



Preliminary
Announcement
2017

BAE Systems plc

Preliminary Announcement 2017

Results in brief

Financial performance measures as defined by the Group ¹			Financial performance measures defined in IFRS ²		
	2017	2016		2017	2016
Sales	£19,626m	£19,020m	Revenue	£18,322m	£17,790m
Underlying EBITA	£2,034m	£1,905m	Operating profit	£1,480m	£1,742m
Underlying earnings per share	43.5p	40.3p	Basic earnings per share	26.8p	28.8p
Operating business cash flow	£1,752m	£1,004m	Net cash flow from operating activities	£1,897m	£1,229m
Net debt	£(752)m	£(1,542)m			
Order intake ³	£20,257m	£22,443m			
Order backlog ³	£41.2bn	£42.0bn			
Other financial highlights					
	2017	2016			
Group's share of the net pension deficit	£(3.9)bn	£(6.1)bn			
Dividend per share	21.8p	21.3p			

Charles Woodburn, Chief Executive, said: "We delivered a good performance in 2017, consistent with our expectations for the year. We start 2018 with a streamlined organisation and a strong focus on programme execution, technology and enhanced competitiveness, providing a solid foundation for medium-term growth. With an improving outlook for defence budgets in a number of our markets, we are well placed to generate good returns for shareholders."

Financial highlights

Financial performance measures as defined by the Group¹

- Sales increased by £0.6bn to £19.6bn largely reflecting currency translation.
- Underlying EBITA increased to £2,034m, a 4% increase on a constant currency basis⁴.
- Underlying earnings per share increased by 8% to 43.5p.
- Operating business cash flow increased by £748m to £1,752m.
- Net debt reduced by £790m compared with 31 December 2016.
- Order intake³ of £20.3bn.
- Order backlog³ of £41.2bn was unchanged on a constant currency basis⁴.

Financial performance measures defined in IFRS²

- Revenue increased by £0.5bn to £18.3bn largely reflecting currency translation.
- Operating profit decreased to £1,480m, including a £384m non-cash goodwill impairment in Applied Intelligence reflecting lower growth assumptions.
- Basic earnings per share decreased by 7% to 26.8p.
- Net cash flow from operating activities increased by £668m to £1,897m.

Other financial highlights

- Group's share of the pre-tax accounting net pension deficit reduced by £2.2bn compared with 31 December 2016 to £3.9bn.
- Final dividend of 13p per share making a total of 21.8p per share for the year, an increase of 2% over 2016.

1. We monitor the underlying financial performance of the Group using alternative performance measures. These measures are not defined in International Financial Reporting Standards (IFRS) and, therefore, are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. Accordingly, the relevant IFRS measures are also presented where appropriate. For alternative performance measure definitions see glossary on page 9.

2. International Financial Reporting Standards.

3. Including share of equity accounted investments.

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

Operational and strategic review

- Our US-based Electronic Systems business received orders on the F-35 Lightning II programme worth over \$450m (£333m) for additional hardware production and five years of support.
- Growing demand for our Advanced Precision Kill Weapon System (APKWS™) laser-guided rockets, with awards totalling nearly \$300m (£222m) during the year and over 13,000 units delivered at 31 December.
- During the year, our US-based Intelligence & Security business secured six task order contracts valued at more than \$180m (£133m), increasing the Full-Motion Video Intelligence, Surveillance and Reconnaissance analysis support we provide to the US intelligence community.
- In Applied Intelligence, the underlying loss for the year was £61m, including £24m for a restructuring charge. The first half loss of £27m was followed by a reduced second half loss, before the restructuring charge, of £10m as the cost-reduction actions under the ongoing restructuring started to deliver bottom-line benefit.
- We received a \$414m (£306m) contract for the third and final option for Low-Rate Initial Production of 48 M109A7 self-propelled howitzers and ammunition carriers under the Paladin Integrated Management programme. The award contains options for a further 180 vehicle sets over three years of Full-Rate Production.
- Under a contract signed in 2012, the first eight Typhoon and all eight Hawk aircraft for Oman were delivered to the Sultanate of Oman in the year. The remaining four Typhoon aircraft are scheduled to be delivered in 2018.
- In December, BAE Systems and the Government of Qatar entered into a contract, valued at approximately £5bn, for the supply of 24 Typhoon aircraft. Alongside supplying the aircraft, the agreement provides for the supply of ground support to the Qatar Armed Forces and delivery of technical and pilot training in Qatar. The contract is subject to financing conditions and receipt by the Group of first payment which are expected to be fulfilled no later than mid-2018.
- The full £3.7bn production contract for the first batch of three Type 26 frigates was signed in June, with £2.8bn of order intake in the year. Production of the first ship, Glasgow, commenced in July.
- Under the seven-boat Astute Class submarine programme, we received the full £1.4bn contract for the sixth submarine from the Royal Navy and the fourth boat, Audacious, was launched.
- We agreed contracts under the Saudi British Defence Co-operation Programme to provide ongoing support services to the Royal Saudi Air Force and Royal Saudi Naval Forces for a further five years to 31 December 2021.
- In November, the 2017 UK triennial pension funding valuations and, where necessary, deficit recovery plans were agreed with the trustees and certified by the scheme actuaries after consultation with the Pensions Regulator.

