025	**621**	550
US$500m 7.5% bond, repayable 2027	**415**	368
US$1,300m 3.4% bond, repayable 2030	**1,073**	952
US$1,000m 1.9% bond, repayable 2031	**824**	732
US$400m 5.8% bond, repayable 2041	**330**	293
US$550m 4.75% bond, repayable 2044	**447**	396
US$1,000m 3% bond, repayable 2050	**815**	724
	5,189	4,604
Current		
£400m 4.125% bond, repayable 2022	**–**	400
Accrued interest	**53**	57
	53	457

US$500m of the US$800m 3.8% bond, repayable 2024, has been converted to a floating rate bond by utilising interest rate swaps that mature in October 2024 and give an effective rate during 2022 of 3.4%.

The US$500m 7.5% bond, repayable 2027, was converted at issue to a sterling fixed rate bond by utilising cross-currency swaps and has an effective rate during 2022 of 7.7%.

The US$400m 5.8% bond, repayable 2041, has been converted to a floating rate bond by utilising interest rate swaps that mature in October 2024 and give an effective rate during 2022 of 5.3%.

US$1,237m of the US$1,300m 3.4% bond, repayable 2030, was converted at issue to a sterling fixed rate bond by utilising cross-currency swaps and has an effective rate during 2022 of 3.5%.

23. Contract liabilities

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

	2022 £m	2021 £m
Non-current		
Contract liabilities	**945**	519
Current		
Contract liabilities	**3,882**	2,874
	4,827	3,393

Revenue recognised in the year includes £2,393m (2021 £2,701m) that was included in the opening contract liabilities balance.

Non-current and current contract liabilities as at 1 January 2021 were £524m and £3,238m, respectively.

The increase in contract liabilities since 2021 is primarily due to customer advances received during the year.

24. Trade and other payables

Trade and other payables are stated at amortised cost.

US deferred compensation plan liabilities represent the present value of expected future payments required to settle the obligation to employees in accordance with IAS 19 Employee Benefits.

	2022 £m	2021 £m
Non-current		
Accruals	**50**	43
Amounts owed to equity accounted investments (note 33)	**8**	7
Other taxes and social security costs	**–**	1
Deferred income[1]	**1,006**	808
US deferred compensation plan liabilities	**357**	375
Other payables	**20**	14
	1,441	1,248
Current		
Trade payables	**839**	697
Amounts owed to equity accounted investments (note 33)	**1,061**	923
Other taxes and social security costs	**76**	197
Accruals	**2,679**	2,458
Deferred income	**109**	135
Other payables	**226**	226
	4,990	4,636

1. Includes £1,004m (2021 £806m) of funding received from the UK government for property, plant and equipment at Barrow-in-Furness, UK.

25. Post-employment benefits

Pension schemes

Defined contribution

Obligations for contributions are recognised as an expense in the income statement as incurred.

Defined benefit

The cost of providing benefits is determined periodically by independent actuaries and charged to the income statement in the period in which those benefits are earned by the employees. Remeasurements, including actuarial gains and losses, are recognised in the Consolidated statement of comprehensive income in the year in which they occur. Past service costs resulting from a plan amendment or curtailment are recognised immediately in the income statement.

The post-employment benefit surpluses and obligations recognised in the Group's balance sheet represent the fair value of scheme assets, less the present value of the defined benefit obligations calculated using a number of actuarial assumptions as set out on page 271. The bid values of scheme assets are not intended to be realised in the short term and may be subject to significant change before they are realised. The present values of scheme liabilities are derived from cash flow projections over long periods and are, therefore, inherently uncertain.

IAS 19 Employee Benefits limits the measurement of a defined benefit surplus to the lower of the surplus in the defined benefit scheme and the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme. IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, issued in 2007, provides an interpretation of the requirements of IAS 19, clarifying that a refund is available if the entity has an unconditional right to a refund in certain circumstances. The Group has applied IFRIC 14 and has determined that there is no limit on the recognition of the surpluses in its defined benefit pension schemes as at 31 December 2022. 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.

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

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

The Group's share of the IAS 19 pension surplus or deficit allocated to equity accounted investments is included in the balance sheet within equity accounted investments.

Background

Pension schemes

BAE Systems plc operates pension schemes for the Group's qualifying employees in the UK, US and other countries. The principal schemes in the UK and US are funded defined benefit schemes, and the assets are held in separate trustee-administered funds. The largest funded defined benefit scheme is the Main Scheme which represents 93% (2021 93%) of the UK IAS 19 defined benefit obligation at 31 December 2022. The schemes in other countries are primarily defined contribution schemes.

At 31 December 2022, the weighted average durations of the UK and US defined benefit pension obligations were 13 years (2021 17 years) and 12 years (2021 12 years), respectively.

The split of the defined benefit pension liability on a funding basis between active, deferred and pensioner members for the Main Scheme and US schemes in aggregate is set out below:

	Active %	Deferred %	Pensioner %
Main Scheme[1]	28	21	51
US schemes[2]	28	17	55

1. Source: 31 March 2021 actuarial valuation reports.
2. Source: Annual updates of the US schemes as at 1 January 2022.

25. Post-employment benefits continued

Regulatory framework

The funded UK schemes are registered and subject to the statutory scheme specific-funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund as set out in the Pension Act 2004. These schemes were established under trust and the responsibility for their governance lies jointly with the Trustees and the Group.

The funded US schemes are tax-qualified pension schemes regulated by the Pension Protection Act 2006 and insured by the Pension Benefit Guaranty Corporation (PBGC) up to certain limits. These schemes were established under, and are governed by, the US Employee Retirement Income Security Act 1974 and the BAE Systems Administrative Committee is a named fiduciary with the authority to manage their operation.

Benefits

The UK defined benefit schemes provide benefits to members in the form of a set level of pension payable for life based on members' final salaries. The benefits attract inflation-related increases both in deferment and payment. All UK defined benefit schemes are closed to new entrants, with benefits for new employees being provided through a defined contribution scheme. The Normal Retirement Age for the majority of active members of the Main Scheme is 65. Specific benefits applicable to members differ between schemes. Further details on the benefits provided by each scheme are provided on the BAE Systems Pensions website: baesystemspensions.com

A UK High Court judgment was delivered on 26 October 2018 concerning gender equalisation for the effect of Guaranteed Minimum Pensions (GMPs) for occupational pension schemes. A further UK High Court judgment was delivered on 20 November 2020 which rules that past cash-equivalent transfer values needed to account for gender equalisation for the effect of GMPs. In 2018 and 2020, a non-recurring past service cost was included in the income statement to reflect the expectation that the impact of GMP equalisation would increase the pension deficit in the balance sheet. In 2022, an allowance of £96m (2021 £140m) was included within the pension surplus (2021 deficit) (before allocation to equity accounted investments) to reflect these rulings.

The US defined benefit schemes ceased to be final salary schemes in January 2013. The benefits accrued based on the final salaries of members at that point will become payable on retirement. The Normal Retirement Age for the largest scheme in the US is 65.

Other post-employment benefits

The Group operates a number of non-pension retirement benefit schemes, under which certain employees are eligible to receive benefits after retirement, the majority of which relate to the provision of medical benefits to retired employees of the Group's subsidiaries in the US.

Funding

Introduction

Disclosures in respect of pension funding are provided below. Disclosures in respect of pension accounting under IAS 19 are provided on pages 271 to 277.

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 271. 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.

25. Post-employment benefits continued

Funding continued

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.

25. Post-employment benefits continued

Funding continued

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.

Risk management

The defined benefit pension schemes expose the Group to actuarial risks, including market (investment) risk, interest rate risk, inflation risk and longevity risk.

