

2023 Half Year Results

2 August 2023

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2023 – Half year in review

Delivered mission critical requirements

Record order backlog £66bn – well set for good long term growth

Strong operational performance

Delivered strong top-line and earnings growth

Increased investment in business

Increased shareholder returns

Orders
£21.1bn
(2022: £18.0bn)

Sales
£12.0bn
(2022: £10.6bn)

Underlying EBIT
£1,258m
(2022: £1,112m)

Free cash flow
£1,070m
(2022: £123m)


Delivering strong and consistent operational and financial performance - Guidance upgraded

What we look to achieve in the three years 2021-23




Technology and Innovation

Five core technology areas supporting growth beyond core defence markets



Autonomy



Space



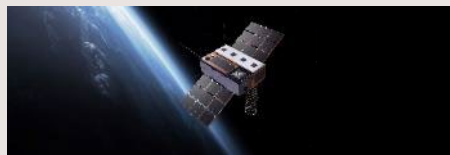
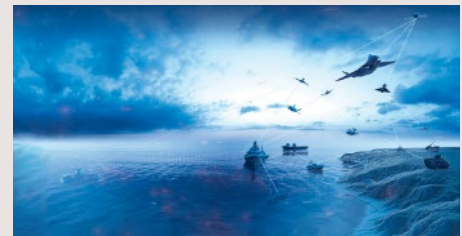
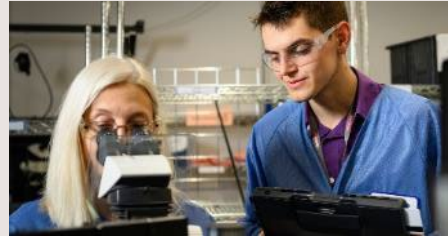
Sustainability



Manufacturing & design



Multi-domain & digital integration



Driving innovation through our research labs - Self-funded R&D up 11% in H1 2023

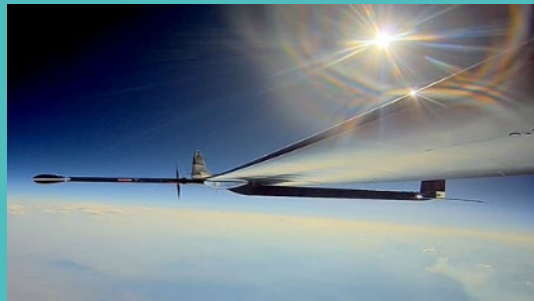
Technology and Innovation – half year highlights

Autonomy



Strix™

Sustainability



PHASA-35®

ES-30 battery

Digital Transformation



Multi-domain & digital integration

Value compounding model



Good Sustained Organic Growth

- Order intake and backlog
- Portfolio diversity
- Technology investment
- World class multi-domain capabilities
- Partnerships & collaboration



Margin Expansion

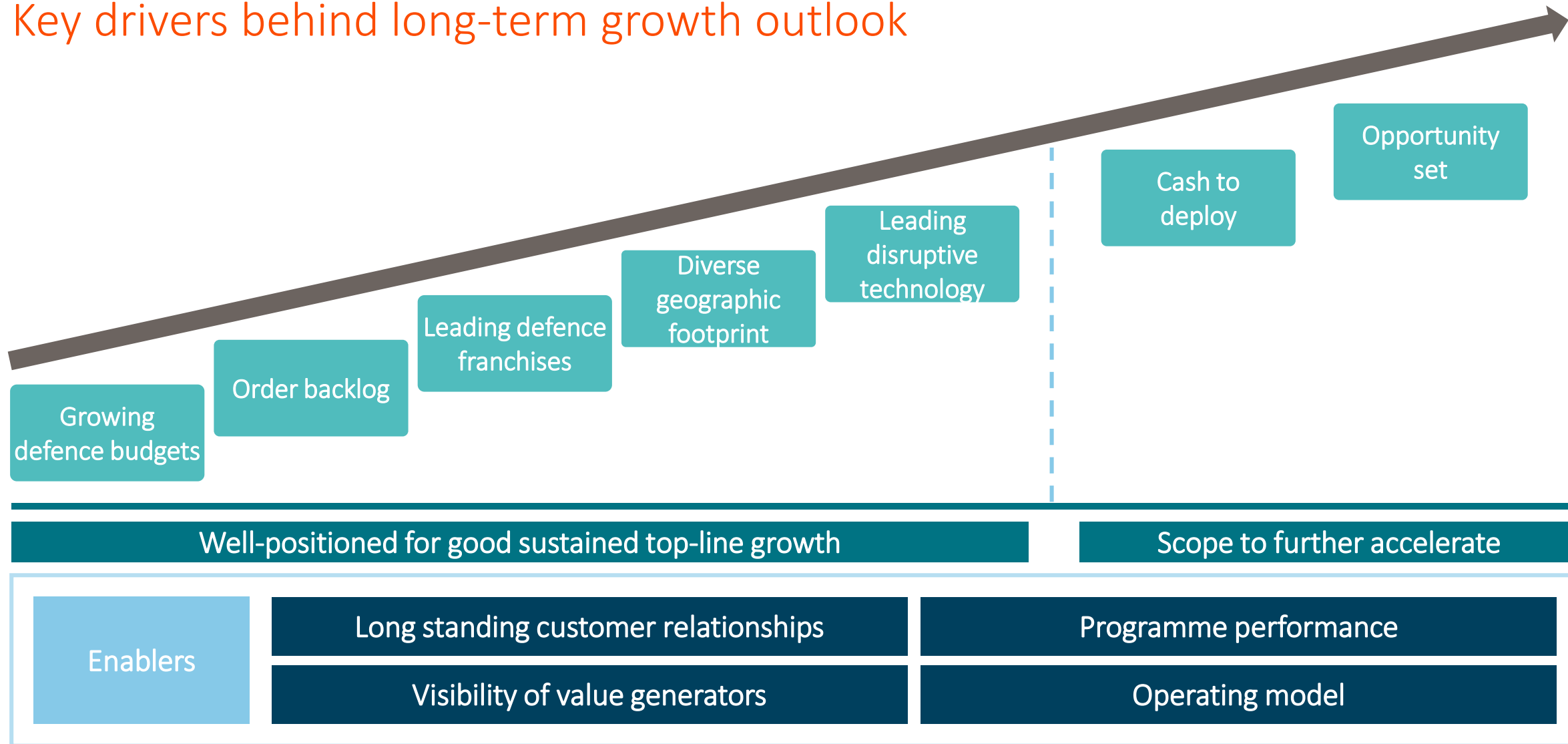
- Programme performance
- Business mix
- Disciplined contracting model
- Operational efficiency and simplification



High Cash Generation Disciplined Capital Allocation

- High sustained cash conversion
- Organic investment
- Ordinary dividend
- Inorganic opportunities
- Incremental returns via share buyback