Guidance for 2018

The Group and segmental guidance for 2018 below is based on the Group's actual financial performance for 2017 as re-presented to reflect both the organisational changes described on page 8 and the impact of the adoption of IFRS 15, Revenue from Contracts with Customers.

Group guidance

For the year ending 31 December 2018, we expect the Group's underlying earnings per share to be in line with full-year underlying earnings per share in 2017 of 42.1p.*

* Compared with the Group's actual financial performance for 2017 as re-presented to reflect the impact of the adoption of IFRS 15 from 43.5p to 42.1p and assuming a US\$1.40 to sterling exchange rate.

The guidance is based on the measures used to monitor the underlying financial performance of the Group. Reconciliations from these measures to the financial performance measures defined in International Financial Reporting Standards for 2017 are provided on pages 10 to 12.

Segmental guidance

Electronic Systems:

- High single-digit sales growth is expected in 2018 driven by a number of electronic warfare contracts with some 70% of projected sales in the 2017 closing order backlog.
- Margins¹ are expected to be in the range of 14% to 16%.

Cyber & Intelligence comprising the US Intelligence & Security sector (70% of Cyber & Intelligence sales in 2017) and Applied Intelligence:

- In aggregate, sales in 2018 are expected to be marginally higher than 2017. Sales in Intelligence & Security are expected to be largely unchanged, with some growth coming from the UK Services and International Services & Solutions divisions of Applied Intelligence.
- Margins¹ are expected to improve to around 5%. The Intelligence & Security business is expected to contribute around 8% margin, with Applied Intelligence moving to an overall break-even position.

Platforms & Services (US):

- Sales growth of 10% to 15% is expected, with increasing volumes from the US Combat Vehicles and Weapon Systems businesses, as well as higher ship repair activity. Almost 75% of guidance is in the closing order backlog.
- Another year of margin¹ improvement to a range of 9% to 10% is expected in 2018 absent further charges on the commercial shipbuilding contracts.

Air:

- Sales are expected to be some 5% lower as activity on Typhoon for the European, Saudi and Oman contracts is largely complete. Around 85% of guidance is in the closing order backlog.
- Margins¹ are expected to be in the 11% to 13% range.

Maritime:

- Sales are expected to be stable as activity levels on Carrier reduce and are largely offset by increases on submarine programmes. Around 90% of guidance is in the closing order backlog.
- Margin¹ levels are expected to be within the 8% to 9% range.

HQ:

- HQ costs are expected to be similar to 2017.
- Underlying finance costs are expected to be around 15% lower, benefitting from the weaker US dollar, reduced charges arising from our share of equity accounted investments and lower net present value adjustments.
- The underlying effective tax rate for 2018 is expected to reduce from 21% to around 18% benefiting from US tax reform, with the final rate dependent on the geographical mix of profits.

1. Underlying EBITA as a percentage of sales.

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Analyst and investor presentation

A presentation, for analysts and investors, of the Group's Results for 2017 will be available via webcast at 9.00am today (22 February 2018).

Details can be found on investors.baesystems.com, together with presentation slides and a pdf copy of this report. A recording of the webcast will be available for replay later in the day.