Risk	Mitigation
Market (investment) risk Asset returns may not move in line with the liabilities and may be subject to volatility.	Following the 23 September 2022 UK 'mini budget', gilt yields increased at an unprecedented rate causing significant market turmoil. Throughout the period following the mini budget, the Group and Trustees monitored the schemes closely with the help of independent advisers. The schemes remained in a strong position throughout and continued to have sufficient liquidity to meet all payments as they fell due. The investment portfolios are highly diversified, investing in a wide range of assets, in order to reduce the exposure of the total portfolio to a materially adverse impact from a single security or type of security. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of index-linked bonds, gilts and swaps, designed to mirror movements in corresponding liabilities. Some 42% (2021 45%) of the Group's pension scheme assets are held in equities and pooled investment vehicles due to the higher expected level of return over the long term. Some of the Group's pension schemes use derivative financial instruments as part of their investment strategy to manage the level of market risk. The Main Scheme has an equity option strategy protecting £0.9bn of assets against a significant fall in equity markets, in line with the prior year. The strategy also caps the upside if equity markets increase more than an agreed percentage.
Interest rate risk Liabilities are sensitive to movements in interest rates, with lower interest rates leading to an increase in the valuation of liabilities.	As part of the funding valuation finalised during 2022, the main UK Scheme has adopted a cash flow matching strategy, whereby contractual income from assets is designed to directly match benefits paid to members each year. A portfolio of assets with contractual income has been structured to match benefits already in payment, representing around half of the liabilities. This inherently hedges the associated interest rate risk. As members retire and become pensioners, additional matching assets will be purchased to keep pace. Interest rate risk associated with the remaining purchase of matching assets is mitigated via a hedging strategy involving mainly physical assets rather than derivatives and only modest levels of leverage. The overall level of interest rate hedging on the funding basis has increased compared to 2021.
Inflation risk Liabilities are sensitive to movements in inflation, with higher inflation leading to an increase in the valuation of liabilities.	The main UK Scheme's cash flow matching strategy includes aligning asset income to the inflation-linked members' benefit payments. Inflation risk associated with benefits already in payment is inherently hedged by the portfolio of contractual income assets structured to match them, as well as an overlay of inflation swaps held with several banks to reduce counterparty risk. The overall level of inflation hedging on the funding basis is broadly similar to 2021. The Group's US scheme benefits are not indexed with inflation. In 2014, the Main Scheme implemented a pension increase exchange to allow retired members to elect for a higher current pension in exchange for foregoing certain rights to future pension increases.
Longevity risk Liabilities are sensitive to life expectancy, with increases in life expectancies leading to an increase in the valuation of liabilities.	Longevity adjustment factors are used in the majority of the UK pension schemes in order to adjust the pension benefits payable so as to share the cost of people living longer with employees. In 2013, with the agreement of the Company, the Trustees of the 2000 Plan, Royal Ordnance Pension Scheme and Shipbuilding Industries Pension Scheme entered into arrangements with Legal & General to insure against longevity risk for the current pensioner population, covering a total of £4.4bn of pension scheme liabilities. These arrangements reduce the funding volatility relating to increasing life expectancy. This longevity risk cover with Legal & General remains in place following the merger of the 2000 Plan and SIPS into the Main Scheme.

25. Post-employment benefits continued

IAS 19 accounting

The disclosures below relate to post-retirement benefit schemes in the UK, US and other countries which are accounted for as defined benefit schemes in accordance with IAS 19.

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

Discount rate

The discount rate assumptions are derived through discounting the projected benefit payments using a third-party AA corporate bond yield curve to produce a single equivalent discount rate for the UK and US territories. This inherently captures the maturity profile of the expected benefit payments. For the UK territory, the discount rate used for future service differs from that used for past service as it only uses the cash flows relating to active members, which have a different duration. Further information on the duration of the schemes is detailed on page 267.

Retail Prices Index (RPI) and Consumer Prices Index (CPI) inflation

In the UK, the inflation assumptions are derived by reference to the difference between the yields on index-linked and fixed-interest long-term government bonds, or advice from the local actuary depending on the available information. Index-linked government bonds contain a premium that investors are willing to pay to mitigate the risk that RPI inflation is higher than expected. To account for this, the RPI assumption includes an inflation risk premium deduction.

As a consequence of RPI reform announcements, the Company has reviewed its approach to setting inflation assumptions. The inflation risk premium deduction has been set at 0.55% per annum (2021 0.55%) and the CPI assumption has been set at 0.7% per annum (2021 0.7%) lower than RPI. The resulting RPI assumption is 3.0% per annum and the CPI assumption is 2.3% per annum. The 0.7% per annum RPI-CPI differential is a weighted average of a 1% per annum differential pre-2030 and 0.1% per annum differential post-2030; this reflects the anticipated change to the RPI index from 2030. In the US, inflation assumptions are not relevant as the Group's US pension schemes are not indexed with inflation.

Rate of increase in salaries

The rate of increase in salaries for the UK schemes is assumed to be RPI inflation of 3.0% (2021 RPI inflation of 3.1%), plus a promotional scale. From 1 January 2013, employees in the US schemes no longer accrue salary-related benefits.

Rate of increase in deferred pensions

The rate of increase in deferred pensions for the UK schemes is based on CPI inflation of 2.3% (2021 CPI inflation of 2.4%), with the exception of the legacy 2000 Plan, which is based on RPI inflation of 3.0% (2021 RPI inflation of 3.1%). For all UK schemes, the rate of increase in deferred pensions is subject to inflation caps.

Rate of increase in pensions in payment

The rate of increase in pensions in payment differs between UK schemes. Different tranches of the schemes' benefits increase at rates based on either RPI or CPI inflation, and some are subject to an inflation cap. With the exception of two smaller schemes, the rate of increase in pensions in payment is based on RPI inflation.

Life expectancy

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

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

For the majority of the US schemes, the mortality tables used at 31 December 2022 are a blend of the fully generational PRI-2012 White Collar table and the PRI-2012 Blue Collar table, both projected using Scale MP-2021.

25. Post-employment benefits continued

IAS 19 accounting continued

US healthcare schemes

The latest valuations of the principal schemes, covering retiree medical and life insurance schemes in certain US subsidiaries, were performed by independent actuaries as at 1 January 2022. These valuations were rolled forward to reflect the information at 31 December 2022. The method of accounting for these is similar to that used for defined benefit pension schemes.

Long-term healthcare cost is assumed to increase at 4.7% per annum (2021 4.8%). This is based on an assumed increase in 2022 of 6.3% for pre-retirement and 5.3% for post-retirement, with both rates then reducing to 4.5% by 2029 and remaining at 4.5% per annum each year thereafter.

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 net 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.

Amounts recognised on the balance sheet

The table below shows a reconciliation between the gross assets and liabilities of the Group's UK, US and other post-employment benefit schemes and the amounts recognised on the Group's balance sheet after allocation to equity accounted investments.

	2022				
	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Present value of unfunded obligations	**(104)**	**(105)**	**–**	**(142)**	**(351)**
Present value of funded obligations	**(19,462)**	**(3,927)**	**(128)**	**–**	**(23,517)**
Fair value of scheme assets	**21,524**	**3,629**	**190**	**–**	**25,343**
Total net IAS 19 surplus/(deficit)	**1,958**	**(403)**	**62**	**(142)**	**1,475**
Withholding tax on surpluses	**(722)**	**–**	**–**	**–**	**(722)**
Allocated to equity accounted investments	**(107)**	**–**	**–**	**–**	**(107)**
Group's share of net IAS 19 surplus/(deficit)	**1,129**	**(403)**	**62**	**(142)**	**646**
Represented by:					
Post-employment benefit surpluses	**1,224**	**11**	**62**	**–**	**1,297**
Post-employment benefit obligations	**(95)**	**(414)**	**–**	**(142)**	**(651)**
	1,129	**(403)**	**62**	**(142)**	**646**
Group's share of net IAS 19 surplus of equity accounted investments	**38**	**–**	**–**	**–**	**38**

The US unfunded pension obligations have associated assets held in deferred compensation schemes with a fair value of £56m (2021 £61m), which are shown in Other Investments. The funds held in these trusts can be used solely for the satisfaction of the unfunded obligations.

25. Post-employment benefits continued

IAS 19 accounting continued

	2021				
	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Present value of unfunded obligations	(152)	(131)	–	(153)	(436)
Present value of funded obligations	(28,768)	(4,512)	(150)	–	(33,430)
Fair value of scheme assets	26,947	4,415	218	–	31,580
Total net IAS 19 (deficit)/surplus	(1,973)	(228)	68	(153)	(2,286)
Allocated to equity accounted investments	162	–	–	–	162
Group's share of net IAS 19 (deficit)/surplus	(1,811)	(228)	68	(153)	(2,124)
Represented by:					
Post-employment benefit surpluses	383	32	68	–	483
Post-employment benefit obligations	(2,194)	(260)	–	(153)	(2,607)
	(1,811)	(228)	68	(153)	(2,124)
Group's share of net IAS 19 deficit of equity accounted investments	(69)	–	–	–	(69)

Total cumulative actuarial losses recognised in equity since the transition to IFRS are £1.1bn (2021 £4.1bn).

Changes in the fair value of scheme assets before allocation to equity accounted investments

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Value of scheme assets at 1 January 2021	25,029	4,482	218	–	29,729
Interest income	345	103	5	–	453
Actual return on assets excluding amounts included in interest income	2,274	49	2	–	2,325
Actual return on assets	2,619	152	7	–	2,778
Contributions by employer	313	11	1	14	339
Contributions by employer in respect of employee salary sacrifice arrangements	71	–	–	–	71
Total contributions by employer	384	11	1	14	410
Members' contributions	6	–	–	–	6
Administrative expenses	(12)	(7)	(1)	–	(20)
Transfer to other investments	–	(56)	–	–	(56)
Foreign exchange translation	–	39	2	–	41
Benefits paid	(1,079)	(206)	(9)	(14)	(1,308)
Value of scheme assets at 31 December 2021	26,947	4,415	218	–	31,580
Interest income	490	132	6	–	628
Actual return on assets excluding amounts included in interest income	(5,094)	(1,199)	(48)	–	(6,341)
Actual return on assets	(4,604)	(1,067)	(42)	–	(5,713)
Contributions by employer	257	10	–	14	281
Contributions by employer in respect of employee salary sacrifice arrangements	72	–	–	–	72
Total contributions by employer	329	10	–	14	353
Members' contributions	5	–	–	–	5
Administrative expenses	(18)	(7)	(1)	–	(26)
Foreign exchange translation	–	521	26	–	547
Benefits paid	(1,135)	(243)	(11)	(14)	(1,403)
Value of scheme assets at 31 December 2022	**21,524**	**3,629**	**190**	**–**	**25,343**