Key drivers behind long-term growth outlook

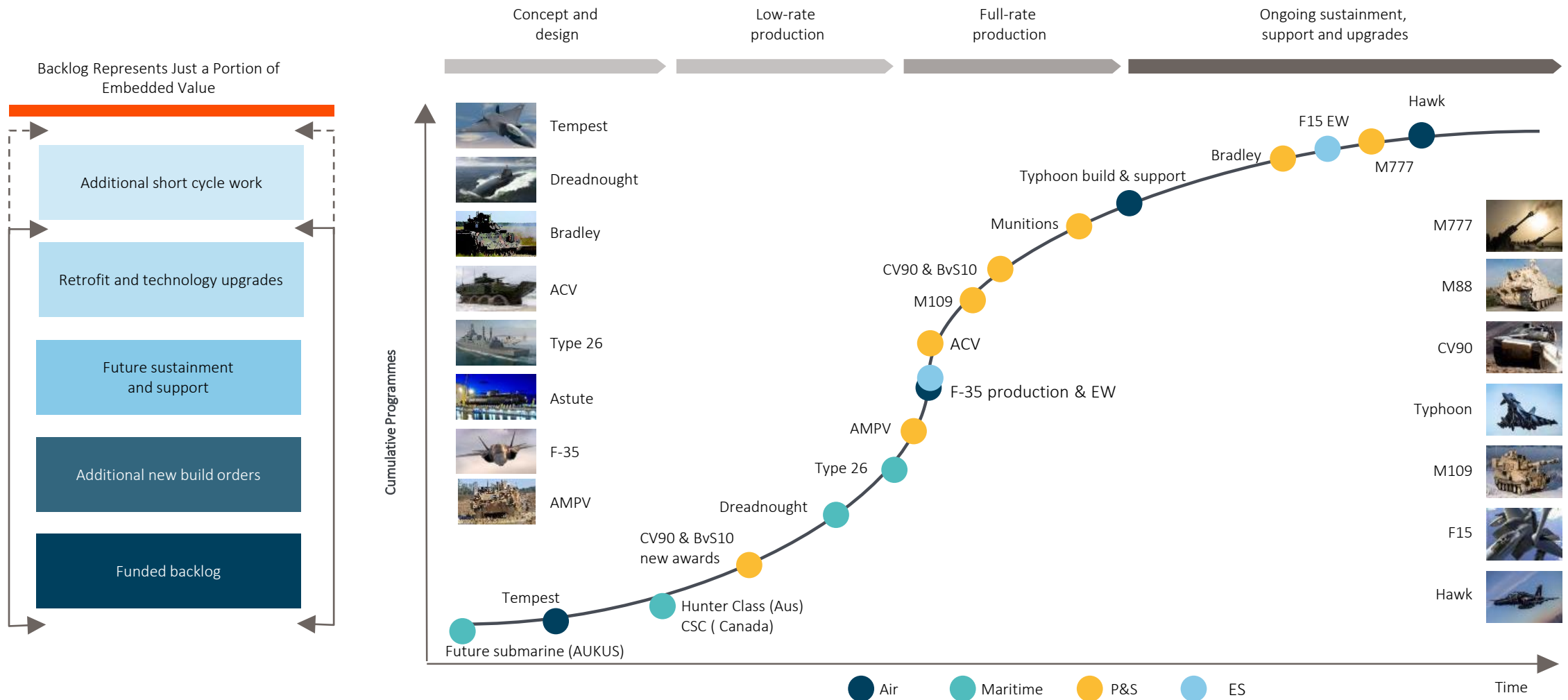


Multi-year programme visibility underpinned by a £66bn backlog

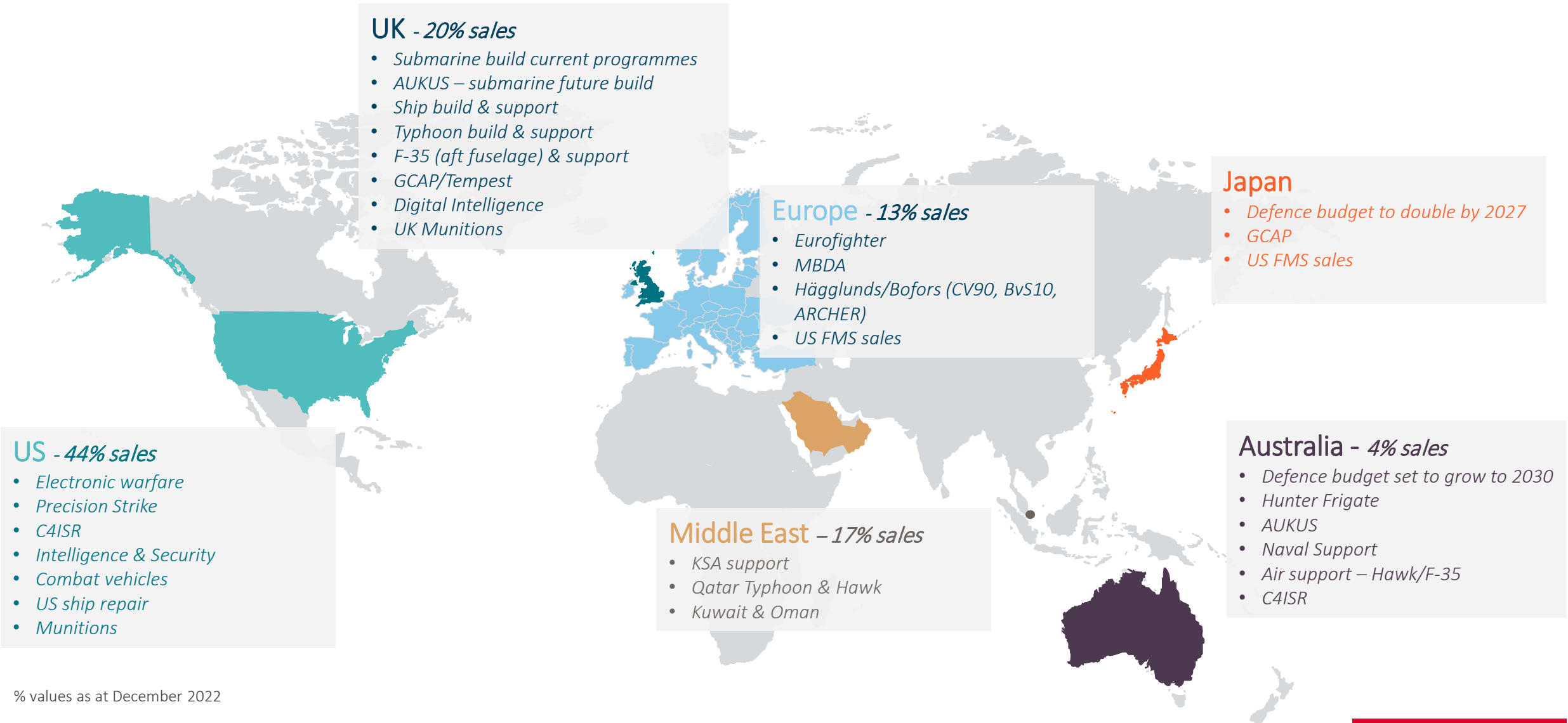
	2023 HY Backlog	Sector sales outlook	Major Programme/Franchise	2022 Sales	Sales outlook ⁽¹⁾
ES	\$10.3bn	↑	Electronic Combat Solutions	\$1.8bn	↑
			ES Defence other	\$3.6bn	↑
			ES Commercial	\$0.8bn	↑
P&S	\$12.2bn	↑	Combat Mission Systems	\$2.4bn	↑
			Hägglunds & Bofors	\$0.5bn	↑
			US Ship Repair	\$0.8bn	↑
Air	£28.7bn	↑	F-35 (AIR)	£1.0bn	↑
			Typhoon Support & Upgrade	£2.0bn	↑
			Typhoon Production & Tempest Development	£1.2bn	↑
			KSA Support*	£1.6bn	↑
			MBDA	£1.3bn	↑
Maritime	£18.5bn	↑	Submarine Design and Build	£1.8bn	↑
			Global Combat Ship	£1.0bn	↑
C&I	\$2.7bn	↑	Intelligence & Security	\$1.8bn	↑
			Digital Intelligence	£0.7bn	↑
Record order backlog - a subset of true programme visibility					

1. Projections are based on internal management estimates and reflect management’s current assumptions, including assumed receipt of future orders over the medium term
 * KSA Support excludes KSA Typhoon support which is included in “Typhoon Support and Upgrade”

Multi-decade programmes with long-term embedded value - illustrative



Geographic diversity - a strength now and into the future



% values as at December 2022

c.20 NATO countries announced increases to defence spending



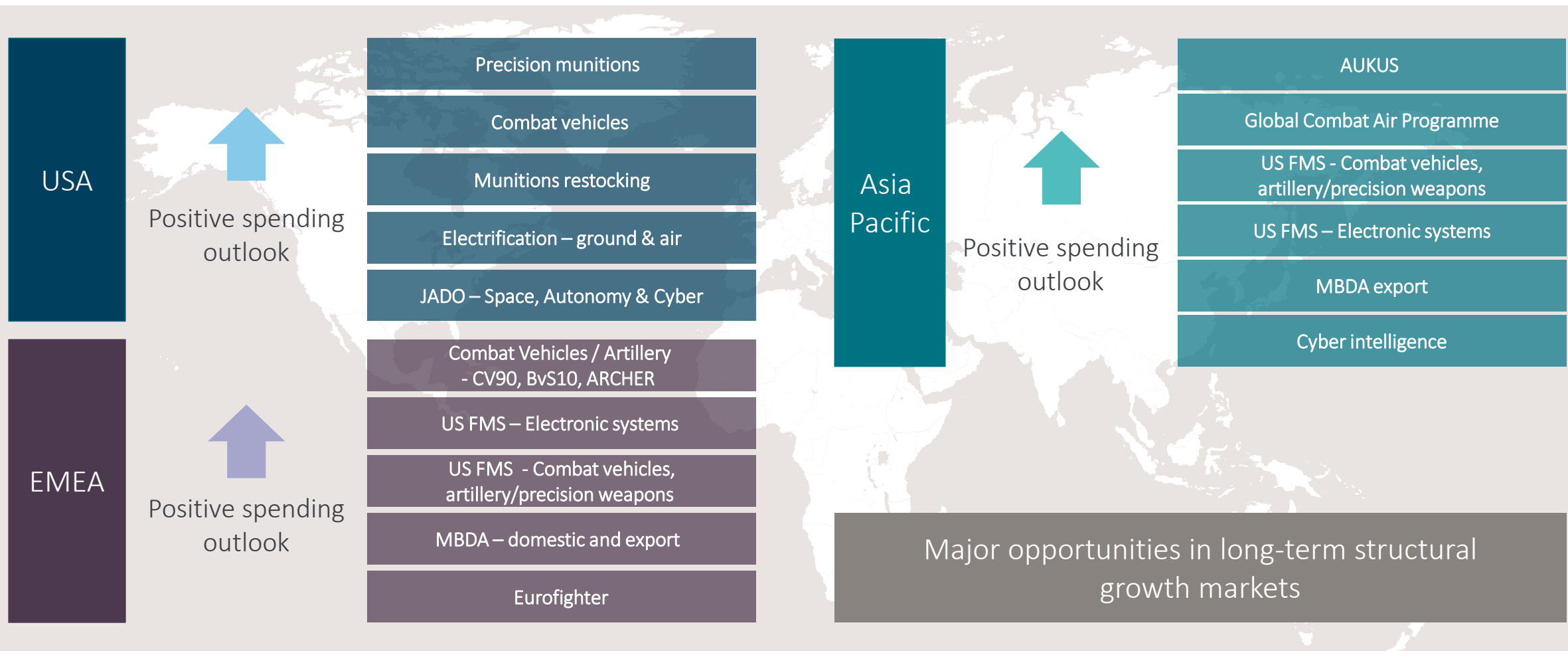
Platforms & Services – Opportunity Pipeline

P&S well positioned for growth with sustained opportunity pipeline across combat vehicle, artillery, naval gun and ammunition portfolio

	Opportunity	Comment
US FMS	M109, Bradley, M88, M777, ACV, HIMARS	Various FMS opportunities; Ukraine system support
AMPV	Full Rate Production award	Expected in H2 2023
CV90	CV90 Next Gen (NG)	Swedish customer interested in developing next generation of CV90
	Sweden, Denmark, Norway, Italy and Ukraine	New, upgrade and backfill opportunities
BvS10 family of vehicles	US, Sweden, Netherlands and other European nations	New vehicle opportunities for both BvS10 and Beowulf
ARCHER mobile howitzer	UK, US & European nations	Responding to customer interest and discussing potential orders
	Sweden	Order increase received; further orders possible
	Switzerland	On going RFP with down-select in 2025
Naval Guns	Exports	World leader in naval guns
US Ordnance Systems	Enduring franchise	Operating Radford and Holston Army Ammunition Plants and discussing potential increased production capacity