About BAE Systems

At BAE Systems, our advanced defence technology protects people and national security, and keeps critical information and infrastructure secure. We search for new ways to provide our customers with a competitive edge across the air, maritime, land and cyber domains. We employ a skilled workforce of 83,200 people¹ in over 40 countries, and work closely with local partners to support economic development by transferring knowledge, skills and technology.

1. Including share of equity accounted investments.

Preliminary results statement

Introduction

BAE Systems delivered a good performance in 2017, consistent with its expectations for the year. The Group is taking the actions necessary to address costs and to meet its customers' affordability challenges. Despite economic and political uncertainties, governments in the Group's major markets continue to prioritise defence and security, with strong demand for its capabilities. BAE Systems is investing in its business, its people, and in the technology and skills needed to drive the business forward. With an improving outlook for defence budgets in a number of its markets and a solid foundation for medium-term growth, BAE Systems is well placed to generate good returns for shareholders.

BAE Systems is a strong company, with a number of key advantages, pursuing the right strategy, and has a broad geographic footprint and diversified market positions. Importantly, its track record of successful partnerships in international markets to develop local industry, employment and skills is now becoming a key requirement to do business in those markets.

The Group has world-class technologies in the fields of electronic warfare, autonomous systems, advanced manufacturing, robotics and data analytics, and continues to invest in research and development, often alongside its customers, to identify and develop emerging technologies. The speed of change in technology means that it must continually build on its technological advantage, and attract and retain the right talent in order to stay competitive.

It is important to recognise that in a tough, competitive market, the business needs to become a stronger, smarter and sharper organisation to win new business and grow, which means increasing its focus and efforts in three priority areas:

Operational excellence

There are a number of major programmes under way on which production is ramping up, so it is vital that focus is maintained on operational excellence by delivering for the Group's customers. There is simply no better way to highlight skills and capabilities and, therefore, win new business.

Competitiveness

Good progress has been made in making the organisation more efficient over the last few years, and there are further opportunities with procurement and enhanced collaboration at the forefront.

Technological innovation

BAE Systems has a long heritage of developing and integrating cutting-edge technologies to create complex systems that give its customers a capability advantage. The accelerating pace of technological change is a disruptive force and a key driver of competitive advantage and, increasingly, a determinant for customers in awarding new business.

Driving performance in these three areas will be key for the development of the business as the Group executes its strategy in 2018 and beyond.

2017 performance

US

After seven months under a Continuing Resolution that maintained funding at the prior year's level, the fiscal year 2017 defence budget ultimately rose by approximately 4%. Similarly, fiscal year 2018 has begun under multiple Continuing Resolutions. On 9 February 2018, Congress passed, and the President signed, a budget agreement that supports the medium-term planning assumptions for the Group's US businesses. This budget agreement increases the budget caps for two years, and extends the current Continuing Resolution to 23 March 2018 to allow lawmakers to pass a fiscal year 2018 omnibus appropriations bill.

There is continued support for increased defence spending in the President's recently-released fiscal year 2019 budget request. This request maintains positive momentum in funding for military readiness and modernisation, and provides greater near-term certainty. The Group's US-based portfolio remains well aligned with customer priorities and growth areas, such as the ramp-up of production on a number of long-term programmes.

The US electronics business delivered good operational performance across core franchise positions in the high-technology areas of electronic warfare, precision-guided munitions, Intelligence, Surveillance and Reconnaissance, and electro-optics.

BAE Systems has sustained its leadership position in the US electronic warfare market and production is ramping up to execute orders across a number of programmes, some of which are classified. As the electronic warfare system supplier on the F-35 Lightning II combat aircraft programme, production is increasing and the business is well positioned to meet further increases in output rates over the coming years to meet the requirements of both US and international customers. On F-15, upgrade programmes are contracted and progressing for the US Air Force and international customers.

The Group's US-based combat vehicles business is underpinned by programmes for the manufacture of Armored Multi-Purpose Vehicles and M109A7 self-propelled howitzers, and Bradley upgrades which all progressed in the year. In the amphibious vehicle market, 16 prototypes have been delivered to the US Marine Corps under the Amphibious Combat Vehicle 1.1 programme. BAE Systems is one of two competitors for this programme, with final down-selection expected in 2018.