25. Post-employment benefits continued

IAS 19 accounting continued

Assets of defined benefit pension schemes

	2022								
	UK			US and other			Total		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:									
UK[1]	**209**	**–**	**209**	**–**	**–**	**–**	**209**	**–**	**209**
Overseas	**624**	**–**	**624**	**–**	**–**	**–**	**624**	**–**	**624**
Pooled investment vehicles[2]	**3**	**8,892**	**8,895**	**793**	**–**	**793**	**796**	**8,892**	**9,688**
Fixed-interest securities:									
UK gilts	**2,397**	**–**	**2,397**	**–**	**–**	**–**	**2,397**	**–**	**2,397**
UK corporates	**1,832**	**2,416**	**4,248**	**–**	**–**	**–**	**1,832**	**2,416**	**4,248**
Overseas government	**29**	**–**	**29**	**599**	**–**	**599**	**628**	**–**	**628**
Overseas corporates	**1,248**	**56**	**1,304**	**2,105**	**–**	**2,105**	**3,353**	**56**	**3,409**
Index-linked securities:									
UK gilts	**2,050**	**–**	**2,050**	**–**	**–**	**–**	**2,050**	**–**	**2,050**
UK corporates	**–**	**952**	**952**	**–**	**–**	**–**	**–**	**952**	**952**
Overseas corporates	**9**	**–**	**9**	**–**	**–**	**–**	**9**	**–**	**9**
Property[3]	**–**	**1,731**	**1,731**	**–**	**37**	**37**	**–**	**1,768**	**1,768**
Derivatives[4]	**–**	**(1,595)**	**(1,595)**	**–**	**–**	**–**	**–**	**(1,595)**	**(1,595)**
Cash:									
Sterling	**566**	**84**	**650**	**–**	**–**	**–**	**566**	**84**	**650**
Foreign currency	**12**	**(1)**	**11**	**95**	**–**	**95**	**107**	**(1)**	**106**
Other	**–**	**10**	**10**	**–**	**–**	**–**	**–**	**10**	**10**
Total	**8,979**	**12,545**	**21,524**	**3,592**	**37**	**3,629**	**12,571**	**12,582**	**25,153**

	2021								
	UK			US and other			Total		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:									
UK[1]	1,188	–	1,188	–	–	–	1,188	–	1,188
Overseas	3,468	–	3,468	–	–	–	3,468	–	3,468
Pooled investment vehicles[2]	257	8,058	8,315	990	–	990	1,247	8,058	9,305
Fixed-interest securities:									
UK gilts	1,253	–	1,253	–	–	–	1,253	–	1,253
UK corporates	1,850	3,171	5,021	–	–	–	1,850	3,171	5,021
Overseas government	67	–	67	305	–	305	372	–	372
Overseas corporates	1,152	50	1,202	2,990	–	2,990	4,142	50	4,192
Index-linked securities:									
UK gilts	3,397	–	3,397	–	–	–	3,397	–	3,397
UK corporates	–	1,270	1,270	–	–	–	–	1,270	1,270
Property[3]	–	1,967	1,967	–	42	42	–	2,009	2,009
Derivatives[4]	–	(1,317)	(1,317)	–	(3)	(3)	–	(1,320)	(1,320)
Cash:									
Sterling	931	91	1,022	–	–	–	931	91	1,022
Foreign currency	14	4	18	91	–	91	105	4	109
Other	39	37	76	–	–	–	39	37	76
Total	13,616	13,331	26,947	4,376	39	4,415	17,992	13,370	31,362

1. Includes £3m (2021 £5m) of the Company's own ordinary shares.
2. Primarily invested in private markets and exchange traded funds. The amounts classified as unquoted primarily comprise investments in private markets, with the majority held in infrastructure, alternatives and direct funds, valued in accordance with International Private Equity and Venture Capital Valuation Guidelines.
3. Valued on the basis of open market value at the end of the year determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Note contained therein. Includes £223m (2021 £263m) of property occupied by Group companies.
4. Includes equity protection options, forward foreign exchange contracts, futures, and interest rate, inflation and longevity swaps. In addition, the total derivative figures shown are net of £520m (2021 £464m) of repurchase agreements. The valuations are based on valuation techniques using underlying market data and discounted cash flows.

25. Post-employment benefits continued

IAS 19 accounting continued

Longevity swap

The Group holds longevity insurance contracts for some of its UK defined benefit pension schemes. These provide long-term protection and income to the underlying pension scheme in the event that insured members live longer than expected.

The value of the longevity insurance contracts held by the Group are calculated by an actuary. At a high level, they are measured by discounting the difference between the projected fixed and floating cash flows payable under the contracts, excluding the value of future projected fees. The significant assumptions used for this valuation are the discount rate and mortality assumptions; fair values for these assumptions are advised by an actuary based on external data and characteristics of the insured member population.

As at 31 December 2022, the longevity swap valuation leads to a negative adjustment to the assets which reflects that experience to date on the contracts has been higher than expected deaths.

Changes in the present value of the defined benefit obligations before allocation to equity accounted investments

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Defined benefit obligations at 1 January 2021	(29,391)	(4,894)	(157)	(132)	(34,574)
Current service cost	(237)	(13)	(1)	(23)	(274)
Contributions by employer in respect of employee salary sacrifice arrangements	(71)	–	–	–	(71)
Total current service cost	(308)	(13)	(1)	(23)	(345)
Members' contributions	(6)	–	–	–	(6)
Past service cost – plan amendments	(3)	–	(1)	–	(4)
Actuarial gain/(loss) due to changes in financial assumptions	1,145	220	6	(2)	1,369
Actuarial gain/(loss) due to changes in demographic assumptions	74	(8)	1	–	67
Experience losses	(1,109)	(8)	(2)	(6)	(1,125)
Interest expense	(401)	(113)	(4)	(4)	(522)
Foreign exchange translation	–	(33)	(1)	–	(34)
Benefits paid	1,079	206	9	14	1,308
Defined benefit obligations at 31 December 2021	(28,920)	(4,643)	(150)	(153)	(33,866)
Current service cost	(231)	(12)	(1)	(27)	(271)
Contributions by employer in respect of employee salary sacrifice arrangements	(72)	–	–	–	(72)
Total current service cost	(303)	(12)	(1)	(27)	(343)
Members' contributions	(5)	–	–	–	(5)
Past service cost – plan amendments	14	2	(1)	–	15
Actuarial gain due to changes in financial assumptions	10,745	1,067	32	47	11,891
Actuarial loss due to changes in demographic assumptions	(39)	–	–	–	(39)
Experience (losses)/gains	(1,672)	(6)	3	(4)	(1,679)
Interest expense	(521)	(138)	(4)	(5)	(668)
Foreign exchange translation	–	(545)	(18)	(14)	(577)
Benefits paid	1,135	243	11	14	1,403
Defined benefit obligations at 31 December 2022	**(19,566)**	**(4,032)**	**(128)**	**(142)**	**(23,868)**

25. Post-employment benefits continued

IAS 19 accounting continued

Amounts recognised in the income statement after allocation to equity accounted investments

	2022			
	UK defined benefit pension schemes £m	**US and other pension schemes £m**	**Other schemes £m**	**Total £m**
Included in operating costs:				
Current service cost	**(210)**	**(12)**	**(28)**	**(250)**
Past service cost – plan amendments	**13**	**2**	**(1)**	**14**
Administrative expenses	**(16)**	**(7)**	**(1)**	**(24)**
	(213)	**(17)**	**(30)**	**(260)**
Included in net finance costs:				
Net interest expense on post-employment benefit obligations	**(28)**	**(6)**	**(3)**	**(37)**
Group defined benefit schemes included in share of results of equity accounted investments:				
Group's share of equity accounted investments' operating costs	**(10)**	**–**	**–**	**(10)**
Group's share of equity accounted investments' finance costs	**(1)**	**–**	**–**	**(1)**

	2021			
	UK defined benefit pension schemes £m	US and other pension schemes £m	Other schemes £m	Total £m
Included in operating costs:				
Current service cost	(217)	(13)	(24)	(254)
Past service cost – plan amendments	(3)	–	(1)	(4)
Administrative expenses	(11)	(7)	(1)	(19)
	(231)	(20)	(26)	(277)
Included in net finance costs:				
Net interest expense on post-employment benefit obligations	(52)	(10)	(3)	(65)
Group defined benefit schemes included in share of results of equity accounted investments:				
Group's share of equity accounted investments' operating costs	(10)	–	–	(10)
Group's share of equity accounted investments' finance costs	(2)	–	–	(2)

The Group incurred a charge of £299m (2021 £246m) in relation to defined contribution schemes for employees.

25. Post-employment benefits continued

IAS 19 accounting continued

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 on page 271.

The pension schemes hold a number of unquoted pooled investment vehicles, which are investments in private markets. These are valued based on latest available valuation reports, and as noted on page 223, these valuations are subject to estimation uncertainty as their valuation techniques incorporate a number of assumptions, including those associated with the COVID-19 pandemic and the impact of climate change. Should these funds' actual valuations at 31 December 2022 be on average 2% different to those assumed, this would result in a £0.2bn (2021 £0.2bn) change in the valuation of the assets.