Portfolio uniquely placed to address current and future threat environment



Summary - Our Investment Proposition



Strong programme performance

1



Investing in the business

Progressive ESG agenda

2



Foundation for sustained growth

Backlog & geographic reach

3



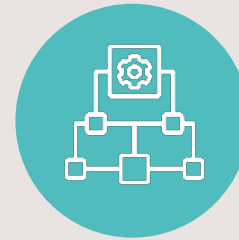
Leading technology solutions

4



Global opportunity pipeline

5



Scope to expand margins

6



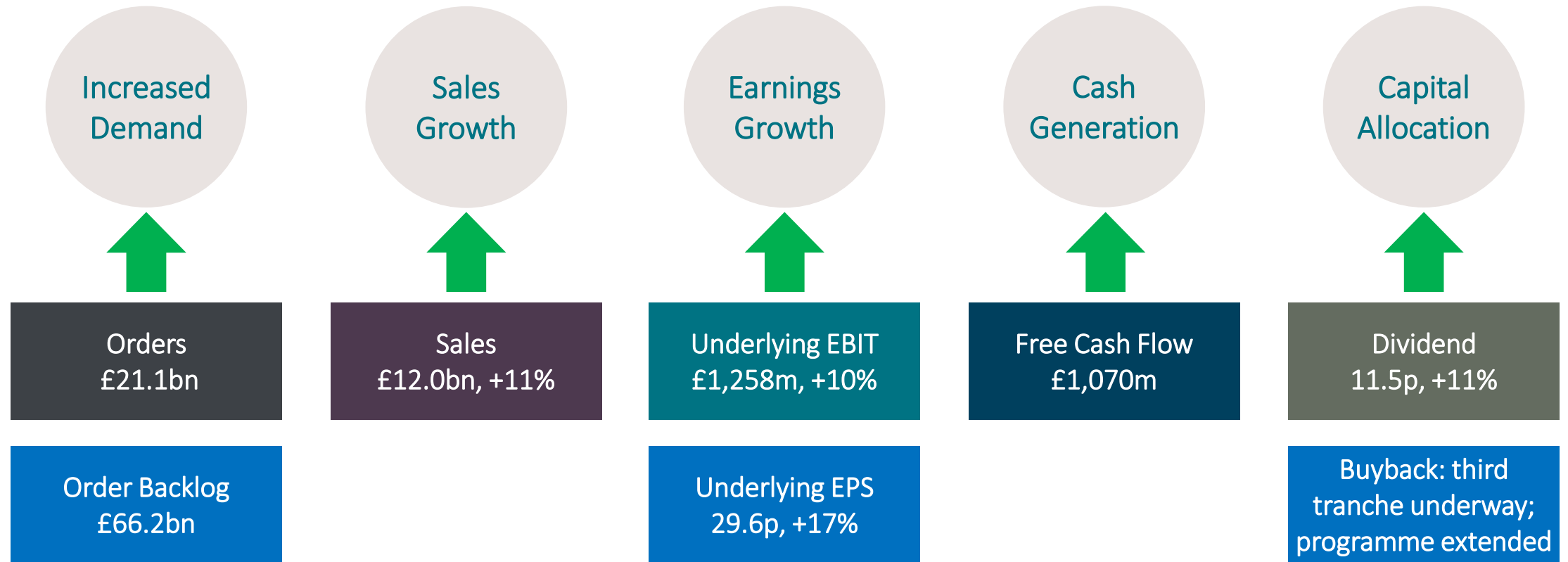
Good cash generation

Consistent disciplined Capital Allocation

7

Well positioned for long term growth - Value compounding model

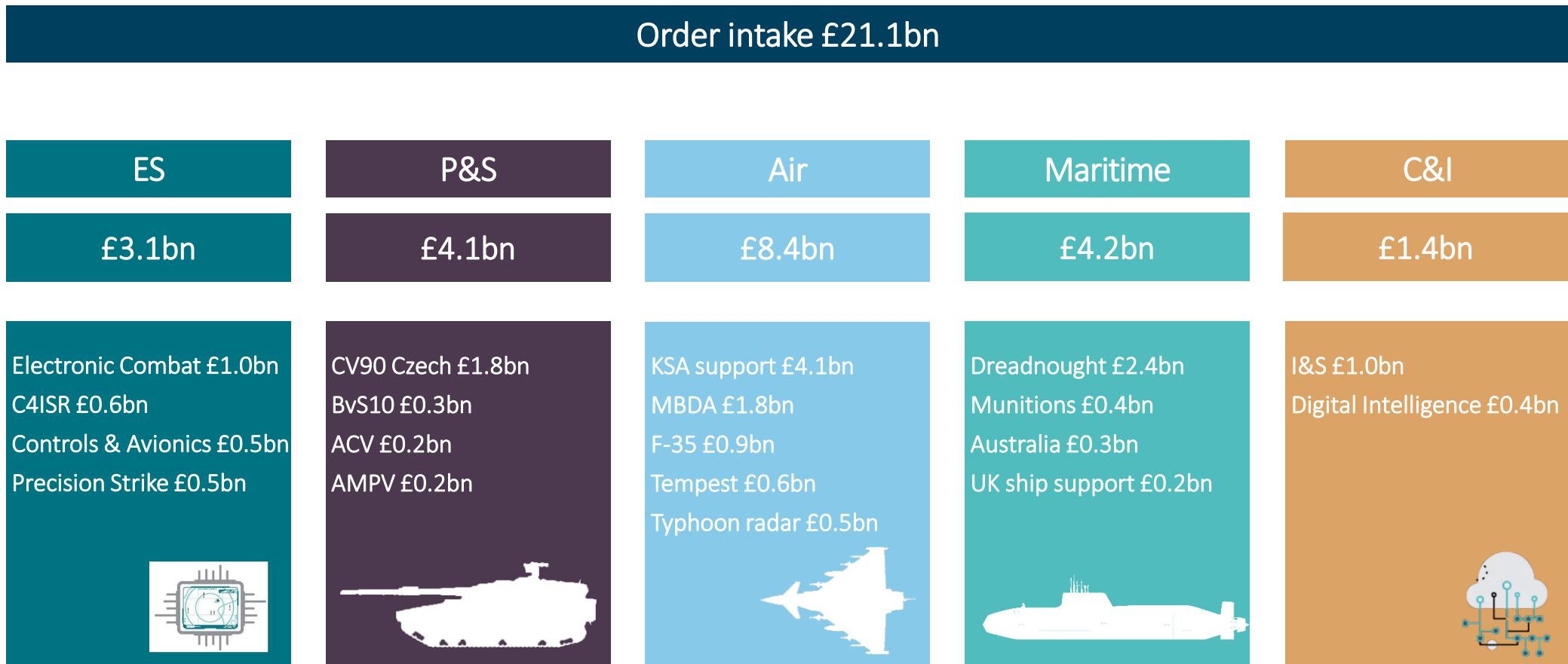
2023 half year financials



Record backlog, strong earnings growth & cash generation – Guidance upgraded

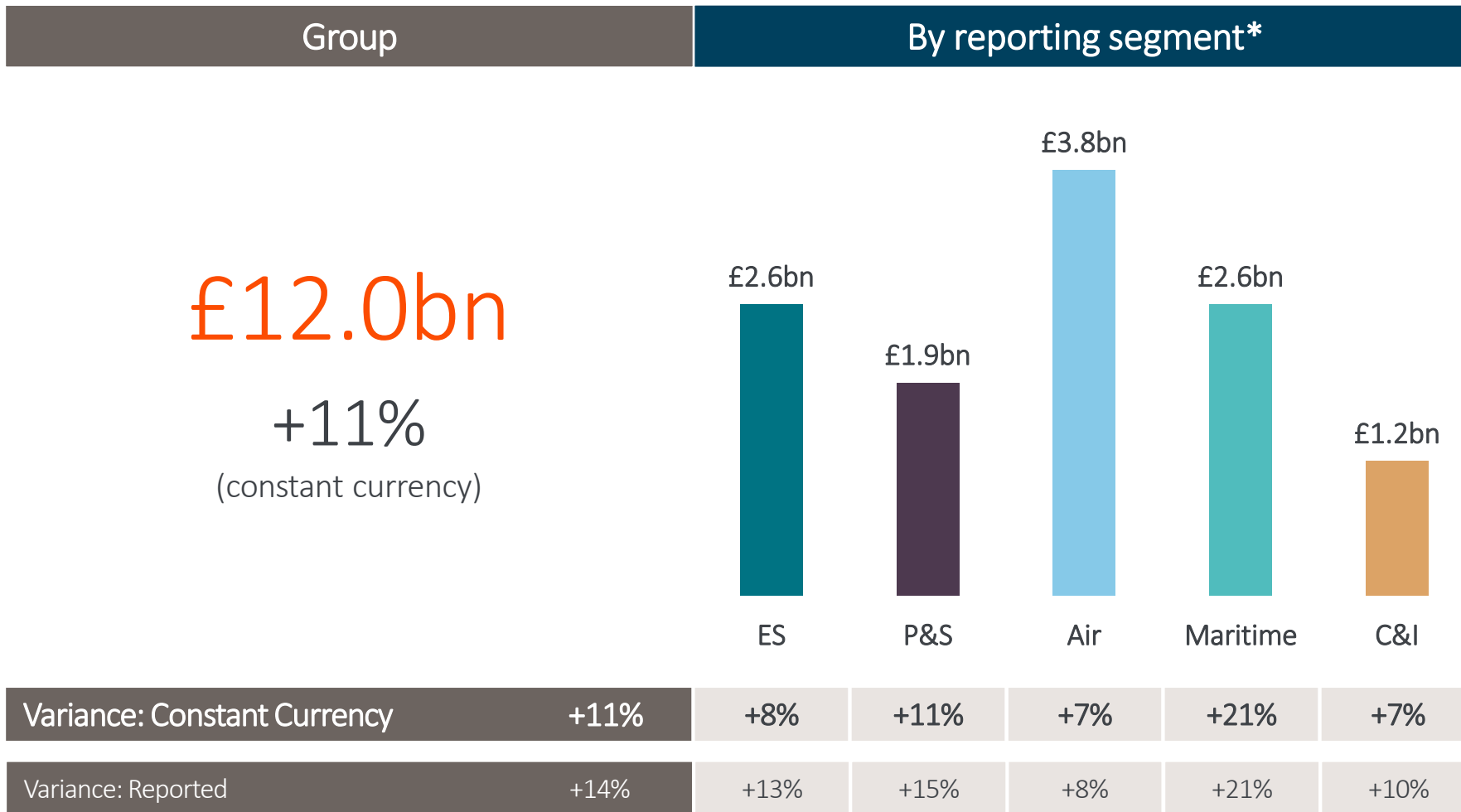
Growth %s stated on a constant currency basis (USD: June 2023 \$1.23, June 2022 \$1.30)