BAE Systems is a leading supplier of ship repair services to the US Navy and continues to adjust its workforce and facilities to meet evolving demand. Additional dry dock capacity at the Group's San Diego shipyard became operational in February 2017 and accepted its first ship during the year.

Whilst market conditions remain highly competitive and continue to evolve, the US-based Intelligence & Security business is focused on delivering on its contracts and maintaining a high level of bid activity.

UK

Defence and security remains a priority for the UK government. The Group expects this to be reaffirmed in the National Security Capability Review, and in the Modernising Defence Programme, which was announced in January 2018 by the Defence Secretary.

Transition arrangements after March 2019 will be important to enable companies to prepare for potential changes in the regulatory environment. As there is relatively limited UK-EU trading and movement of EU nationals into and out of BAE Systems' UK businesses, the resulting Brexit impact on the business is likely to be limited, depending on the terms of any transition and final agreements for the UK's future relationship with the European Union.

BAE Systems will support the government in achieving its aim to ensure that the UK maintains its key role in European security and defence post-Brexit, and to strengthen bilateral relationships with key partners in Europe. This will be important for ongoing collaboration in the development of defence capabilities.

In December, BAE Systems and the Government of Qatar entered into a contract, valued at approximately £5bn, for the supply of 24 Typhoon aircraft. Alongside supplying the aircraft, the agreement provides for the supply of ground support to the Qatar Armed Forces and delivery of technical and pilot training in Qatar. The contract is subject to financing conditions and receipt by the Group of first payment which are expected to be fulfilled no later than mid-2018.

Discussions with current and prospective operators of the Typhoon aircraft continue to support the Group's expectations for additional Typhoon contract awards. However, there can be no certainty as to the timing of these orders.

As a result of reducing production activity on Typhoon and Hawk, and also taking into account the changes to support requirements as the Royal Air Force transitions from Tornado to F-35 Lightning II, the business announced in October a total proposed headcount reduction of up to 1,400 roles over the next three years.

The Typhoon aircraft's progression towards the Royal Air Force Centurion standard will enable transition of capability from Tornado to Typhoon as the UK Tornado fleet is scheduled to come out of service at the end of the decade.

UK-based production of rear fuselage assemblies for the F-35 Lightning II aircraft increased to 82 in the year, with most of the advanced manufacturing investment in place to achieve the planned increase in production volumes. In readiness for the arrival of the UK's first F-35 Lightning II aircraft in 2018, good

progress has been made on the support facilities for the stand-up of the operational service at RAF Marham in Norfolk.

In the maritime domain, there remains pressure on the Navy's near-term budgets.

On the aircraft carrier programme, HMS Queen Elizabeth successfully concluded initial sea trials and entered HM Naval Base, Portsmouth, for the first time in August, with operational handover to the Royal Navy in December.

Following contract award for the first batch of three Type 26 frigates, worth £3.7bn, production for the first ship, Glasgow, commenced in July. The National Shipbuilding Strategy announced in September committed to all eight Type 26 frigates to be built in the Group's Scottish manufacturing facilities. In October, a teaming agreement was announced with Cammell Laird for their bid for the UK Ministry of Defence's proposed Type 31e general purpose frigate programme.

Submarine activity is increasing with the Astute and Dreadnought class submarines now both in production and major redevelopment of the Barrow site to deliver the Dreadnought programme under way.

International

The Saudi Arabian In-Kingdom Industrial Participation programme continues to make good progress and discussions have commenced with the new Saudi Arabian Military Industries (SAMI) organisation to explore how the Group can collaborate to deliver further In-Kingdom Industrial Participation. All of these activities are aligned with the Group's long-term industrialisation strategy, as well as the Saudi Arabian government's National Transformation Plan and Vision 2030.

On the Salam Typhoon programme, all contracted 72 aircraft have now been delivered and the Typhoon support contracts are operating well, exceeding the baseline flying programme contracted with the customer.

Discussions with the Saudi Arabian customer through 2017 resulted in contractual agreements under the Saudi British Defence Co-operation Programme being formalised. These provide support services to the Royal Saudi Air Force and Royal Saudi Naval Forces for a further five years to 31 December 2021.