Financial assumptions

The estimated impact of changes in the discount rate and inflation assumptions on the defined benefit pension obligation, together with the estimated impact on scheme assets, is shown in the table below. The estimated impact on scheme assets takes into account the Group's risk management activities in respect of interest rate and inflation risk. The sensitivity analysis on the defined benefit obligation is measured on an IAS 19 accounting basis 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 (see longevity risk on page 270), 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.

26. Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate.

Warranties and after-sales service

Warranties and after-sales service are provided in the normal course of business with provisions for associated costs being made based on an assessment of future claims with reference to past experience. A provision for warranties is recognised when the underlying products and services are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Reorganisations

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected. The costs associated with the reorganisation programmes are supported by detailed plans and based on previous experience as well as other known factors. Future operating costs are not provided for.

Legal, contractual and environmental

The Group holds provisions for expected legal, contractual and environmental costs that it expects to incur over an extended period. Management exercises judgement to determine the amount of these provisions. Provision is made for known issues based on past experience of similar items and other known factors. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount, being the single most likely amount in a range of possible outcomes.

	Warranties and after-sales service £m	Reorganisations £m	Legal, contractual and environmental £m	Other £m	Total £m
Non-current	57	–	249	25	331
Current	52	38	136	50	276
At 1 January 2022	109	38	385	75	607
Created	39	20	81	19	159
Utilised	(31)	(24)	(45)	(20)	(120)
Transfer from other balance sheet categories	2	–	1	–	3
Released	(16)	(1)	(64)	(11)	(92)
Net present value adjustments	–	–	(6)	(3)	(9)
Business acquisitions	–	–	–	6	6
Business disposals	–	–	–	(1)	(1)
Foreign exchange adjustments	6	1	21	6	34
At 31 December 2022	**109**	**34**	**373**	**71**	**587**
Represented by:					
Non-current	57	9	244	28	338
Current	52	25	129	43	249
	109	**34**	**373**	**71**	**587**

26. Provisions continued

Warranties and after-sales service

Warranty and after-sales service provisions are generally utilised within three years post-delivery. Whilst actual events could result in potentially significant differences to the quantum, but not the timing, of the outflows in relation to the provisions, management has reflected current knowledge in assessing the provision levels.

Reorganisations

Reorganisation provisions are generally utilised within one to three years. There is limited volatility around the timing and amount of the ultimate outflows related to these provisions.

Other debtors includes £nil (2021 £9m) which is reimbursable in respect of reorganisation costs.

Legal, contractual and environmental

Reflecting the inherent uncertainty within many legal proceedings, the amount of the outflows could differ significantly from the amount provided. While the timing of the outflows is also uncertain, the Group expects these provisions to be utilised over a period of approximately 25 years.

Other

There are no individually significant provisions included within other provisions.

27. Share capital and other reserves

Share capital

	Equity		Non-equity		Total
	Ordinary shares of 2.5p each		Special Share of £1		
	Number of shares m	Nominal value £m	Number of shares	Nominal value £	Nominal value £m
Issued and fully paid					
At 1 January 2021	3,467	87	1	1	87
Shares cancelled	(63)	(2)	–	–	(2)
At 1 January 2022	3,404	85	1	1	85
Shares cancelled	(107)	(3)	–	–	(3)
At 31 December 2022	**3,297**	**82**	**1**	**1**	**82**

Special Share

One Special Share of £1 in the Company is held on behalf of the Secretary of State for Business, Energy and Industrial Strategy (the Special Shareholder). Certain provisions of the Company's Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company, the requirement that the majority of the directors are British, and the requirement that the Chief Executive and any executive Chairman are British. The effect of these requirements can also be amended by regulations made by the directors and approved by the Special Shareholder.

The Special Shareholder may require the Company at any time to redeem the Special Share at par or to convert the Special Share into one ordinary voting share. The Special Shareholder is entitled to receive notice of and to attend general meetings and class meetings of the Company's shareholders, but has no voting right, nor other rights, other than to speak in relation to any business in respect of the Special Share.

Treasury shares

As at 31 December 2022, 220,086,959 (2021 236,807,031) ordinary shares of 2.5p each with an aggregate nominal value of £5,502,174 (2021 £5,920,176) were held in treasury. During 2022, 16,720,072 (2021 12,188,518) treasury shares were used to satisfy awards and options under the Share Incentive Plan, International Share Incentive Plan, Performance Share Plan, the Performance Shares and Restricted Shares elements of the Long-Term Incentive Plan, and the Executive Share Option Plan.

BAE Systems Employee Share Option Plan (ESOP) Trust

The Group has an ESOP discretionary trust to administer the share plans and to acquire Company shares, using funds loaned by the Group, to meet commitments to Group employees. Dividend waivers were in operation for shares within the ESOP Trust, other than those owned beneficially by the participants, for the dividends paid in the year.

At 31 December 2022, the ESOP Trust held 7,268,002 (2021 7,022,472) ordinary shares of 2.5p each, with a market value of £62m (2021 £39m). The shares held by the ESOP Trust are recorded at cost and deducted from retained earnings until such time as the shares vest unconditionally to employees.

A dividend waiver was also in operation for the dividends paid in the year over shares within the Company's share incentive plan trusts other than those shares owned beneficially by the participants.

Own shares held

Own shares held, including treasury shares and shares held by BAE Systems ESOP Trust, are recognised as a deduction from retained earnings.

27. Share capital and other reserves continued

Equity dividends

Equity dividends on ordinary share capital are recognised as a liability on the date that the shareholder's right to receive payment is established. This is generally the date that the dividend is declared.

	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.

Other reserves

	Merger reserve £m	Statutory reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2021	4,589	202	10	3	94	1,025	5,923
Subsidiaries:							
Currency translation on foreign currency net investments	–	–	–	–	–	27	27
Reclassification of cumulative currency translation reserve on disposal of subsidiary	–	–	–	–	–	(9)	(9)
Net amounts debited to hedging reserve	–	–	–	–	(52)	–	(52)
Equity accounted investments (net of tax)	–	–	–	–	9	(13)	(4)
Purchase of own shares	–	–	–	2	–	–	2
At 31 December 2021	4,589	202	10	5	51	1,030	5,887
Subsidiaries:							
Currency translation on foreign currency net investments	–	–	–	–	–	1,151	1,151
Reclassification of cumulative currency translation reserve on disposal of subsidiary	–	–	–	–	–	(17)	(17)
Net amounts debited to hedging reserve	–	–	–	–	(65)	–	(65)
Equity accounted investments (net of tax)	–	–	–	–	3	(11)	(8)
Purchase of own shares	–	–	–	3	–	–	3
At 31 December 2022	**4,589**	**202**	**10**	**8**	**(11)**	**2,153**	**6,951**

27. Share capital and other reserves continued

Other reserves continued

Merger reserve

The merger reserve arose on the acquisition of the Marconi Electronic Systems (MES) business by British Aerospace in 1999 to form BAE Systems, and represents the amount by which the fair value of the shares issued by British Aerospace as consideration exceeded their nominal value.

Statutory reserve

Under Section 4 of the British Aerospace Act 1980, this reserve may only be applied in paying up unissued shares of the Company to be allotted to members of the Company as fully paid bonus shares.

Revaluation reserve

The revaluation reserve relates to the revaluation at fair value of the net assets of the BVT joint venture previously held as an equity accounted investment on the acquisition of the remaining 45% interest in 2009.

Capital redemption reserve

The capital redemption reserve represents the cumulative nominal value of the Company's ordinary shares repurchased and subsequently cancelled.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Capital

The Group funds its operations through a mixture of equity funding and debt financing, including bank and capital market borrowings.

At 31 December 2022, the Group's capital was £11,411m (2021 £7,617m), which comprises total equity of £11,400m (2021 £7,668m), excluding amounts accumulated in equity relating to cash flow hedges of £(11)m (2021 £51m). Net debt (excluding lease liabilities) was £2,023m (2021 £2,160m).

The capital structure of the Group reflects the judgement of the directors of an appropriate balance of funding required. The Group's policy is to maintain an investment grade credit rating and ensure operating flexibility, whilst:

- meeting its pension obligations;
- investing in research and technology and pursuing other organic investment opportunities;
- paying dividends in line with the Group's policy of long-term sustainable cover of around two times underlying earnings (see note 7);
- making accelerated returns of capital to shareholders when the balance sheet allows and when the return from doing so is in excess of the Group's Weighted Average Cost of Capital; and
- investing in value-enhancing acquisitions, where market conditions are right and where they deliver on the Group's strategy.

Purchase of own shares

2021 buyback

On 29 July 2021, the Company announced the details of a share buyback programme to repurchase up to £500m of its own shares over the following 12 months.

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

During 2021, 63,272,873 shares were repurchased for a total price, including transaction costs, of £371m. These shares were subsequently cancelled, with the nominal value of shares cancelled deducted from share capital against the capital redemption reserve.

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

2022 buyback

In July 2022, the directors also approved a new share buyback programme of up to £1.5bn over the next three years under the same terms as the 2021 buyback programme. At 31 December 2022, 82,997,065 shares were repurchased for a total price, including transaction costs, of £664m. These shares have been subsequently cancelled, with the nominal value of shares cancelled deducted from share capital against the capital redemption reserve.