Order intake



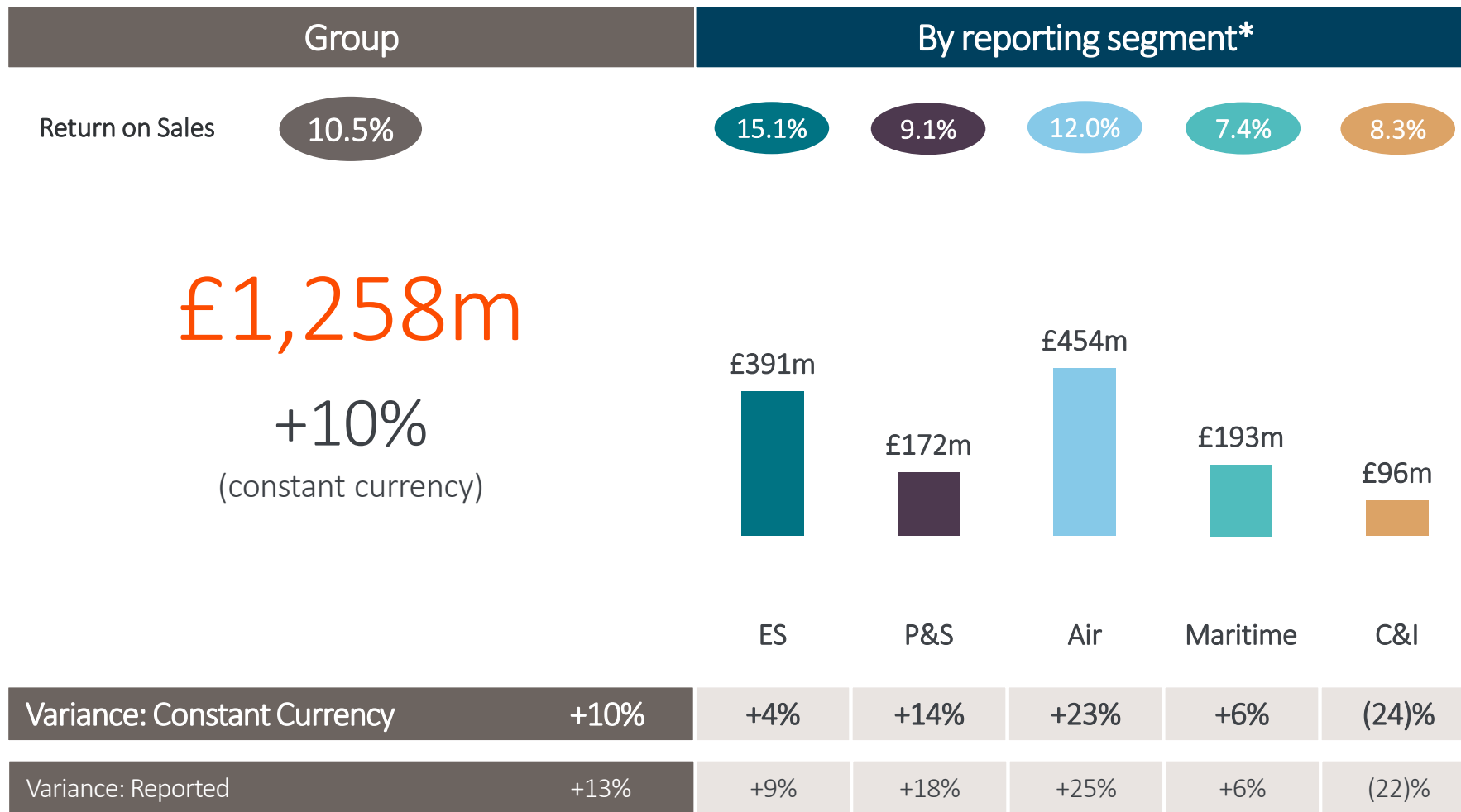
Excludes HQ & intra-group eliminations

Sales



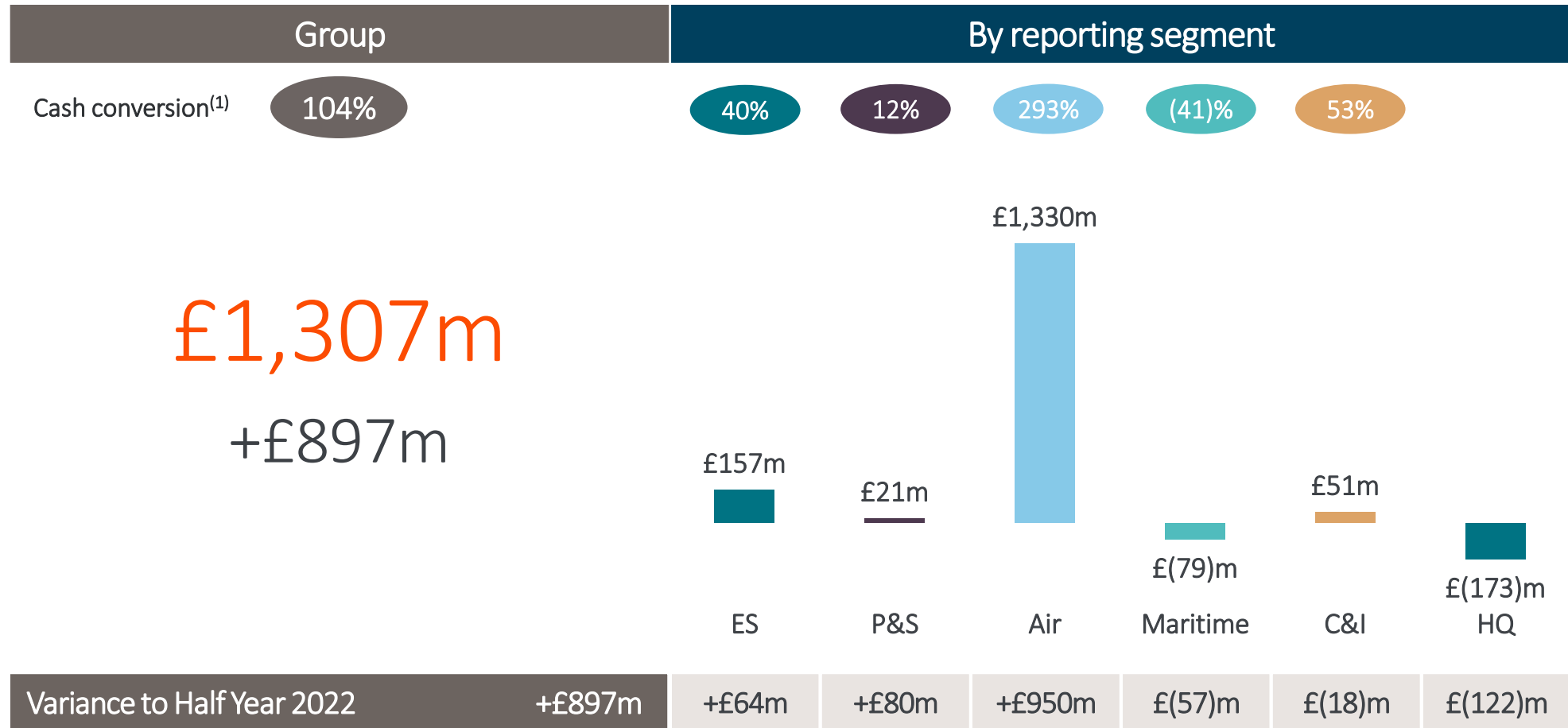
* excludes HQ & eliminations

Underlying EBIT / Return on Sales



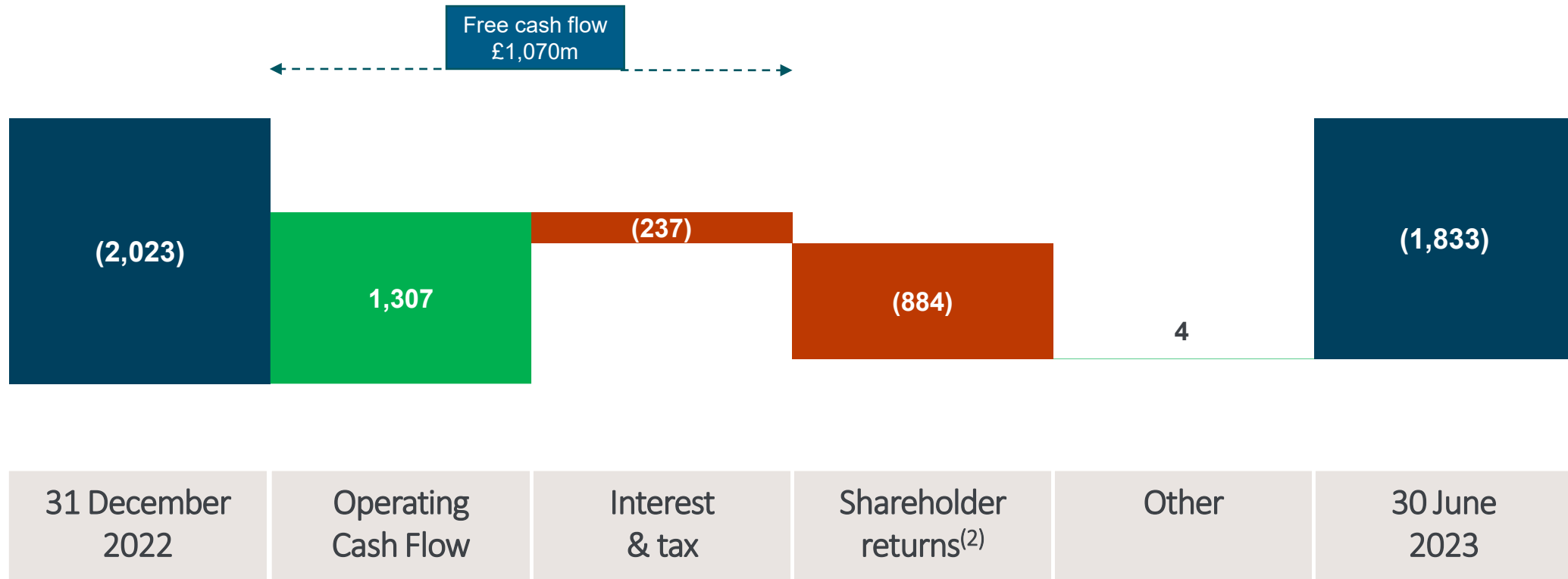
* excludes HQ £(48)m (Half Year 2022 £(60)m)

Operating business cash flow



1) Defined as Operating business cash flow as a percentage of Underlying EBIT

Net debt⁽¹⁾ (£m)



(1) Net debt excludes lease liabilities

(2) Dividends £508m & share buyback £376m

2023 Upgraded Group guidance⁽¹⁾

Guidance based on \$1.24:£1

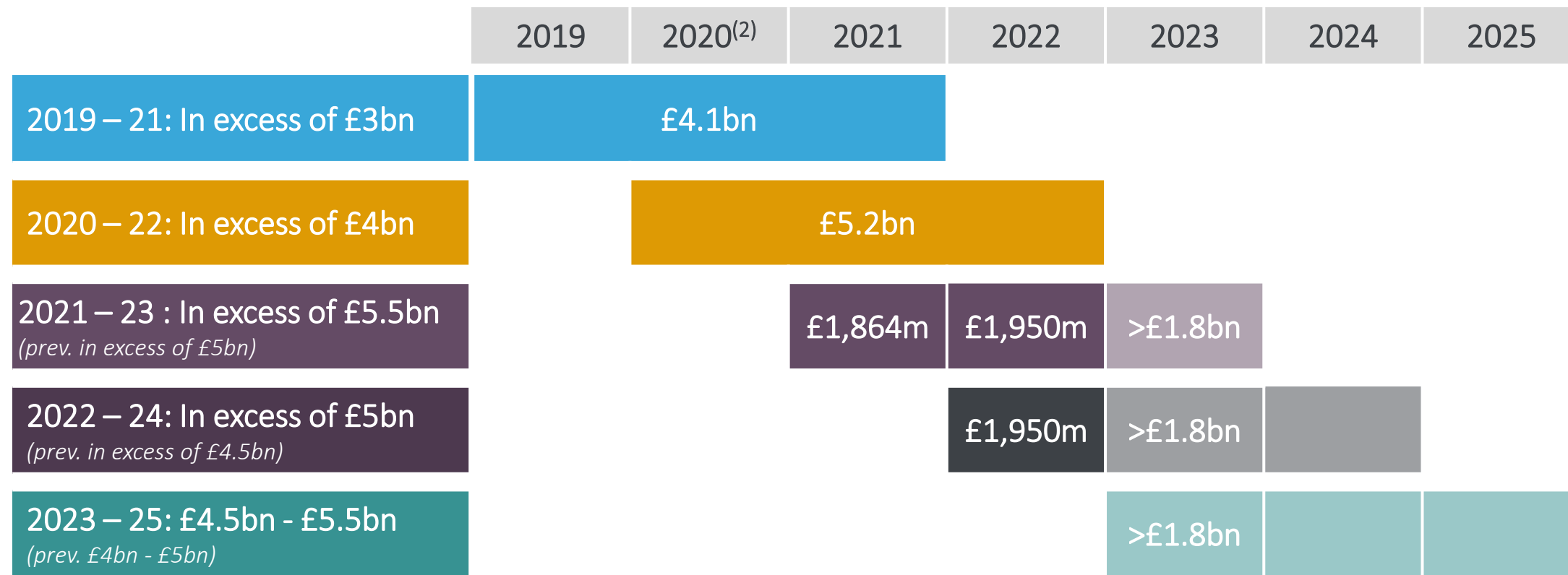
Sales	Underlying EBIT	Underlying EPS	2023 Free Cash Flow
<p>+5% to +7%</p> <p>(2022: £23,256m)</p>	<p>+6% to +8%</p> <p>(2022: £2,479m)</p>	<p>+10% to +12%</p> <p>(2022: 55.5p)</p>	<p>>£1.8bn</p> <p>(2022: £1,950m)</p>
<p>Underlying finance costs c.£220m</p>	<p>Effective tax rate c.19%</p>	<p>Non-controlling interest c.£80m</p>	<p>Sensitivity to 5c mvmt⁽²⁾ EPS c.1p</p>

Improved operational performance, lower interest & tax, accelerated cash advances

(1) Whilst the Group is subject to geopolitical and other uncertainties, the guidance is provided on current expected operational performance

(2) Sensitivity to 5c movement: Sales c.£400m, Underlying EBIT c.£55m

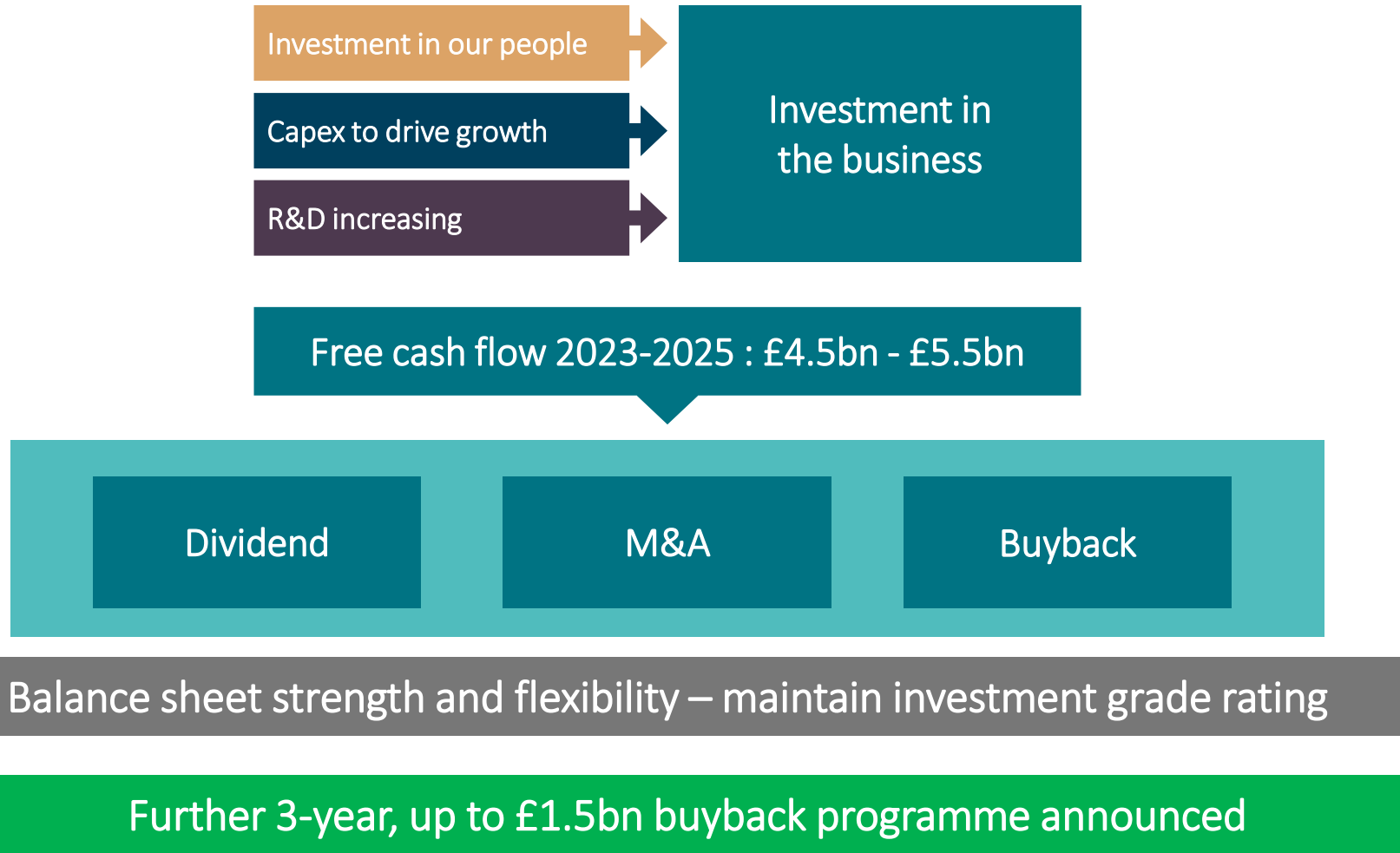
Three year free cash flow guidance⁽¹⁾



Existing three-year FCF guidance ranges increased by £0.5bn

(1) Whilst the Group is subject to geopolitical and other uncertainties, the guidance is provided on current expected operational performance
 (2) Excluding the £1bn one-off UK pension contribution