In Australia, the business is underpinned by long-term support contracts, whilst activity progresses on two major bid opportunities.

Firstly, as one of two tenderers for the Land 400 Phase 2 Combat Reconnaissance Vehicle programme, the Risk Mitigation Activity contract has been completed and a final proposal submitted, with final preferred tender selection anticipated in the first half of 2018.

Secondly, the Group's initial tender response for the Commonwealth's nine-ship SEA 5000 Future Frigate programme was submitted in August and it anticipates a preferred tender selection in 2018.

The MBDA joint venture has continued to win orders in both domestic and export markets. The increase in business volumes has resulted in the requirement to expand production capacities in the UK and France.

Cyber security

Applied Intelligence achieved sales growth from the continued delivery of national security solutions for the UK and international governments. In addition, the business has deployed anti-fraud, regulatory compliance, and cyber security products and services across a large range of commercial customers.

In 2017, Applied Intelligence reported an underlying loss of £61m, including a £24m restructuring charge. The first half loss of £27m was followed by a reduced second half loss, before the restructuring charge, of £10m as cost reduction actions started to deliver bottom-line benefit. A goodwill impairment of £384m was taken in 2017 reflecting the future level and timing of expected returns from the business.

Effective 1 January 2018, the business changed its operating model to deliver a more targeted portfolio of products and services focused on customers within three core business units: Government; Financial Services; and Technology & Commercial. The restructuring will enable a greater focus on customer needs and higher levels of operational efficiency, in the commercial business, that will accelerate improvements in competitiveness and profitability.

Balance sheet and capital allocation

The Group's balance sheet is managed conservatively in line with its policy to retain its investment grade credit rating and to ensure operating flexibility. Consistent with this approach, the Group expects to continue to meet its pension obligations, invest in research and technology and other organic investment opportunities, and plans to pay dividends in line with its policy of long-term sustainable cover of around two times underlying earnings and to make accelerated returns of capital to shareholders when the balance sheet allows. Investment in value-enhancing acquisitions will be considered where market conditions are right and where they deliver on the Group's strategy.

Pension schemes

The 2017 UK triennial pension funding valuations concluded in November, with the aggregate funding deficit as at 31 March 2017 across the UK schemes at £2.1bn. The deficit recovery plan on the Group's largest pension scheme, the BAE Systems Pension Scheme, continues to March 2026, with the other schemes now with reduced repayment periods or fully funded.

The UK funding deficit at 31 March 2017 is some £3bn lower than the accounting deficit, using like-for-like mortality assumptions and asset values at 31 December 2017, largely due to lower liabilities as a result of the discount rate assumption based on the expected returns on the investments held by the schemes.

Research and technology

BAE Systems has developed some of the world's most innovative technologies and invests in research and development (R&D) to generate future products and capabilities. The Group embraces disruptive technology, drives innovation and invests appropriately both on a self-funded basis and in conjunction with its customers, universities, and small and medium-sized enterprises. Company-funded research and development contributes, along with customer funding, in driving focused investment in areas such as defence and commercial electronics, military aircraft, precision weapons and cyber security. In 2017, £1.6bn (2016 £1.4bn) was spent on R&D, of which £238m (2016 £206m) was funded by the Group.

Technology is a key priority for the business and a new Chief Technology Officer was appointed at the start of 2018 to focus on investment in, and development and exploitation of, technologies across the Group's products, services and operations.

Organisational changes

In October, BAE Systems announced a restructure of its operations outside of the US-managed business in support of the Group's three priorities of delivering operational excellence, honing its competitive edge and accelerating its technology innovation. The new operating model, effective 1 January 2018, will simplify the management structure to create strengthened Air and Maritime reporting segments, whilst changes to the UK-based Applied Intelligence cyber security business are focused on meeting customer needs and accelerating improvements in competitiveness and profitability.

The 2017 results are re-presented on page 32 to reflect the organisational changes and segmental guidance for 2018 is presented on page 3 on a consistent basis. The short- to medium-term prospects for the Group's five principal reporting segments from 1 January 2018 are summarised on pages 33 to 35.

Directors and the Board

With effect from 1 July, Charles Woodburn succeeded Ian King as Chief Executive. Ian King retired from the Company at the end of June having served for over 40 years, including leading BAE Systems as Chief Executive since 2008.