28. Cash flow from operating activities

Reconciliation of net cash flow from operating activities to free cash flow[1]

	2022 £m	2021 £m
Net cash flow from operating activities	**2,839**	2,447
Add back Taxation paid	**365**	234
Purchase of property, plant and equipment, and investment property[2]	**(599)**	(516)
Purchase of intangible assets	**(94)**	(96)
Purchase of non-current other investment	**(8)**	(15)
Proceeds from funding related to assets[2]	**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)
Principal element of lease payments and receipts	**(227)**	(207)
Net capital expenditure, lease principal amounts and financial investment	**(746)**	(416)
Dividends received from equity accounted investments	**94**	57
Operating business cash flow[1]	**2,552**	2,322
Taxation paid[3]	**(365)**	(234)
Interest paid, net of interest received	**(237)**	(224)
Free cash flow[1]	**1,950**	1,864

Reconciliation of operating business cash flow[1] to net cash flow from operating activities by reporting segment

	Operating business cash flow[1]		Deduct Dividends received from equity accounted investments		Add back Net capital expenditure, lease principal amounts and financial investment		Net cash flow from operating activities	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Electronic Systems	**650**	774	**(6)**	(3)	**216**	180	**860**	951
Platforms & Services	**525**	287	**–**	(6)	**108**	70	**633**	351
Air	**1,140**	628	**(84)**	(44)	**146**	159	**1,202**	743
Maritime & UK Land	**235**	321	**(4)**	(4)	**187**	140	**418**	457
Cyber & Intelligence	**154**	173	**–**	–	**37**	29	**191**	202
HQ	**(152)**	139	**–**	–	**52**	(162)	**(100)**	(23)
	2,552	2,322	**(94)**	(57)	**746**	416	**3,204**	2,681
Taxation paid[3]							**(365)**	(234)
Net cash flow from operating activities							**2,839**	2,447

1. Operating business cash flow and Free cash flow are alternative performance measures defined in the Financial glossary on page 302. They are presented here to provide additional information on performance to the user, and to reconcile to the equivalent IFRS measure.
2. 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'.
3. Taxation is managed on a Group-wide basis.

29. Movement in assets and liabilities arising from financing activities

	As at 1 January 2022 £m	Cash flow[3] £m	Non-cash movements: Foreign exchange movements £m	Leases £m	Fair value adjustments £m	Financial expense £m	Other movements[1] £m	As at 31 December 2022 £m
Assets								
Other financial assets[2]	**122**	**(550)**	**–**	**–**	**581**	**17**	**–**	**170**
	122	**(550)**	**–**	**–**	**581**	**17**	**–**	**170**
Liabilities								
Loans	**(5,061)**	**615**	**(584)**	**–**	**–**	**(212)**	**–**	**(5,242)**
Lease liabilities	**(1,295)**	**284**	**(95)**	**(464)**	**–**	**(48)**	**2**	**(1,616)**
Other financial liabilities[2]	**(163)**	**205**	**–**	**–**	**(155)**	**(1)**	**–**	**(114)**
	(6,519)	**1,104**	**(679)**	**(464)**	**(155)**	**(261)**	**2**	**(6,972)**
		554						
Other interest paid		**23**						
Purchase of own shares		**788**						
Equity dividends paid		**802**						
Dividends paid to non-controlling interests		**166**						
Net cash flow from financing activities		**2,333**						

	As at 1 January 2021 £m	Cash flow[3] £m	Non-cash movements: Foreign exchange movements £m	Leases £m	Fair value adjustments £m	Financial expense £m	Other movements[1] £m	As at 31 December 2021 £m
Assets								
Other financial assets[2]	146	(79)	–	–	37	18	–	122
	146	(79)	–	–	37	18	–	122
Liabilities								
Loans	(5,323)	574	(43)	–	–	(209)	(60)	(5,061)
Lease liabilities	(1,256)	260	(7)	(246)	–	(43)	(3)	(1,295)
Other financial liabilities[2]	(231)	154	–	–	(81)	(5)	–	(163)
Cash collateral[4]	(18)	18	–	–	–	–	–	–
	(6,828)	1,006	(50)	(246)	(81)	(257)	(63)	(6,519)
		927						
Other interest paid		10						
Purchase of own shares		368						
Equity dividends paid		777						
Dividends paid to non-controlling interests		202						
Partial disposal of shareholding in subsidiary undertaking		(28)						
Net cash flow from financing activities		2,256						

1. Other movements includes movements arising on the acquisition or disposal of businesses.
2. Excluding cash flow hedges, for which the cash flow is reported within cash flow from operating activities. See note 15 for an analysis of other financial assets and liabilities.
3. Cash flow movements represent both payments or receipts of principal and payments of interest, which are presented separately in the consolidated cash flow statement. Cash flow movements in the prior year were presented net of interest paid. The movement tables have been re-presented in the current year to disclose greater levels of detail and, as a result, the 2021 comparatives have been re-presented to the same level of detail.
4. Reported in other payables.

30. Net debt (excluding lease liabilities)

Components of net debt (excluding lease liabilities)

	Notes	2022 £m	2021 £m
Cash and cash equivalents	19	**3,107**	2,917
Debt-related derivative financial instrument assets – non-current	15	**147**	114
Loans – non-current	22	**(5,189)**	(4,604)
Loans and overdrafts – current	22	**(53)**	(457)
Debt-related derivative financial instrument liabilities – non-current	15	**(35)**	(130)
Net debt (excluding lease liabilities)[1]		**(2,023)**	(2,160)

1. Net debt (excluding lease liabilities) is an alternative performance measure defined in the Financial glossary on page 302. It is presented here to provide additional information on performance to the user, and to reconcile to the equivalent IFRS measure.

31. 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).

31. Fair value measurement continued

Carrying amounts and fair values of certain financial instruments

	Notes	2022 Carrying amount £m	2022 Fair value £m	2021 Carrying amount £m	2021 Fair value £m
Financial instruments measured at fair value:					
Non-current					
Other investments at fair value through other comprehensive income	13	**99**	**99**	76	76
Other financial assets	15	**322**	**322**	305	305
Other financial liabilities	15	**(272)**	**(272)**	(302)	(302)
Current					
Other financial assets	15	**252**	**252**	194	194
Money market funds	19	**1,149**	**1,149**	1,171	1,171
Other financial liabilities	15	**(328)**	**(328)**	(214)	(214)
Financial instruments not measured at fair value:					
Non-current					
Loans	22	**(5,189)**	**(4,588)**	(4,604)	(5,045)
Current					
Loans and overdrafts	22	**(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 is 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 at 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.

32. Share-based payments

The Group has granted equity-settled share options and Long-Term Incentive Plan arrangements which are measured at fair value at the date of grant using an option pricing model. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will actually vest.

Details of the terms and conditions of each share-based payment plan are given in the Annual remuneration report on pages 160 to 205.

Expense in year

	2022 £m	2021 £m
Executive Share Option Plan	**10**	8
Performance Share Plan	**35**	32
Restricted Share Plan	**10**	8
	55	48

The Group also incurred a charge of £46m (2021 £44m) in respect of the equity-settled all-employee Free Shares and Matching Partnership Shares elements of the Share Incentive Plan.

Executive Share Option Plan

	2022		2021	
	Number of shares '000	**Weighted average exercise price £**	Number of shares '000	Weighted average exercise price £
Outstanding at 1 January	**47,280**	**5.16**	43,561	5.20
Granted during the year	**8,141**	**7.39**	10,995	5.02
Exercised during the year	**(18,020)**	**5.30**	(2,695)	4.68
Expired during the year	**(2,587)**	**5.50**	(4,581)	5.49
Outstanding at 31 December	**34,814**	**5.58**	47,280	5.16
Exercisable at 31 December	**8,271**	**5.38**	17,279	5.57

	2022	2021
Range of exercise price of outstanding options (£)	**3.89 – 7.83**	3.01 – 6.49
Weighted average remaining contracted life (years)	**7**	7
Weighted average fair value of options granted (£)	**1.87**	1.00

Performance Share Plan and Restricted Share Plan

	Performance Share Plan		Restricted Share Plan	
	2022 Number of shares '000	2021 Number of shares '000	**2022 Number of shares '000**	2021 Number of shares '000
Outstanding at 1 January	**27,915**	25,878	**5,413**	4,974
Granted during the year	**6,799**	9,387	**2,205**	2,304
Exercised during the year	**(3,719)**	(2,108)	**(1,383)**	(1,523)
Expired during the year	**(3,652)**	(5,242)	**(430)**	(342)
Outstanding at 31 December	**27,343**	27,915	**5,805**	5,413
Exercisable at 31 December	**387**	387	**38**	–

	2022	2021	**2022**	2021
Weighted average remaining contracted life (years)	**5**	5	**5**	5
Weighted average fair value of awards granted (£)	**7.32**	4.90	**7.49**	5.01

The exercise price for the Performance Share Plan and Restricted Share Plan is £nil (2021 £nil).