Consistent disciplined capital allocation



Supplementary Information

2023 half year summary financials

	Half Year 2023	Half Year 2022	Constant Currency	Reported
Order Intake	£21,129m	£17,985m		
Sales	£12,018m	£10,581m	+11%	+14%
Underlying EBIT ⁽¹⁾	£1,258m	£1,112m	+10%	+13%
Return on Sales	10.5%	10.5%	(10)bps	-
Underlying EPS ^(1,2)	29.6p	24.5p	+17%	+21%
Underlying Tax Rate	18%	19%		
Operating Business Cash Flow ⁽³⁾	£1,307m	£410m		+£897m
Free Cash Flow ⁽³⁾	£1,070m	£123m		£947m
Dividend per Share	[11.5]p	10.4p		+11%
		<i>Full Year 2022</i>		
Order Backlog	£66.2bn	£58.9bn		
Net Debt	£(1,833)m	£(2,023)m		
Pension Surplus	£0.6bn	£0.6bn		

Average \$ rate: June 2023 \$1.23, June 2022 \$1.30

- 1 Operating profit excluding amortisation of programme, customer-related and other intangible assets, impairment of intangible assets, finance costs & taxation expense of equity accounted investments and adjusting items
- 2 Basic Earnings per Share (EPS) excluding the post-tax impact of amortisation of programme, customer-related and other intangible assets, impairment of intangible assets, non-cash finance movements on pensions and financial derivatives and adjusting items attributable to shareholders
- 3 Free Cash Flow defined as Operating Business Cash Flow less interest paid (net) and taxation

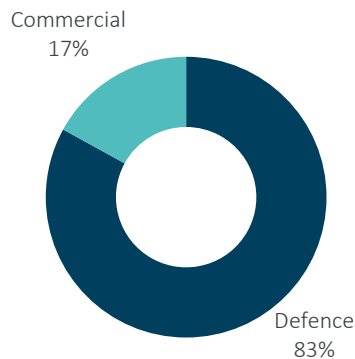
Electronic Systems

Business Description

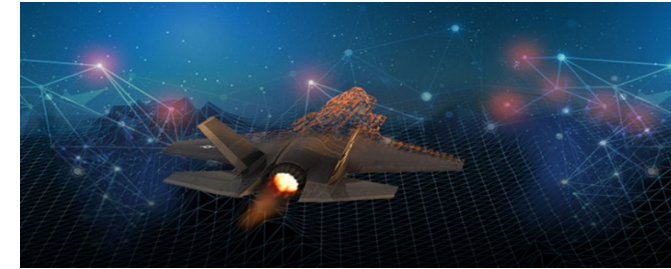
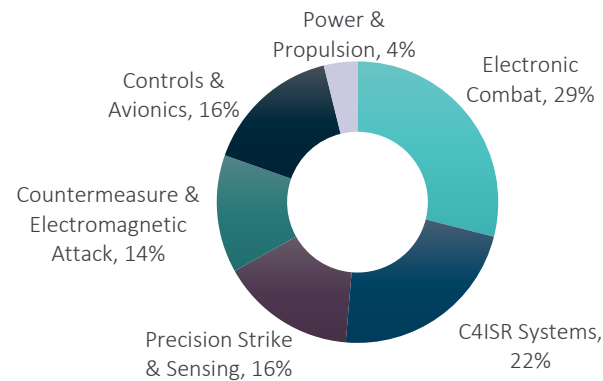
Electronic Systems, with 17,300 employees, comprises the US- and UK-based electronics activities, including electronic warfare systems, navigation systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, space electronics and electric drive propulsion systems.

Half Year:

2023 Sales



2023 Sales by Line of Business



Financial Performance

Half Year	2023	2022
Sales	\$3,186m	\$2,954m
Underlying EBIT	\$482m	\$467m
Return on sales	15.1%	15.8%
Operating cash flow	\$194m	\$121m
Order intake	\$3.9bn	\$3.0bn
Order backlog ⁽¹⁾	\$10.3bn	\$9.7bn

- Sales up 8% on a constant currency basis
 - Continued recovery in Commercial Aerospace
 - Growth in Electronic Combat Systems
- Margin performance in line with expectation; usual second half weighting
- Cash flow reflects usual second half weighting, facilities investment and inventory build
- Record backlog. Book-to-bill at 1.2x:
 - Awards on F-35, Precision Strike & C4ISR capabilities

(1) Order backlog comparative as at 31 December 2022

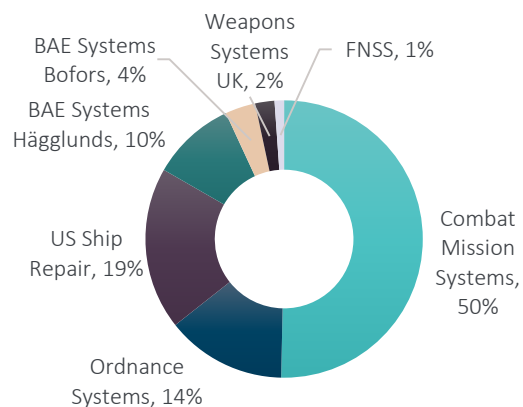
Platforms & Services

Business Description

Platforms & Services, with 12,300 employees, 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.

Half Year:

2023 Sales by Line of Business



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Financial Performance

Half Year	2023	2022
Sales	\$2,333m	\$2,125m
Underlying EBIT	\$212m	\$189m
Return on sales	9.1%	8.9%
Operating cash flow	\$26m	\$(76)m
Order intake	\$5.1bn	\$2.0bn
Order backlog ⁽¹⁾	\$12.2bn	\$9.7bn

- Sales up 11%, on a constant currency basis
 - Combat vehicles volumes
 - Ship repair volumes
- Margin improved by 20bps on improved ship repair performance
- Cash performance reflects facilities investment, advances on CV90 Czech and the consumption of advances from prior years
- Order intake driven by CV90 Czech, BvS10 CATV & AMPV awards

(1) Order backlog comparative as at 31 December 2022

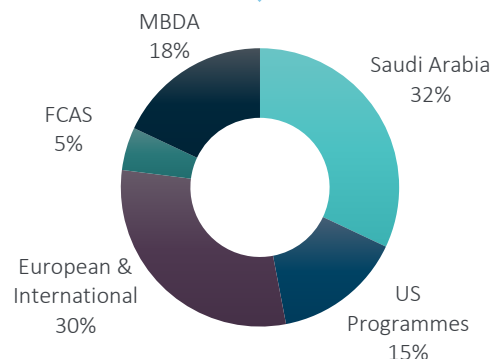
Air

Business Description

Air, with 24,900 employees, comprises the Group’s UK-based air activities for European and International Markets, US Programmes, development of Future Combat Air Systems and FalconWorks®, alongside its businesses in the Kingdom of Saudi Arabia, together with its 37.5% interest in the European MBDA joint venture.

Half Year:

2023 Sales by Line of Business



Financial Performance

Half Year	2023	2022
Sales	£3,786m	£3,497m
Underlying EBIT	£454m	£362m
Return on sales	12.0%	10.4%
Operating cash flow	£1,330m	£380m
Order intake	£8.4bn	£8.9bn
Order backlog ⁽¹⁾	£28.7bn	£24.4bn

- Sales up 7% on a constant currency basis
 - Increased Tempest volumes
 - Support activity
 - MBDA
- Margin performance reflects risk retirement
- Cash flow performance driven by advances on MBDA contracts & Saudi support
- Order backlog:
 - Saudi support 5-year renewal, Tempest & strong MBDA order flow

(1) Order backlog comparative as at 31 December 2022

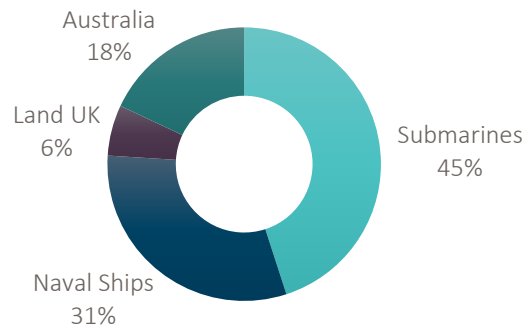
Maritime

Business Description

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

Half Year:

2023 Sales by Line of Business



Financial Performance

Half Year	2023	2022
Sales	£2,603m	£2,155m
Underlying EBIT	£193m	£182m
Return on sales	7.4%	8.4%
Operating cash flow	£(79)m	£(22)m
Order intake	£4.2bn	£4.1bn
Order backlog ⁽¹⁾	£18.5bn	£17.2bn

- Sales growth at 21% on a constant currency basis, due to accelerated funding on the Dreadnought programme
- Margin performance reflects increased Dreadnought activity in a regulated profit environment and continued self-funded R&D
- Cash performance reflects business investment & usual timing of cash flow
- Orders driven by additional Dreadnought funding and UK munitions

(1) Order backlog comparative as at 31 December 2022

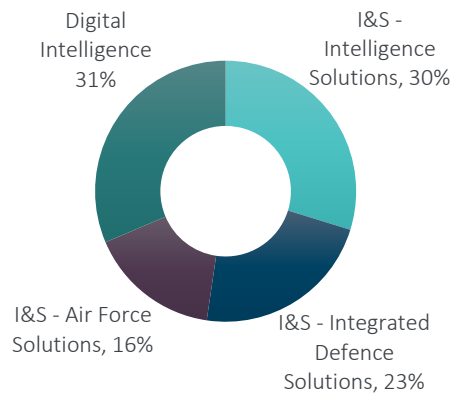
Cyber & Intelligence

Business Description

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

Half Year:

2023 Sales by Line of Business



Financial Performance

Half Year	2023	2022
Sales	\$1,427m	\$1,362m
Underlying EBIT	\$118m	\$160m
Return on sales	8.3%	11.7%
Operating cash flow	\$63m	\$89m
Order intake	\$1.7bn	\$1.6bn
Order backlog ⁽¹⁾	\$2.7bn	\$2.5bn

- Sales up 7% on a constant currency basis⁽¹⁾
 - I&S & DI both grew >10% after adjusting for impact of M&A
- Margin performance in line with expectations & reflects investments in space & multi-domain networking
- Cash performance reflects investments
- Order backlog
 - I&S book-to-bill 1.2x ; DI 1.2x