Revathi Advaiti was appointed to the Board as a non-executive director on 1 January 2018.

Summary

BAE Systems benefits from a large order backlog, strong franchises and established positions on long-term programmes in the US, UK, Saudi Arabia and Australia. The Group's strategy is clear and well defined, with governments in its major markets continuing to prioritise defence and security, with strong demand for its capabilities. Through execution of a consistent strategy, BAE Systems is well placed to maximise opportunities, deal with challenges and continue to generate good shareholder returns.

Dividend

The Board has recommended a final dividend of 13p per share making a total of 21.8p per share for the year, an increase of 2% compared to 2016.

Glossary

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

	Definition	Purpose
Financial performance measures as defined by the Group		
Sales	Revenue plus the Group's share of revenue of equity accounted investments.	Allows management to monitor the sales performance of subsidiaries and equity accounted investments.
Underlying EBITA	Operating profit excluding amortisation and impairment of intangible assets, finance costs and taxation expense of equity accounted investments (EBITA), and non-recurring items*.	Provides a measure of operating profitability that is comparable over time.
Underlying earnings per share	Basic earnings per share excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, non-recurring items* and, in 2017, a credit in respect of US tax reform enacted in December 2017.	Provides a measure of underlying performance that is comparable over time.
Operating business cash flow	Net cash flow from operating activities excluding taxation and including net capital expenditure, financial investment and dividends from equity accounted investments.	Allows management to monitor the operational cash generation of the Group.
Net debt	Cash and cash equivalents, less loans and overdrafts (including debt-related derivative financial instruments).	Allows management to monitor the indebtedness of the Group.
Order intake	Funded orders received from customers including the Group's share of order intake of equity accounted investments.	Allows management to monitor the order intake of subsidiaries and equity accounted investments.
Order backlog	Funded and unfunded unexecuted customer orders including the Group's share of order backlog of equity accounted investments. Unfunded orders include the elements of US multi-year contracts for which funding has not been authorised by the customer.	Supports future years' sales performance of subsidiaries and equity accounted investments.
Financial performance measures defined in IFRS		
Revenue	Income derived from the provision of goods and services by the Company and its subsidiary undertakings.	N/a
Operating profit	Profit for the year before finance costs and taxation expense. This measure includes finance costs and taxation expense of equity accounted investments.	N/a
Basic earnings per share	Basic earnings per share in accordance with International Accounting Standard 33, Earnings per Share.	N/a
Net cash flow from operating activities	Net cash flow from operating activities in accordance with International Accounting Standard 7, Statement of Cash Flows.	N/a
Other financial measures		
Net pension deficit	Net International Accounting Standard 19, Employee Benefits, deficit excluding amounts allocated to equity accounted investments.	N/a
Dividend per share	Interim dividend paid and final dividend proposed per share.	N/a

* Items that are not relevant to an understanding of the Group's underlying performance (see page 11).

Income statement

	2017 £m	2016 £m
Financial performance measures as defined by the Group¹		
Sales	19,626	19,020
Underlying EBITA	2,034	1,905
Return on sales	10.4%	10.0%
Financial performance measures defined in IFRS²		
Revenue	18,322	17,790
Operating profit	1,480	1,742
Return on revenue	8.1%	9.8%
Reconciliation of sales to revenue		
	£m	£m
Sales	19,626	19,020
Deduct Share of sales by equity accounted investments	(2,575)	(2,427)
Add Sales to equity accounted investments	1,271	1,197
Revenue	18,322	17,790
Reconciliation of underlying EBITA to operating profit		
	£m	£m
Underlying EBITA	2,034	1,905
Non-recurring items	(13)	(12)
Amortisation of intangible assets	(86)	(87)
Impairment of goodwill	(384)	–
Financial expense of equity accounted investments	(34)	(28)
Taxation expense of equity accounted investments	(37)	(36)
Operating profit	1,480	1,742
Net finance costs	(346)	(591)
Taxation expense	(250)	(213)
Profit for the year	884	938
Underlying interest expense	(245)	(257)
Net interest expense on retirement benefit obligations	(173)	(177)
Fair value and foreign exchange adjustments on financial instruments and investments	38	(185)
Net finance costs (including equity accounted investments)	(380)	(619)
Exchange rates		
	2017	2016
Average		
£/\$	1.289	1.354
£/€	1.141	1.223
£/A\$	1.681	1.823
Year end		
£/\$	1.353	1.236
£/€	1.126	1.172
£/A\$	1.730	1.707
Sensitivity analysis		
	£m	
Estimated impact on sales of a ten cent movement in the average exchange rate:		
\$	550	
€	75	
A\$	35	