32. Share-based payments continued

Details of options/awards granted in the year

The fair value of equity-settled options/awards granted in the year has been measured using the weighted average inputs below and the following valuation models:

Executive Share Option Plan – Binomial
Performance Share Plan – Monte Carlo
Restricted Share Plan – Dividend valuation

	2022	2021
Range of share price at date of grant (£)	**7.35 – 7.83**	5.00 – 5.68
Expected option/award life (years)	**3 – 10**	3 – 10
Volatility (%)	**29**	28
Risk-free interest rate (%)	**1 – 3**	0.1 – 0.2

Volatility was calculated with reference to the Group's weekly share price volatility, after allowing for dividends, for the greater of 30 weeks or for the period until vest date.

The average share price in the year was £7.53 (2021 £5.33).

33. Related party transactions

The Group has a related party relationship with its directors and key management personnel (see below), equity accounted investments (note 12) and pension schemes (note 25).

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:

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties[1]		Management recharges[1]	
Related party	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Advanced Electronics Company Limited	**–**	1	**–**	–	**–**	–	**–**	–	**–**	–
Eurofighter Jagdflugzeug GmbH	**1,219**	1,068	**442**	402	**67**	26	**91**	74	**–**	–
FADEC International LLC	**73**	54	**–**	–	**–**	–	**–**	–	**–**	–
MBDA SAS	**19**	23	**76**	114	**6**	2	**949**	837	**8**	19
Panavia Aircraft GmbH	**22**	32	**49**	46	**1**	1	**2**	–	**–**	–
BAE Systems Pension Schemes	**–**	–	**20**	16	**–**	–	**193**	207	**–**	–
Other	**11**	12	**28**	8	**3**	5	**27**	19	**–**	–
	1,344	1,190	**615**	586	**77**	34	**1,262**	1,137	**8**	19

1. Also relates to disclosures under IAS 24 Related Party Disclosures, for the parent company, BAE Systems plc. At 31 December 2022, £1,021m (2021 £907m) was owed by BAE Systems plc and £241m (2021 £230m) by other Group subsidiaries.

The Group also manages certain treasury functions on behalf of some of their equity accounted investments. This includes entering into foreign exchange derivatives on their behalf. As at 31 December 2022, we entered into forward contracts to purchase €313m, sell $21m, and purchase £14m worth of other currencies (2021 purchase €250m, sell $20m and purchase £4m worth of other currencies) on their behalf. No service fee is charged for these arrangements.

The Group considers key management personnel, as defined under IAS 24 Related Party Disclosures, to be the members of the Group's Executive Committee and the Company's non-executive directors. Fuller disclosures on directors' remuneration are set out in the Annual remuneration report on pages 160 to 205. Total emoluments for directors and key management personnel charged to the Consolidated income statement were:

	2022 £'000	2021 £'000
Short-term employee benefits	**22,238**	17,755
Post-employment benefits	**677**	1,121
Share-based payments	**12,023**	8,940
	34,938	27,816

34. Contingent liabilities

Contingent liabilities are potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business. Various Group undertakings are parties to legal actions and claims which arise in the normal course of business. Provision is made for any amounts that the directors consider may become payable (see note 26).

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

35. Acquisitions 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 the business	**146**

35. Acquisition of businesses continued

Businesses acquired during 2022 continued

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

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

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

1. Underlying EBIT is an alternative performance measure defined in the Financial glossary on page 302. 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.

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 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 provisional goodwill of £10m.

The purchase price allocation for all 2021 acquisitions was finalised within the current year.

36. Events after the reporting period

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

37. Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 December 2022 is disclosed below. Unless otherwise stated, the Group's shareholding represents ordinary shares held indirectly by BAE Systems plc, the year end is 31 December and the address of the registered office is Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6YU, United Kingdom. For companies incorporated outside of the United Kingdom, the country of incorporation is shown in the address. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries – wholly-owned

4219 Lafayette, LLC[1]
4219 Lafayette Center Drive, Chantilly VA 20151, United States

Aircraft Research Association Limited[2]
Manton Lane, Bedford MK41 7PF, United Kingdom

Alvis Limited

Alvis Pension Scheme Trustees Limited[3]

Alvis Vickers Limited

Armstrong Whitworth Aircraft Limited[3]

ASC Shipbuilding Pty Limited
Bldg 01, Level 2, 640 Mersey Road North, Osborne SA 5017, Australia

Australian Marine Engineering Corporation (Finance) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Avro International Aerospace Limited[3]

BAE Systems (Al Diriyah C4i) Limited[3]

BAE Systems (Canada) Inc.
220 Laurier Avenue West, Suite 1200, Ottawa ON K1P 5Z9, Canada

BAE Systems (Combat and Radar Systems) Limited
Charter Place, 23/27 Seaton Place, St. Helier, Jersey JE1 1JY

BAE Systems (Corporate Air Travel) Limited

BAE Systems (Defence Systems) Limited

BAE Systems (Dynamics) Limited

BAE Systems (Farnborough 3) Limited

BAE Systems (Finance) Limited

BAE Systems (Funding Four) Unlimited Company
Riverside One, Sir John Rogerson's Quay, Dublin D02 X576, Ireland

BAE Systems (Funding Three) Limited

BAE Systems (Funding Two) Limited

BAE Systems (Gripen Overseas) Limited

BAE Systems (Holdings) Limited[3]

BAE Systems (International) Limited

BAE Systems (Kazakhstan) Limited

BAE Systems (Kuwait) Limited

BAE Systems (Land and Sea Systems) Limited[4]

BAE Systems (Malaysia) Sdn Bhd
Level 25 Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia

BAE Systems (MEH) Limited

BAE Systems (Military Air) Overseas Limited

BAE Systems (Nominees) Limited[3]

BAE Systems (Oman) Limited

BAE Systems (Operations) Limited[5]

BAE Systems (Operations) Singapore Pte Limited
One Marina Boulevard #28-00, Singapore 018989, Singapore

BAE Systems (Overseas Holdings) Limited

BAE Systems (Poland) Sp. z o.o.
ul. Abp. A. Baraniaka 88, 61-131 Poznan, Poland

BAE Systems (Projects) Limited

BAE Systems (Property Investments) Limited

BAE Systems (Vehicles and Equipment) Limited[6]

BAE Systems 2000 Pension Plan Trustees Limited[3]

BAE Systems AB[7]
Box 5676, SE-114 86 Stockholm, Sweden

BAE Systems Air Japan KK
1-1 Katamachi, Shinjuku-ku, Tokyo, Japan

BAE Systems Al Diriyah Programme Limited[3]

BAE Systems Applied Intelligence (Asia Pacific) Pte Limited
United Square, 101 Thomson Road, #25-03/04, 307591, Singapore

BAE Systems Applied Intelligence (Connect) A/S
c/o Kromann Reumert, Sundkrogsgade 5, Copenhagen East, 2100, Denmark

BAE Systems Applied Intelligence (GCS) Limited
Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom

BAE Systems Applied Intelligence Integrated Computer Solutions (Kuwait) (S.P.C.)
Al Hamra Tower, Office Number 3503, 35th Floor, East Maqwa, Kuwait City, Kuwait

BAE Systems Applied Intelligence (Integration) Limited
Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom

BAE Systems Applied Intelligence (International) Limited
Priestley Road, Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom

BAE Systems Applied Intelligence (Japan) KK
12/F Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo, 107-6024, Japan

BAE Systems Applied Intelligence (Spain) S.A.
Paseo de la Castellana, 141, Cuzco IV, 28046 Madrid, Spain

BAE Systems Applied Intelligence (UK) Limited

BAE Systems Applied Intelligence A/S
c/o Kromann Reumert, Sundkrogsgade 5, Copenhagen East, 2100, Denmark

BAE Systems Applied Intelligence GCS Inc.[8]
CSC, 100 Shockoe Slip, 2nd Floor Richmond VA 23219, United States

BAE Systems Applied Intelligence Limited
Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom

BAE Systems Applied Intelligence LLC[1]
8000 Towers Crescent Blvd, 13th Floor, Vienna VA 22182, United States

BAE Systems Applied Intelligence Malaysia Sdn Bhd
Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia

BAE Systems Applied Intelligence Pty Limited
Level 26, 459 Collins Street, Melbourne VIC 3000, Australia

BAE Systems Australia (Electronic Systems) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia (NSW) Holdings Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia (NSW) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Datagate Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Defence Holdings Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Defence Pty Limited[10]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Holdings Limited[3]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Logistics Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Sea Sentinel Project Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Avionics Singapore Pte Limited
One Marina Boulevard, #28-00, Singapore 018989, Singapore

BAE Systems Bofors AB
SE-691 80 Karlskoga, Sweden

BAE Systems Bofors Holdings Sdn Bhd
Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia

BAE Systems C-ITS AB
Box 5676, SE-114 86 Stockholm, Sweden

BAE Systems Communications Solutions LLC[1]
Knowledge Oasis, Building 4, Second Floor, 0402-Z427, Knowledge Oasis Muscat, PO Box 16, Postal Code 135, Muscat, Oman

BAE Systems Controls Inc.[9]
1098 Clark Street, Endicott NY 13760, United States

BAE Systems Creole Inc.[11]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Datagate Holdings Limited

BAE Systems Datagate Limited[6]

BAE Systems Deployed Systems Limited[12]