(1) Order backlog comparative as at 31 December 2022

2023 half year summary by reporting segment

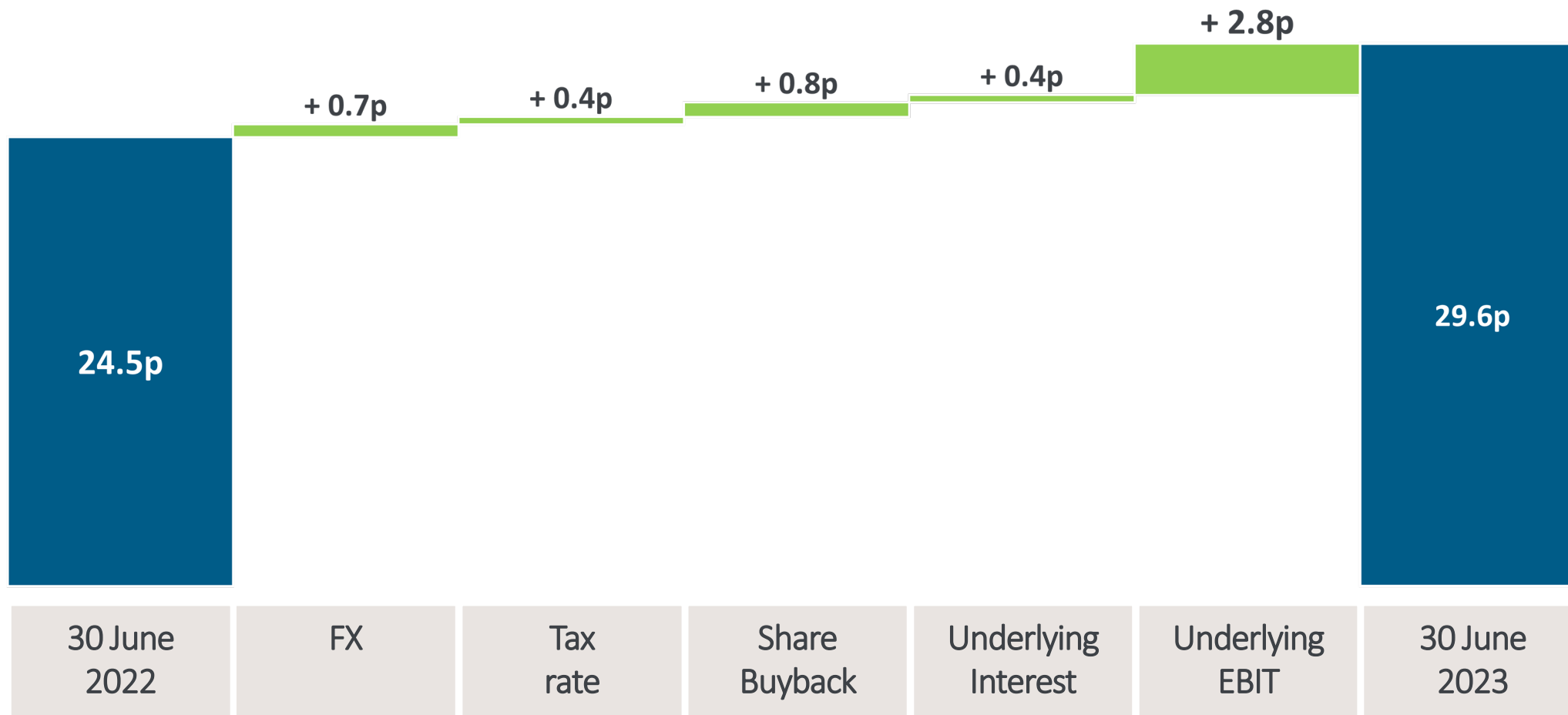
	Sales £m	Underlying EBIT £m	Return on Sales %	Operating Cash Flow / Free Cash Flow £m	Order Intake £m	Order Backlog £bn
Electronic Systems	2,583	391	15.1	157	3,148	8.1
Platforms & Services	1,891	172	9.1	21	4,104	9.6
Air	3,786	454	12.0	1,330	8,359	28.7
Maritime	2,603	193	7.4	(79)	4,220	18.5
Cyber & Intelligence	1,157	96	8.3	51	1,365	2.2
HQ	214	(48)		(173)	243	0.1
Eliminations	(216)				(310)	(1.0)
	12,018	1,258	10.5	1,307	21,129	66.2
Interest & tax paid	-	-		(237)	-	-
	12,018	1,258	10.5	1,070	21,129	66.2

at USD FX rate of \$1.23 (backlog @ \$1.27)

Summarised balance sheet (£m)

	30 June 2023	31 December 2022
Intangible fixed assets	12,132	12,644
Tangible fixed assets	4,703	4,723
Investments	805	886
Working capital	(4,349)	(4,119)
Pension surplus	638	646
Lease liabilities	(1,460)	(1,582)
Tax assets & liabilities	323	363
Financial assets & liabilities	(138)	(138)
Net debt	(1,833)	(2,023)
Net Assets	10,821	11,400

Underlying earnings per share bridge (pence)



Half year reconciliation of earnings

(£m / pence EPS)	Underlying		Reported	
	Half year 2023	Half year 2022	Half year 2023	Half year 2022
Underlying EBIT	1,258	1,112	1,258	1,112
Other intangible amortisation/impairment			(56)	(51)
Adjusting items			48	(8)
EBIT			1,250	1,053
Underlying finance costs	(111)	(122)	(111)	(122)
Pensions & fair value movements			78	(136)
Finance costs ⁽¹⁾			(33)	(258)
Underlying tax	(206)	(190)	(206)	(190)
Other tax			(6)	42
Tax ⁽¹⁾			(212)	(148)
Non-controlling interest	(40)	(32)	(40)	(32)
Earnings	901	768	965	615
Weighted average number of shares	3,039	3,131	3,039	3,131
Earnings per Share	29.6p	24.5p	31.8p	19.6p

(1) Including share of Equity Accounted Investments

BAE SYSTEMS

2023 Half Year Results Q&A Session

Wednesday, 2nd August 2023

CEO Presentation

Charles Woodburn

Chief Executive Officer, BAE Systems Inc.

Half Year in Review

Thanks very much and good morning, everybody and thanks for joining us today. So, hopefully you have all had a chance to listen to our results presentation, which we published earlier this morning. And I will just cover a very few highlights before we open the call up for questions.

So, in summary, we delivered a strong first half, building on our excellent operational and financial performance over recent years, with a growth in the half underscoring the strength of our global portfolio as a competitive differentiator. And so far, this year, we have assisted our customers in delivering urgent, mission-critical capability. We have sustained good operational performance, cash flow generation and contracting discipline. We have secured £21.1 billion of orders in the first half of the year, to set a new record order backlog of £66 billion. We have increased sales and profit, and effectively managed our supply chain and cost base in an inflationary environment. We have invested in our people, R&D and capital expenditure, to underpin our growth outlook.

We have progressed our ESG agenda and engagement across our stakeholders and we have accelerated our three-year share buy-back programme. And we have also progressed our long-term strategic pillars of the AUKUS trilateral submarine and technology agreement and the GCAP programme in line with important multinational partner agreements now in place.

And all of that while reflecting this year's performance to date and our confidence in the outlook for the group, the board has declared an interim dividend of 11.5 pence, representing an 11% half-year increase. And we have announced a further three-year share buy-back of up to £1.5 billion to roll on after completion of the current programme. And we have increased all our key guidance metrics for the year.

So, the business is performing very well, and I see tremendous potential in the coming years as we look to deliver for our customers and position ourselves as a value-compounding stock from an investor perspective.

And with that Brad, Tom and myself are happy to take your questions.

Q&A

Charles Woodburn: So, I think we'll probably start with a question from Rob Stallard of Vertical Research Partners. Rob, over to you.

Rob Stallard (Vertical Research Partners): Thanks very much. Good morning. A couple of questions from me. So, Charles, you mentioned managing supply chain and costs in the first half. Other defence companies have been talking about this as well and the margin pressures some of them have experienced on fixed price contracts for the period. I was

wondering if you could comment on the scale, if you have been seeing this headwind as well, and whether it is starting to improve or alleviate moving forward from here.

And then, secondly, with regard to the fresh buy-back tranche, does this indicate that you have limited appetite for major M&A at this stage? Thank you.

Charles Woodburn: So, on supply chains, obviously that has been a bit of a theme post-pandemic and affecting certain areas, electronics, and the volume electronics supply, more on the ES side, but I think what you have seen from us is, we have actually managed it quite effectively. We have not been immune from it, and I think, generally speaking, the situation in supply chain is starting to improve. There are still longer lead times than we would like to see in certain parts and there are certain areas of the business where the components are now less of an issue, and it is more some of our suppliers on the platforms that roll those components up into equipment. We are starting to see some of that from a year ago play through into that. But, broadly speaking, we have been able to manage our way through it and we continue to do that. We have just got better at managing the situation. But I do think that over the next 12 to 18 months, we will see continued improvements there.

I think when it comes to fixed price and fixed price development, we have obviously been quite careful over the last several years as to the kinds of contracts that we have taken and been quite disciplined around that, largely through some of the challenges of the past. And we know through some of these fixed-price development contracts, that they are hard enough to deliver in a benign inflationary environment and basically all bets are off when you are in an exceptional inflationary environment. And, while I would love to say that we saw the exceptional inflationary environment coming, none of us did. But the discipline that we have taken around fixed-price contracts and taking it only where we were able to really understand and quantify the risk and back it off into our supply chains, that discipline has served us very well in these exceptional inflation conditions that we have seen over the last couple of years.

When it comes to the buy-back bit that you mentioned, just to take a step back. It is the strong performance of the business that allows us to continue with our balanced capital allocation policy, which, as you know very well, is invest in the business, invest in our people, invest in facilities and the self-funded R&D, all of which have seen increases in the period.

At the same time, there is capacity to do M&A of the kind of areas of interest, which I am happy to go into, that we have spoken about in the past, and do the increased shareholder returns in the form of increasing dividend in line with earnings and the buy-back programme that we announced last year, and now it continues as we look forward.

And the buy-back programme that we have announced today, or the roll-on of the programme with an additional £1.5 billion over three years, we have certainly announced that in the context and keeping in mind any M&A activities that we see on our horizon for the future. So, from our perspective it become an 'and, and, and'. Invest in the business, allow your optionality for M&A, options of the kind that we are interested in. And, specifically when it comes to M&A, I just want to be absolutely clear that we have been a disciplined buyer and we will be a disciplined buyer looking forward. But we do have a pipeline of M&A opportunities, but the approval from the board has been done in the context of M&A opportunities that we see in the future.

Rob Stallard: That has great, thanks very much, Charles.

Ian Douglas-Pennant (UBS): Yes, thanks very much. This is Ian Douglas-Pennant at UBS. I was going to ask another question around what type of acquisition you might look at, but maybe I will leave that for other people, and I will ask about Dreadnought. The pulling forward of the revenue recognition that we saw this half year, when do you expect the corresponding weakness to occur? Is this we should expect a weak H2, or is this demand pull-forward spread over a few years?

Secondly, I will go onto ship repair. There has been a material improvement in ship repair, at least a surprise versus my expectations. Could you talk about the demand outlook here? Should we just assume that this is back-to-normal demand situation and what it looks like going forward? Thank you.

Charles Woodburn: Yeah, on Dreadnought, you will be aware that when the UK government announced earlier in the year the extra £5 billion for defence as part of the spring statement, £3 billion was for submarine-related activities and £2 billion for Ukraine re-supply. And, when it came to those submarine-related activities, what it allowed us to do was start placing long-lead items, protect schedule and costs for the customer, and some of that came through. Dreadnought, as you know, is an [inaudible] cost programme, traded at relatively low margins, but is a long cycle part of the business.

So, what we have done, as you can see in the sales guidance, is we have said, for the full year, we have upped our sales guidance from 3-5%, to 5-7%. So, we are not expecting in a sense that whole 11% to come through as a full year. So, there is a little bit of pull through, but I would suggest that with programmes of the submarine size and with AUKUS and some of the big things coming through, that submarines is actually well set for steady growth for actual several years ahead of us.

Is there anything you want to add to that, Brad?

Brad Greve: Yes, we do think it has stabilised. We do think the acceleration was largely an H1 event and we think it has stabilised for the second half of the year, for Dreadnought specifically. But overall, this programme of submarine should grow across the medium term.

Charles Woodburn: Yes, and then, on ship repair, I think, given that we have got Tom online, who is closer to that with us, we would agree, it is definitely an improving business, but I will maybe pull Tom in to give you some more details on that.

Tom Arsenault: Well, thank you, Charles, and good morning, Ian. Yes, I think, if we look back on last year, you will recall, we talked about some ships and the Navy's priority as they were moving vessels around in order to the respond to the situation in Ukraine and that that resulted in some delays. And so, what you are seeing is, as you put it, a bit more of a return to normal as the ships come back into port and go through their maintenance process. And so, we expect to see that continue.

That said, we are also focussing on margin improvement there. As again reported in previous years, we had a couple of more difficult ships there. I think the Navy saw it the same way and that put some pressure on margins in the business, but those ships are largely behind us now. And so, again, we expect to see a return to normal in that dimension as well. Thanks for the question.

Ian Douglas-Pennant: Thank you. Can I ask one more about a different business line, if that has okay? The Hägglunds, which is this very strong, again, versus my expectations in the half year, as demand seemed to come through earlier than expected. Is this the start of Slovakian CV90 deliveries or is it just a broad-based increase in supply side, or demand side, or again, just how should we think about that? Thank you.

Charles Woodburn: Yes, Tom, why do you not carry on with that?

Tom Arsenault: Yes, well, actually, the difference is the CV90 deliveries will not actually start for some time yet. We are in the ramp-up to those deliveries. The backlog in that business has grown significantly between Slovakia, the Czech order and the win in the US on the cold weather all-terrain vehicle, and so we expect to see those play out in the coming years.

Ian Douglas-Pennant: Okay, thanks. I will jump back in the queue and hope somebody else asks the question again on M&A. Thank you.