1. For alternative performance measure definitions see glossary on page 9.

2. International Financial Reporting Standards.

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

Sales increased by £0.6bn to £19.6bn (2016 £19.0bn) largely reflecting currency translation.

Underlying EBITA increased by £129m to £2,034m (2016 £1,905m), giving a return on sales of 10.4% (2016 10.0%). There was an exchange translation benefit of £50m. Growth on a constant currency basis³ was at 4%.

Revenue increased by £0.5bn to £18.3bn (2016 £17.8bn) largely reflecting currency translation.

Operating profit decreased by £262m to £1,480m (2016 £1,742m). 2017 includes a £384m impairment in respect of the Applied Intelligence business, which is excluded from underlying EBITA. There was an exchange translation benefit of £39m.

Non-recurring items in 2017 of £13m represents a loss on the disposal of the BAE Systems San Francisco Ship Repair business. Non-recurring items in 2016 of £12m represented an impairment taken in respect of that business.

Amortisation of intangible assets is in line with the prior year at £86m (2016 £87m).

Impairment of goodwill in 2017 represents the impairment of goodwill in Applied Intelligence reflecting the future level and timing of expected returns from the business.

Net finance costs, including equity accounted investments, were £380m (2016 £619m). The underlying interest charge, excluding pension accounting, and fair value and foreign exchange adjustments on financial instruments and investments decreased marginally to £245m (2016 £257m). Net interest expense on the Group's pension deficit was £173m (2016 £177m). There was a credit in respect of fair value and foreign exchange adjustments of £38m (2016 £185m charge) on exchange translation of US dollar-denominated bonds.

Taxation expense, including equity accounted investments, of £287m (2016 £249m) reflects the Group's underlying effective tax rate for the year of 21%, partially offset by a £40m credit in respect of US tax reform enacted in December 2017. The US federal tax rate has been reduced from 35% to 21% with effect from 1 January 2018, while the estimated state tax rate has increased from 5% to 6%. In line with this change, the rate applying to US deferred tax assets and liabilities at 31 December 2017 has been reduced from 40% to 27%, creating a rate adjustment in 2017, which is partly reflected in the income statement.

The underlying effective tax rate for 2018 is expected to reduce from 21% to around 18% benefiting from US tax reform, with the final rate dependent on the geographical mix of profits.

Looking beyond 2018, the effective tax rate will depend principally on whether there are any changes in tax legislation in the Group's most significant countries of operation, the geographical mix of profits and the resolution of open issues.

Earnings per share

	2017	2016
Financial performance measures as defined by the Group¹		
Underlying earnings	£1,383m	£1,277m
Underlying earnings per share	43.5p	40.3p
Financial performance measures defined in IFRS²		
Profit for the year attributable to equity shareholders	£854m	£913m
Basic earnings per share	26.8p	28.8p
Reconciliation of underlying EBITA to underlying earnings		
	£m	£m
Underlying EBITA	2,034	1,905
Underlying interest expense (including equity accounted investments)	(245)	(257)
	1,789	1,648
Taxation expense (at the underlying effective tax rate)	(376)	(346)
Non-controlling interests	(30)	(25)
Underlying earnings	1,383	1,277
Reconciliation of underlying earnings to profit for the year attributable to equity shareholders		
	£m	£m
Underlying earnings	1,383	1,277
Impact of US tax reform enacted in December 2017	40	–
Non-recurring items, post tax	(10)	(9)
Amortisation and impairment of intangible assets, post tax	(68)	(69)
Impairment of goodwill	(384)	–
Net interest expense on retirement benefit obligations, post tax	(137)	(140)
Fair value and foreign exchange adjustments on financial instruments and investments, post tax	30	(146)
Profit for the year attributable to equity shareholders	854	913
Non-controlling interests	30	25
Profit for the year	884	938

Underlying earnings per share for the year increased by 8% to 43.5p (2016 40.3p). The in-year loss at Applied Intelligence was offset by good performance across the rest of the Group.