BAE Systems do Brasil Ltda
SCN Quadra 5 Bloco A, Ed. Brasilia Shopping, Torre Norte, Sala 426, Brasilia, DF CEP:70715-900, Brazil

BAE Systems Electronic Systems (Overseas) Limited

BAE Systems Electronics Limited

BAE Systems Enterprises Limited

BAE Systems Executive Pension Scheme Trustees Limited[3]

BAE Systems Finance B.V.
c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands

BAE Systems Finance Inc.[8]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Flight Training (Australia) Pty Limited[13]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Funds Management[3,14]

BAE Systems GCS International Limited

BAE Systems Global Combat Systems Bridging Limited[6]

BAE Systems Global Combat Systems Munitions Limited

BAE Systems Global LLC[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Hägglunds AB
SE-691 80, Karlskoga, Sweden

BAE Systems Hawaii Shipyards Inc.[8]
The Corporation Company, Inc., 1136 Union Mall, Suite 301, Honolulu HI 96813, United States

37. Information about related undertakings continued

Subsidiaries – wholly-owned continued

BAE Systems Holding GmbH
Hauptstrasse 48, 82433 Bad Kohlgrub, Germany

BAE Systems Holdings (South Africa) (Pty) Limited
Central Office Park No. 5, 257 Jean Avenue, Centurion, Gauteng, 0157, South Africa

BAE Systems Holdings B.V.
c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands

BAE Systems Holdings Inc.[9]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Holdings International LLC[1]
1676 International Drive, 10th Floor, Suite 1000, McLean VA 22102, United States

BAE Systems Imaging Solutions Inc.[9]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems India (Homeland Security) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Services) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Technology) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Ventures) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems Information and Electronic Systems Integration Inc.[8]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Insurance (Isle of Man) Limited
Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man

BAE Systems Integrated System Technologies (KSA) Limited

BAE Systems Integrated System Technologies (Overseas) Limited

BAE Systems Integrated System Technologies Limited

BAE Systems International Inc.[8]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Jacksonville Ship Repair LLC[1]
8500 Hecksher Drive, Jacksonville FL 32226, United States

BAE Systems Japan GK
Ark Mori Building, 1-12-32 Akasaka, Minato-Ku, Tokyo, Japan

BAE Systems Land & Armaments Holdings LLC[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Land & Armaments Inc.[8]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Land & Armaments L.P.[1]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Land Systems (Finance) Limited

BAE Systems Land Systems (Investments South Africa) Limited[6]

BAE Systems Land Systems (Investments) Limited

BAE Systems Land Systems (Ranges) Limited[6]

BAE Systems Land Systems ATF Limited

BAE Systems Land Systems FMTV International Inc.[11]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Land Systems Pinzgauer (Holdings) Limited

BAE Systems Land Systems Pinzgauer Limited

BAE Systems MAI Turkey Hava Sistemleri A.Ş.
Üniversiteler Mahallesi, Beytepe Lodumlu Köy Yolu Cad. No: 5/348 Çankaya, Ankara, Turkey

BAE Systems Marine (Holdings) Limited

BAE Systems Marine (YSL) Limited

BAE Systems Marine Limited

BAE Systems Norfolk Ship Repair Inc.[8]
CT Corporation System, 4701 Cox Road, Suite 285, Glen Allen VA 23060-6802, United States

BAE Systems Oman LLC[1]
PO Box 74, Postal Code 111, Seeb, Oman

BAE Systems Ordnance Systems Inc.[8]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Overseas Inc.[8]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Pension Funds CIF Trustees Limited[3]

BAE Systems Pension Funds Investment Management Limited[3,16]

BAE Systems Pension Funds Trustees Limited[3]

BAE Systems Project Services Limited

BAE Systems Projects (Canada) Limited

BAE Systems Properties Limited

BAE Systems Quest Limited[3]

BAE Systems Air Japan KK[9]
1-1 Katamachi, Shinjuku-ku, Tokyo, Japan

BAE Systems Regional Aircraft Colombia SAS[17]
c/o Brigard & Urrutia, Calle 70 A No. 4-41, Bogotá, Colombia

BAE Systems Resolution Inc.[8]
CT Corporation System, 1999 Bryan Street, Suite 900, Dallas TX 75201, United States

BAE Systems S&S Operations Inc.[8]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems San Diego Ship Repair Inc.[8]
330 N. Brand Boulevard, Glendale CA 91203-2336, United States

BAE Systems Saudi America Limited
Riyadh Kingdom Centre 28th Floor (REGUS), PO Box 23088, Riyadh 11321, Central Province, Riyadh, Kingdom of Saudi Arabia

BAE Systems Saudi Arabia (Maintenance and Equipment Services) Limited
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Saudi Arabia (Vehicles and Equipment Holdings) Limited[3]

BAE Systems Saudi Arabia (Vehicles and Equipment Nominees) Limited[3]

BAE Systems Saudi Limited
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Serviços de Aviônicos Ltda.
Rua Ambrósio Molina, No. 1090. Bloco F, Eugênio de Melo, São José dos Campos, São Paulo 12.247-000, Brazil

BAE Systems Share Plans Trustee Limited[3]

BAE Systems Services Limited

BAE Systems Shared Services Inc.[8]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Ship Repair Inc.[8]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Southeast Shipyards AMHC Inc.[8]
1200 South Pine Island Road, Plantation FL 33324, United States

BAE Systems Surface Ships (Holdings) Limited

BAE Systems Surface Ships (Overseas) Limited

BAE Systems Surface Ships (Projects) Limited

BAE Systems Surface Ships Integrated Support Limited

BAE Systems Surface Ships Intermediate Holdings Limited[18]

BAE Systems Surface Ships International Limited

BAE Systems Surface Ships Limited

BAE Systems Surface Ships Maritime Limited

BAE Systems Surface Ships Portsmouth Limited[18]

BAE Systems Surface Ships Projects (Malaysia) Sdn Bhd
Level 29 Menara Binjai, No 2 Jalan Binjai, Off Jalan Ampang, 50450 Kuala Lumpur, Malaysia

BAE Systems Surface Ships Property Services Limited

BAE Systems Surface Ships Support Limited[5]

BAE Systems SWS Defence AB
SE-691 80 Karlskoga, Sweden

BAE Systems Tactical Vehicle Systems LP[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Technology Solutions & Services Inc.[8]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Training Services Limited

BAE Systems TVS Holdings LLC[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Zephyr Corporation[9]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Zephyr Fifth Corporation[9]
1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Zephyr Fourth Corporation[9]
The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Zephyr Second Corporation[9]
The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States

BAE Systems Zephyr Third Corporation[9]
The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States

BAE Systems, Inc.[8]
The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801, United States

BIS Invest S.à.r.l.
2, Place de Strasbourg, L-2562, Luxembourg, Grand Duchy of Luxembourg

Bohemia Interactive Australia Pty Limited
Unit 2, Building A, 2 Technology Place, Williamtown NSW 2318, Australia

Bohemia Interactive Simulations GK Limited
Abista Kudan Bldg. 10F, 2-4-12 Kudan-minami, Tokyo, Chiyoda Ku, 102-0074, Japan

Bohemia Interactive Simulations GmbH
Vistra Corporate Services, Westendstraße 28, 60325, Frankfurt am Main, Germany

Bohemia Interactive Simulations, Inc.[8]
CT Corporation System, 1200 South Pine Island Road, Plantation FL 33324, United States

Bohemia Interactive Simulations K.S.
Pernerova 691/42, Karlin, 186 00 Prague 8, Czech Republic

Bohemia Interactive Simulations Korea Limited
Rm 1 5/F 437 Teheran-ro, Gangnam-gu, Seoul, 06158, Republic of Korea

Bohemia Interactive Simulations sp z.o.o.
Ul. Ostrobramska 101, 04-041, Warsaw, Poland

Bohemia Interactive Simulations (UK) Limited
31 Hercules Way, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6UU, United Kingdom

Bohemia Invest One Ltd

Bohemia Invest Two Ltd

37. Information about related undertakings continued

Subsidiaries – wholly-owned continued

Brabazon Limited

British Aerospace (Far East) Limited[19]
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

British Aerospace (Malaysia) Sdn Bhd[19]
Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia

British Aircraft Corporation (Pension Fund Trustees) Limited[3]

British Aircraft Corporation Limited[3]

CPS International, Inc.[11]
Benedetti & Benedetti, Comosa Building, 21st Floor, PO Box 850120, Panama 5, Panama

Creole (Nigeria) Limited[5]
Tapa House (2nd Floor), 45, Imman Dauda St (Abosede Kuboye Crescent Entrance) Surulere, Lagos, Nigeria

Detica B.V.
Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam, Netherlands

Detica Group Limited

Detica Mexico S. de R.L. de C.V.
Torre Esmeralda II, Blvd Manuel Avila Camacho No. 36 Piso 18, Lomas de Chapultepec, 11000 D.F., Mexico

Detica Services, Inc.[8]
1209 Orange Street, Wilmington DE 19801, United States

Dividend Training Limited

ETI Engineering, Inc.[8]
1676 International Drive, 10th Floor, Suite 1000, McLean VA 22102, United States

EVU Czech, S.R.O.
Pernerova 691/42, Karlin, 186 00 Prague 8, Czech Republic

Gloster Aircraft Limited[3]