Ross Law (Morgan Stanley): Yes, morning everyone. Thanks for taking my question. I will take Ian's tee up there and ask, just given the [inaudible] balance sheet and the extension of the buy-back, what level of leverage you would be comfortable moving up to, if the right acquisition target became available?

That was the first one. And, secondly, with your rolling cash guide up £500 million but the FY23 guides up £600 million, so anything to read into there?

And if I could ask one more please, just on AUKUS, any views on some recent resistance to the US providing ICAR[?] exemptions for UK and Australia and whether you think that could impact [inaudible] programme. Thank you.

Charles Woodburn: Maybe those first two I will hand over to you, Brad.

Brad Greve: Yes, so hi, Ross. We do not give guidance on target leverage or anything like that, as you know, but you have seen us continue to de-lever across the last several years. And, together with that, we have seen the pension[?] go up from a deficit to a surplus. Our net debt at £1.8 billion, against the context of EBITDAs that are north of £3 billion, just, I think, underlines the strength of the balance sheet. So, everything that we do in terms of capital allocation decisions, disciplined M&A, share buy-backs, all of those decisions we make with a clear tramline around investment grade credit. And that is just how we look at our leverage. And as you can do your own maths, you can see that we have got plenty of strength in the balance sheet to do the things that we want to do.

So, I am not going to give you a target on leverage, but I think you can see that we are probably stronger now than we have ever been with our balance sheet.

And what was your question on free cash? I am not quite sure I caught the question there.

Ross Law: Yes, so the FY23 guidance is up to £600 million, but the three-year rolling cash guides, which include the FY23, are only up £500 million. So, I am just wondering if there is anything I need to read into that?

Brad Greve: Well, yes, three-year guides are greater than targets, so, over three years a lot can happen. So I think that has just in the noise levels, but we just want to point out that we

started giving those guides back in 2019, we have exceeded every single one of those three-year guides. And now, with the guidance that we have given today for end-year cash flow, a lot of that feed is coming from advances that we do not typically guide for. So, as you know, that is just an element of our business that is very hard to predict. And so, those three-year guides help us to iron out some of that volatility and noise and I think it is a better way to look at our overall cash generation. You are always going to have variability end of the year. But from the build-up of our three-year guide, you can see that the business is just generating consistently high levels of cash, which we are very pleased about.

Charles Woodburn: And then, just very briefly, on AUKUS, I think there has been good momentum since the announcement between the three nations on the various enablers that will need to happen to make this multi-decade programme the success that we all know it can be, and, in fact, needs to be. And I would suggest again that the footprint of our business across the three nations means that we are well positioned to help, and at least highlight to national governments, the various enablers that do need to be in place to make sure that we can, as a defence community, deliver on the aspirations.

Ross Law: Thanks very much.

Operator: Thank you. We will now move on to our next question. Our next question comes from the line of George Zhao from Bernstein. Please go ahead.

George Zhao (Bernstein): Yes, hi and good morning, everyone. I will ask a few programme specific[?] questions. First, on your UK munitions business, I think that generated about £300 millions of sales last year. You had the order recently for £400 million and the MOD is talking about an additional £2.5 billion through the upcoming decade, so how significant can this business be for you over the upcoming decade, and do you have the capacity to meet that demand?

And the second one is on Hunter-class frigates. Given Australia's ongoing review of the Navy's[?] surface fleet, what do you think that means for the prospect of this programme? And, given the delays on the programme, does this have any impact on your margins, or is this fully a cost-plus contract? Thanks.

Charles Woodburn: On UK munitions, as you saw, we got the contract last month for the step-up on 155mm and 30mm and some other, various pieces. We have been building the capacity. That is a business that will grow over time. It will take time to build that capacity and for that to play in. So, I think I'm not going to give a long-term guidance on it, but I do believe that there is good momentum in the business, as we see in other parts of the business where you have munition-related activities, like our MBDA business.

On the Hunter-class frigate, well, yes, you have alluded to the review that is going on, and I think this is in the light of the AUKUS announcement. What is the requirement of ASW Frigates, given the additional and now more capable attack subs that will be going into the mix in the next couple of decades in Australia? But I have always been reassured, as you will have seen in the announcements down in Australia, about the continuous ship building in Osborne. So, the question becomes, if the number of ASW's specific hulls is changed from the original aspiration of nine, what follows? And how can we assist with those? But let us be

clear, those are decisions that will play out really into the second half of the 2030s. So, that is quite some way down the track.

And you spoke about the Hunter-class frigate, at the moment it is really on an [inaudible] cost basis, early development phases. There was a delay that was really a knock-on from the first year of the pandemic in the UK on the Type 26, where we had to readjust our shipyards to be able to work through a pandemic, get people back to work safely. That did have an initial impact on the productivity, the programme. That, combined with some of the challenges which are well known to everyone on this call around the gearbox and the fact of the gearbox being a key part of the capability. We had a lot of work to do to make sure that it met the requirements and that took longer than expected. That combination had about a year's impact on the first-in-class UK Type 26 programme. As I said, this was all played out in 2020. And there was a knock-on effect.

Since then, I might say that the UK programme has been stable. And once that immediate knock-on was taken into account on the Hunter-class programme, that programme has been stable too. And in fact, on my last visit down to Osborne, I was delighted to see the progress on the programme, so good momentum down there in Australia.

George Zhao: All right. Thank you.

Christophe Menard (Deutsche Bank): Yes, good morning and thank you for taking my question. I have three quick ones. The first one is, could you comment on the order intake in H2, what will be the main moving parts in the second part of the year?

Then, on the guidance upgrade, what are the moving parts at the divisional level, in terms of sales and EBIT in particular?

And the last question on M&A, what is a transformational deal, in your definition? I am asking because some of your peers have changed their definitions or the scope of their acquisitions, so I just wanted to have an update on your definition of a transformational deal. Thank you.

Charles Woodburn: On orders, there is still quite a lot to go for in the second half. I will not be necessarily drawn[?] on all of them, but it could be circa up to another £10 billion probably in the second half. As you know, in our business, some of them might slip into next year, but what we are seeing is another strong year of order intake with a book to bill of significantly in excess of one. There are further orders, potentially expected, on submarines in the second half. There is more to come on MBDA. I think on combo-vehicles[?], potentially the full reproduction[?] of AMPV in the second half.

So, there is quite a lot coming through, and ES, whilst it is a lot of small orders, flow comes through, and we are expecting continued momentum there. So, I think there has definitely more to go for in the second half. But some of those big ones, as you know, in the nature of our business, if it doesn't happen in the second half, it will be first half of next year. So, I would be a little careful about being too specific on numbers, but still plenty of momentum out there in the business.

You wanted a bit more granularity on the segment by segment. I was going to maybe pull you in, Brad, or Tom, on the ink side, but do you want to do a bit of that?

Brad Greve: Yes, sure, Christophe, could you reframe your question on sales and EBIT, what were you looking for there?

Christophe Menard: I was just trying to understand where the guidance upgrade in sales and EBIT was coming from in terms of which division? Is it more in maritime in terms of sales and EBIT, is it more air driving the upgrade?

Brad Greve: I think, obviously, the Dreadnought H1 performance is a big part of that increase in the sales number. I think all the other sectors are going to be at the higher end of our original guidance ranges. So, collectively, that also helps. But the big skew on sales is clearly Dreadnought.

And then, across the board, I think all of the sectors are more or less in our guidance range on ROCE[?]. I think maritime is the one that has challenged simply because Dreadnought is, as you know, on that single-sourced profit[?] environment. So, having higher Dreadnought sales is a challenge to the mix overall, but we have guided, as you can see, for a modest margin expansion for the full year. And that is in spite of having that big increase in Dreadnought. So, we are pleased at how the [inaudible] is performing but also maritime is a big skew from Dreadnought. And maybe Tom can build out some of the ink stuff.

Charles Woodburn: Yeah, Tom, do you want to add anything on the ink side there?

Tom Arsenault: Yeah, there is not a heck of a lot more to say than what has been said. I would just point out that the growth we are experiencing is remarkably broad based, across all three sectors in the US and effectively across all of the business areas below. And so, that is a really good, strong, broad-based growth that we see continued demand across the portfolio. And we have spoken in recent years about the work we have done to align around the priorities of the budgets that we are associated with, and I think this is a testament to that.

Charles Woodburn: So, yes, back on M&A, just to close out on that last question. So, well, first of all, I will just reiterate again, disciplined approach to pricing on M&A and the question was really around what do we mean by transformational. So, I will just go back for a second. The areas we have spoken about for M&A before that are of interest to us are things like multi-domain electronics.

So, that takes you into the electronics, adding to our electronics portfolio. ES has proven to be a brilliant business in its own right, but also a fantastic integrator of additional capabilities. The two, Raytheon and UTC, are deals that we did just before the pandemic. ES have integrated them superbly well. They have delivered very well for us, and they were great additions to the portfolio, and that encourages us to look for more in that space. And I think ES as an aggregator of defence electronics has proven itself to be very strong.

The other area that is clearly of interest for us is expanding our space portfolio. We did the in-space missions deal a couple of years ago here in the UK, which is a small UK-based, small sat provider. But across defence portfolios, and we have seen, in fact, the relevance of space in the ongoing conflict in Ukraine. And it is definitely an area of growth for many of our military customers. So, that is an area of interest for us.

And we have also spoken about building out some of our sustainability driven portfolio around the power and propulsion solutions and broadening that as we look to reduce carbon footprint

in other transport streams; building on the already very successful hybrid bus business that we have.

So, those are some of the areas that we have looked at.

When it comes to what do we mean by transformational, so for me, we have always said that we will build out into adjacencies of where we already are, and I would suggest that a transformational M&A. To be clear, we are not interested in transformational M&A that would take us into significant new sectors or they would be large enough – and, at the risk of plucking numbers out of thin air, more than 30 or 40% of market cap for the business, I would suggest, that would be a transformational M&A. And to be absolutely clear, we are not interested in those kinds of deals.

So, I think we have been now, hopefully, relatively clear on the kinds of deals that we are interested in doing and the ones that we're not interested in doing.

Christophe Menard: Thank you, it is very clear.

Olivier Brochet (Redburn): Yes, good morning, Charles, Brad and Tom. A couple of small questions. First, on the tax at 19%, what do we expect now for subsequent years, is there any action there? And what was the [inaudible] contribution in H1, please?

And then a question for Tom, maybe. For the budget in the US in 2024, what is the assumption that you have made? How do you see the discussions in the coming months in DC? Do we get a very long continuing resolution as a result of what is happening there? Thank you.

Charles Woodburn: I think that is the first two for you probably, Brad, and then over to Tom for the US budget.

Brad Greve: Yeah, so your question on the [inaudible]. We did have a lower tax than what we expected in the year, so we do see a step-up though and so we are going to see higher corporate tax in the UK. In general, I think circa 21% ETR is probably good for your models. So, it is always going to be mix dependent, so, fluctuates with that, but it is going to be ranging around there.

And then on [inaudible] for the half-year, we had just over £200 million in sales and so that has a business that has performed extremely well, and continues to come out of the COVID period and we are very pleased with how that business has performed.

Olivier Brochet: I was going to ask, do you have a contribution at EBIT level?

Brad Greve: Yeah, it is running at about circa 10% or thereabouts.

Olivier Brochet: Thank you.

Charles Woodburn: Okay, Tom, on the...

Tom Arsenault: Yes, so, I will just chip in on the budget. So, Olivier, as you know, the US is expecting to land on a budget that is about 3% higher than fiscal year 2023. It is made its way through the committees and is largely supported at that President's budget line of \$840 billion for defence, the largest in history.

I think the political debate that has ensued is likely to drive a continued resolution. Remember the government's fiscal year in the US ends on 30th September. So, the likelihood that this will be resolved before then, we think, is pretty remote. That is still a possibility, but we do expect continuing resolution of some duration. We are hopeful, and it is our best guess, that it will be of modest duration, not unlike we have seen in recent years, and so we are preparing for that.

That said, a lot of what happens in continuing resolution has to do with how many new programme starts that you have, and you are effectively held to the budget of the previous year. And given the modest growth, in fact, when you account for inflation, relatively flat growth in the budget, we do not expect that to have much of an impact on our performance in the year. I hope that is helpful.

Olivier Brochet: Yeah, it does help, thank you very much, Tom. Thanks, Charles.

David Perry (JP Morgan): Yes, good morning gentlemen, and congrats on the results. So, I have three questions please. The first one is on your slide eight, which, it is not a new slide, but all those arrows going straight up is quite rare for a company to have every major line pointing up. So, I just wondered if there is any granularity on that. Are any of those double-ups? Should any of those be diagonal, bottom left to top right? If you could maybe just give us a little bit of a high-level view there.

The second question is the last point on slide 11 about discussing potential increased production on ammunition in the US. I think we all saw the decision of Biden to send custom munitions to Ukraine a few weeks ago. There is clearly a huge shortage of traditional ammo, so I just wondered if you could give us a bit of colour on that.

And then, the third one is, if I can have another crack at this M&A issue, what I thought was interesting on slide four was the strap line that you say, five core technology areas supporting growth beyond core defence markets. I think that has new. I do not think we have had a slide like this in your presentations before. So, could you just speak to that a little bit? For example, space; would it be commercial space that you would look at? And I know Brad did not want to give a leverage target, but we are in a world of higher interest rates and so forth, so just any thoughts you have on the financial criteria for any potential deal would be helpful. Thank you.

Charles Woodburn: So, the first question, at the risk of over-thinking these arrows, basically, in the coming years we expect growth across all our sectors. That is the message from the slide. But particularly we would pull our electronic combat and those electronic systems, both the defence side of that and the commercial portfolio in particular. Submarines and global ships, for all the reasons, some of which we have covered already that are in the presentation. Combat vehicles, in particular, especially from the Swedish facilities and this trebling of output from Hägglunds that we have called out already. And then, generally speaking, the munitions and weapons restocking. So, I am just going to pull out a few there that, whether they are double up arrows or not, but they are definitely growing faster than some of the other parts of the business. But it is a broad-brush growing portfolio across pretty much all areas of the portfolio.

On slide 11, that would be, that was the US Ordnance Systems. Yes, so that was Radford and Holston. So, maybe I could maybe get Tom to just say a little bit about that because clearly, there, given the situation and the fact that we have now got this terrible situation of a ground war in Europe and the requirement that everybody is now rethinking what are the stock level needed for things like 155 shells and stuff. But here in the UK, but also in the US, ramping production for that. And those two plants are obviously a very important part of the supply chain within the US.

So, maybe over to you, Tom, just to bring a bit of colour to that.

Tom Arsenault: Yes, thank you, Charles and good morning, David. But, as you know, our contribution to the munitions production stream is pretty far upstream. We do the chemical production for energetics and for propellants and those businesses operate out of our two Army GOCOs in Holston, Tennessee and Radford, Virginia.

These businesses are largely built around chemical production and the capacity of those various chemicals. Our customers ultimately determine which of the munitions these chemicals will be used for. Many of them are multi-purpose. And so, the discussions around where can we ramp production, how do we change the mix of where these propellants and energetics ultimately go, has been an on-going discussion. And we presented the Army with a number of options of ways that those production rates can be increased, and we would expect a decision on that in the coming months. And that will result in some modernisation, some redirection across the variety of products that are made there. I hope that is helpful.

Charles Woodburn: Thank you, Tom and, sorry, David, you were going to say?

David Perry: Well, I was just going to say, we have seen some massive numbers on ammunition in Europe, for example, going to Rheinmetall. I just wondered, Tom, are you able to size the opportunity here? It seems to me it could be quite significant on the ammunition.

Tom Arsenault: Yeah. I think it is a little early to say, David, but you can imagine, just based on what you said, the demand across the portfolio, there is certainly an interest in 155mm shells and opportunities for us to contribute further to that. We are on the doorstep for that.

David Perry: Thank you.

Charles Woodburn: And then on the M&A areas, so the slide that you referenced, slide four in the presentation, I am glad you like the slide. But it is, to be clear, those areas that we highlighted, the five areas there, were also in the annual report as being the areas that we are investing in. And, as always, when it comes to between defence and civil, whilst we have a good civil business in commercial air, it tends to be where we find adjacencies to some of our military activities. And space being an obvious area that, if you have got a military space business and there are some clear adjacencies in the civil area, those are obviously things that would be sensible for us to look at. But those areas, I might say, have been something that we have been relatively consistent on. Even if it has not been in the Investor Day, it has certainly been in the annual report.

David Perry: Thank you. And does Brad want to take the one on financial criteria for M&A?

Brad Greve: Yeah, hi David. So, yeah, we always said with M&A what is important is, first of all, is there a good strategic fit with any target we might be looking at? Would we be good owners of this business and be able to make it something better by owning it? So, that is one of the key tasks.

Obviously, when we look at price, we need to make sure that whatever price we pay, that we have got NPV positive pathways, so that overall, the deal is NPV positive. And it will depend on the target and what cycle it is in; high growth, medium growth, whatever the case may be, there are different variables. But we certainly like the types of deals that we did a couple of years ago, which were accretive and earnings straight out of the gate. But it depends on growth cycles.

But I would say a very short time of running[?] accretion on the horizon of acquiring it is important. I think being cash accretive is important and I think having a return on investor capital greater than cost of capital within a reasonable time frame, those are the types of things that we look at. But overall, across the entire horizon of cash flows of the target, we want to make sure that those in present value terms are greater than whatever it is we pay.

Charles Woodburn: Thank you. Thank you, David, for the questions.

Operator: Thank you. We will now move on to our next question. Our next question comes from the line of Nick Cunningham from Agency Partners, please go ahead.

Nick Cunningham (Agency Partners): Hi, thank you and good morning. Everything is going well across the whole group as far as I can see, even things that have been difficult in the past. There was one fly in the ointment, it seems a bit churlish to raise, but I think we have to, which is that you did not get down selected for OMFV[?] and that is a segment that has been a BAE franchise. So, I wondered if you had any post-match analysis of why you didn't get down selected, and what the implications are for the armour business skyline over the coming years? Does it matter, in other words?

And then, also in the US, NGAD has finally emerged into the daylight to the extent that your colleagues at North Rock were willing to comment on their approach to it. And do you have any thoughts on whether you will bid as a high-level partner with[?] the F-35, for example, or will you focus on being a subcontractor in the subsystems? And perhaps the same question for SAXX2[?], if you can comment on that?

And then, finally on that, so we can judge over this next few years on how you are doing, where do you see your real strengths in terms of what you can offer on those next generation platforms? In other words, what should you be aiming to win on those? Thank you.

Charles Woodburn: I think Tom, it looks like over to you on those questions.

Tom Arsenault: All right, thank you, Charles. Good morning, Nick. I think one thing, we were certainly disappointed by the outcome on OMFV. You probably read we decided not to protest the Army's decision. This was a fixed-price five-year programme ahead of an era where the Army's budget is under a bit of pressure. So, in the big scheme of things, certainly disappointing. We are going to continue to focus instead on what has been a really remarkable build-up in backlog for the combat vehicles' business. I think the book to bill in the half for P&S exceeded £2.0 million[?]. We are on track to deliver well over 500 vehicles

this year. And, as I mentioned earlier, we are just preparing for the ramp in CV90 for Slovakia and the Czech Republic. Deliveries will begin out in 2025.

On top of that, you may have read very recently, the Army has reached its full rate production decision on AMPV. Their stated objectives there over the next 20 years is just short of 3,000 vehicles, so some good long-term visibility there. We expect to contract on that programme here in the second half.

And then, all the while we are continuing to focus on operational excellence in margin expansion in that portfolio, and that business has been on a good margin expansion journey. We expect that to continue.

On NGAD, and this is a sensitive programme, as you know, and while there has been some shuffle amongst the primes and announcements there, our contribution is solidly in the second tier as a subcontractor, in the traditional areas that you would expect, where we have been strong in fighter aircraft electronics in the past in places like electronic warfare and the like. And so, I think I will just leave it there, but that is something we are smack in the middle of on all of these next generation programmes. I hope that is helpful, Nick.

Nick Cunningham: Thank you. Could I just follow-up on OMFV, and it is going to be an extended timeline on that and probably more extended than currently planned, as these things often are. But does AMPV become a de facto Bradley M113 backfill replacement, such that you end up getting more volume on AMPV than, if you like, the current outlook would suggest?

Tom Arsenault: Nick, a great question. I think it is anybody's guess what will happen over the coming decade. The OMFV is not due to field until the first part of the next decade – the very end of this one, the first part of next – and so there is a lot of time between now and then. We will see which way budgets sway. In the meantime, again, we are focussed on delivery.

By the way, I should also mention that AMPV production, in addition to the Army's requirement, we are seeing the backfill of M113s that had been sent to Ukraine, measured in probably in the hundreds, that will feather into the production line here in the near term as well. And so, you really have to have a crystal ball to get a sense of where things will be 10 years from now, but we have got what we think is a pretty [inaudible] backlog and our focus is on delivering that and delivering margin expansion to our shareholders.

Nick Cunningham: Thank you.

Chloe Lemarie (Jefferies): Yes, good morning and thank you for taking my question. I have two, if I may? The first one is on free cash flow, because at the end of last year, you said you had about £0.5 billion of timing effects that [inaudible], so I was just wondering if all of them have now been reabsorbed.

The second one is on air. If you could help us understand the phasing of the Qatar Typhoon headwind on sales? But also, over H1 and H2. And also, how the end of the contract and the risk retirement impacts margin in the division. Thank you.

Charles Woodburn: I think, Brad, you can probably do both of those.

Brad Greve: Yeah, hi, Chloe. So, I think your first question was on the advances and phasing of those from last year. So, some of those have been consumed in 2023 but not all of it. So, some of those advances go out across several years as we build out programmes. But there was a significant consumption so far in the year.

And then, just your question on, I think, air phasing, I am not quite sure I caught the question, so maybe you can remind me?

Chloe Lemarie: Yes, sorry. On the Qatar Typhoon contract, because you said you would obviously have a headwind to sales in H2, and also before, so if you could help us understand the phasing between the two halves. And also, the impact on air margin as you retire risks on this contract?

Brad Greve: Yes, as you know, across these long-term contracts, we are very prudent in how we trade. So, we assume that all risks materialise and then, as we hit milestones, we are able to retire risks. And so, as programmes mature, what that means is, you then have improved margins if you are able to retire risks rather than consume it. And that has been a big part of, I think, the last three years margin expansion. We have grown on margins by over 100 basis points in the last three years, and a lot of that is because we have been able to release risk rather than consume it. So, Qatar is part of that story. So, we do expect to be able to retire risk as we continue to mature that programme.

And we are seeing a sales drop off. Last year compared to this year we said that we would experience a significant drop-off and that is just normal, based on the maturity of the programme. I don't know if we have given a number on that specifically, but it is in the £200 to £300 million range in terms of a drop-off. So, that is part of the comparables and when we look at full-year sales versus last full-year, a lot of the air growth is informed by that drop-off in Qatar.

And if you look at all the rest of the air programmes, apart from Qatar, they are actually growing significantly. So, the air sector would be having a pretty high growth rate apart from Qatar.

Chloe Lemarie: All right, thank you.

George McWhirter (Berenberg): Good morning. Just two questions from me please. On the Typhoon programme, please can you comment on the outlook for further orders on the Typhoon, particularly those where you are the prime contractor?

And the second question, just in terms of the transition from the Eurofighter to the Tempest, how should we think about the combined revenue profile of these two programmes as we move from this decade to the next? Thank you.

Charles Woodburn: There are a number of other export opportunities that we are pursuing. I was not going to go into the details of them, but between additional sales to European partners – which, some are in the pipeline; obviously, we would not be prime on some of those – and then additional Middle East opportunities, there are a number of additional Typhoon opportunities that we are pursuing. Our general outlook is stable at the current levels for several years ahead of us, based on things that we already have.

But as we look forward, in the second half of the decade, I think the outlook is actually quite positive as we transition from stable Typhoon into Tempest. I mean, the outlook is obviously growing because we, as we segue from one into the other, we do see a step-up. This is a long-term, end-of-the-decade type opportunity, but definitely an increase in revenues through the end of the decade, and into the next decade.

George McWhirter: Great, thank you.

Charles Woodburn: Very good. Thank you everyone for joining and I will look forward to meeting many of you on the roadshow after the summer holiday period. And yeah, look forward to seeing you all. Thank you very much.

[END OF TRANSCRIPT]