H-B Utveckling, H-B Development AB
Nybrogatan 7, SE-114 34 Stockholm, Sweden

Hadrian Holdings, Inc.
521 Fifth Avenue, New York NY 101075, United States

Hadrian Trustees Limited[2]

Hägglunds Vehicle GmbH
Ernst-Grote Strasse 13, 30916 Isernhagen, Germany

Hawker Siddeley Aviation Limited[3]

Hawker Siddeley Dynamics Limited[3]

HSA/HSD Pension Fund Trustees Limited[3]

Hunter Aerospace Corporation Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

In-Space Missions Limited
8 Oriel Court, Omega Park, Alton GU34 2YT, United Kingdom

International Military Sales Limited

Jetstream Aircraft Limited[3]
Prestwick International Airport, Prestwick, Ayrshire KA9 2RW, United Kingdom

Lemacrown Limited[20]

MES Holdco Limited
Charter Place, 23/27 Seaton Place, St. Helier, Jersey JE1 1JY

MES Interco[14]

Meslink Limited

Newcombe Properties Limited

Pitch Technologies AB
Repslagaregatan 25, SE-582 22 Linköping, Sweden

Pitch Technologies Limited
Sweden House, 5 Upper Montagu Street, London W1H 2AG, United Kingdom

Prismatic Limited[5]
2 Omega Park, Alton GU34 2QE, United Kingdom

PT. BAE Systems Services[8]
Wisma 46, Kota BNI, 34th Floor, Suite 34.01.A, Jl. Jenderal Sudirman Kavling 71, Jakarta 10220, Indonesia

Pulse Power and Measurement Inc.
1717 Pennsylvania Avenue, NW Suite, 1025 Washington DC 20006, United States

Pulse Power and Measurement Limited[21]
65 Shrivenham Hundred Business Park, Watchfield, Swindon, Wiltshire SN6 8TY, United Kingdom

Representaciones SSTS, CA[11]
Ave Francisco de Miranda, Centro Lido El Rosal Oficina 71B, Caracas, Venezuela

Riptide Autonomous Solutions Canada Company
1300-1969 Upper Water Street, Purdy's Wharf Tower II, Halifax, NS, BJ3 3R7, Canada

Royal Ordnance (Crown Service) Pension Scheme Trustees Limited

Royal Ordnance Senior Staff Pension Scheme Trustees Limited

Royal Ordnance Speciality Metals Limited[3,18]

RWT Limited[3,18]

Salford Electrical Instruments Limited[18]
10 Fleet Place, London EC4M 7RB, United Kingdom

Scentcivil Limited[18]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

Scottish Aviation Limited[3]
Prestwick International Airport, Prestwick, Ayrshire KA9 2RW, United Kingdom

Sepia, LLC[1]
4219 Lafayette Center Drive, Chantilly VA 20151, United States

Shipbuilding (MSF) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Shipbuilding (VIC) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Stewart & Stevenson Operations (Nigeria) Limited[11]
9th Floor, St. Nicholas House, 26 Catholic Mission Street, Lagos, Nigeria

Stewart & Stevenson TVS UK Limited

Stratsec.net Sdn Bhd
Unit F-3-1, Blok F, Third Floor, CBD Perdana 3, Jalan Perdana, Cyber 12, 63000 Cyberjaya, Selangor Darul Ehsan, Malaysia

Support Solutions General Services and Contracting Company/Limited Liability company[1,17]
House No. 145, Street No. 1, Qtr. 611, Al Andulous Area, Al Mansour, Baghdad, Iraq

TDS International Holdings Pty Limited[22]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

TDS International Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Techmodal Limited

Techmodal Ventures Limited

TerraSim, Inc.[8]
307 Fourth Avenue, Suite 400, Pittsburgh PA 15222, United States

The Blackburn Aeroplane & Motor Co Limited[3]

The Bristol Aviation Company Limited[3]

The British & Colonial Aeroplane Co. Limited[3]

The Supermarine Aviation Works Limited[3,4]

Thomas Sopwith Aviation Company Limited[3]

VSEL Birkenhead Limited

Warship Design Services Limited[18]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

Westover Controls Incorporated[8]
1098 Clark Street, Endicott NY 13760, United States

37. Information about related undertakings continued

Subsidiaries – not wholly-owned

Advanced National Company for Aircraft Maintenance Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Saudi Development and Training Company Limited (50.98%)[23]
PO Box 67775, Riyadh 11517, Kingdom of Saudi Arabia

BAE Systems SDT (UK) Limited (51%)

Flight Control System Management GmbH (66.6%)[24]
PO Box 801109, 81663 Munich, Germany

Granada Enterprises Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Hadrian Properties, Inc. (95%)[14]
521 Fifth Avenue, New York NY 101075, United States

International Systems Engineering Company Limited (46.2%)
PO Box 54002, Riyadh 11514, Kingdom of Saudi Arabia

Overhaul and Maintenance Company Holding (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Saudi Maintenance & Supply Chain Management Company Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Saudi Technology & Logistics Services Limited (65%)[3]
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

SMSCMC (UK) Limited (51%)

Equity accounted investments

Abercromby Property International (20.42%)
521 Fifth Avenue, New York NY 101075, United States

Air Astana (49%)[10]
121 Kabanbay Batyr Avenue, Yessil District, Astana 010000, Kazakhstan

AMSH B.V. (50%)[25]
Coolsingel 61, 7th Floor – right, 3012 AB Rotterdam, Netherlands

BAE Systems Strategic Aerospace Services WLL (49%)
Building 58, Street 850, Area 23, Qatari Bin Al Fajaa, Doha, Qatar

BAeHAL Software Limited (40%)[3,15]
Airport Lane, HAL Estate, Bangalore 560010, India

BHIC Bofors Defense Asia Sdn Bhd (49%)
Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia

Canadian Naval Support Limited (50%)[26]
3099 Barrington Street, Halifax NS B3K 5M7, Canada

CTA International SAS (50%)
13 Route De La Miniere, 78034 Versailles Cedex, France

Data Link Solutions L.L.C. (50%)[1,19]
350 Collins Road, Northeast Cedar Rapids IA 52498, United States

Eurofighter Jagdflugzeug GmbH (33%)[3]
Am Soldnermoos 17, 85399 Hallbergmoos, Germany

European Aerosystems Limited (50%)[2,3,18,22]

FADEC International LLC (50%)[1]
1098 Clark Street, Endicott NY 13760, United States

FAST Holdings Limited (50%)[15,22]

FAST Training Services Limited (50%)[15]

FNSS Savunma Sistemleri A.S (49%)[22]
Oğulbey Mahallesi, Oğulbey Kumeevleri, No. 441/A, 441/B, Gölbaşı, Ankara, Turkey

KBS Maritime Limited (50%)[7]

MBDA B.V. (37.5%)
Coolsingel 61, 7th Floor – right, 3012 AB Rotterdam, Netherlands

MBDA Holdings S.A.S. (25%)
1 avenue Réaumur, 92350 Le Plessis-Robinson, France

MBDA S.A.S. (37.5%)
1 avenue Réaumur, 92350 Le Plessis-Robinson, France

Nobeli Business Support AB (34%)
SE-691 80 Karlskoga, Sweden

Panavia Aircraft GmbH (42.5%)[3]
Am Soldnermoos 17, 85399 Hallbergmoos, Germany

Promoveo Solutions JV LLC (49%)
260 Peachtree Street NW, #2200, Atlanta GA 30303, United States

Reaction Engines Limited (15.5%)

Rheinmetall BAE Systems Land Limited (45%)
Hadley Castle Works, PO Box 106, Telford TF1 6QW, United Kingdom

Saab Bofors Test Center AB (30%)
Box 418, SE-691 27 Karlskoga, Sweden

Sealand Support Services Limited (33.3%)[27]
MoD Sealand, Welsh Road, Sealand, Deeside, Flintshire CH5 2LS, United Kingdom

Winner Developments Limited (33.3%)

Notes

1. Unincorporated entity for which the address given is the principal place of business.
2. Company limited by guarantee.
3. Directly owned by BAE Systems plc.
4. Ownership held in class of A shares, B shares and preference shares.
5. Ownership held in class of A shares and B shares.
6. In strike off.
7. Ownership held in ordinary shares and preference shares.
8. Ownership held in common shares.
9. Ownership held in common stock.
10. Ownership held in ordinary shares and redeemable preference shares.
11. Ownership held in authorized shares.
12. 40% owned by BAE Systems plc.
13. Ownership held in ordinary shares, ordinary A and ordinary B shares.
14. Unlimited company.
15. Year end 31 March.
16. Year end 5 April.
17. In liquidation.
18. In Members' Voluntary Liquidation.
19. Year end 30 September.
20. Ownership held in ordinary shares and class of A shares.
21. Ownership held in class of A, B, C, D, E, F and G ordinary shares.
22. Ownership held in class of A shares.
23. 1% owned by BAE Systems plc.
24. 33.3% owned by BAE Systems plc.
25. Ownership held in class of B shares.
26. Ownership held in common shares and B Preferred shares.
27. Ownership held in ordinary and A Cumulative Redeemable Preference shares.

BAE SYSTEMS