Basic earnings per share was 26.8p (2016 28.8p). Basic earnings per share is lower than underlying earnings per share mainly reflecting the £384m goodwill impairment charge taken in 2017 which is excluded from underlying earnings per share.

1. For alternative performance measure definitions see glossary on page 9.

2. International Financial Reporting Standards.

Cash flow

	2017 £m	2016 ¹ £m
Financial performance measures as defined by the Group²		
Operating business cash flow	1,752	1,004
Financial performance measures defined in IFRS³		
Net cash flow from operating activities	1,897	1,229
Reconciliation from operating business cash flow to net cash flow from operating activities		
	£m	£m
Operating business cash flow	1,752	1,004
Add back Net capital expenditure and financial investment	444	450
Deduct Dividends received from equity accounted investments	(72)	(38)
Deduct Taxation	(227)	(187)
Net cash flow from operating activities	1,897	1,229
Net capital expenditure and financial investment	(444)	(450)
Dividends received from equity accounted investments	72	38
Interest received	23	10
Acquisitions and disposals	(11)	6
Net cash flow from investing activities	(360)	(396)
Interest paid	(204)	(210)
Net (purchase)/sale of own shares	(1)	3
Equity dividends paid	(684)	(670)
Dividends paid to non-controlling interests	(8)	(24)
Cash flow from matured derivative financial instruments	(83)	480
Movement in cash collateral	(15)	32
Net cash flow from loans	–	(286)
Net cash flow from financing activities	(995)	(675)
Net increase in cash and cash equivalents	542	158
Add back Net cash flow from loans	–	286
Add back/(deduct) Cash classified as held for sale	2	(2)
Foreign exchange translation	301	(621)
Other non-cash movements	(55)	59
Decrease/(increase) in net debt	790	(120)
Opening net debt	(1,542)	(1,422)
Net debt	(752)	(1,542)

1. Re-presented to reclassify interest paid from investing to financing activities.

2. For alternative performance measure definitions see glossary on page 9.

3. International Financial Reporting Standards.

Operating business cash flow was £1,752m (2016 £1,004m), which includes cash contributions in respect of pension deficit funding, over and above service costs, for the UK and US schemes totalling £271m on a funding basis.

The remainder of the advances received in 2012 on the Omani Typhoon and Hawk order, as well as European Typhoon production, are almost all now consumed. On the Saudi support contracts renewal, some £300m of cash was received in 2017 representing advance funding to be utilised in 2018 and 2019. Costs have been incurred against provisions created in previous years as the US commercial shipbuilding programmes are closed out. Approximately £100m of VAT payments rolled from December 2017 into January 2018.

Taxation payments increased to £227m (2016 £187m) in line with the increase in adjusted profit before taxation as calculated in note 4 on page 43.

Net capital expenditure and financial investment was £444m (2016 £450m). As planned, capital investment was made in support of the production ramp-up in our US Electronic Systems and Combat Vehicles businesses.

Dividends received from equity accounted investments of £72m (2016 £38m) is primarily receipts from MBDA, FNSS and Advanced Electronics Company. There was a higher dividend from MBDA in 2017.

Interest received was £23m (2016 £10m).

The cash outflow in respect of **acquisitions and disposals** in 2017 of £11m reflects costs incurred in respect of the disposal of BAE Systems San Francisco Ship Repair and the acquisition of IAP Research, Inc. The cash inflow in 2016 of £6m reflected the sale of a 4.1% shareholding in a subsidiary company in Saudi Arabia.

Interest paid was £204m (2016 £210m).

Equity dividends paid in 2017 represents the 2016 final (£404m) and 2017 interim (£280m) dividends.

Dividends paid to non-controlling interests decreased to £8m (2016 £24m) reflecting a lower payment by Saudi Maintenance & Supply Chain Management Company in which the Group has a 51% shareholding.

There was a **cash outflow from matured derivative financial instruments** of £83m (2016 £480m inflow) from rolling hedges relating to balances with the Group's subsidiaries and equity accounted investments. The cash flow partially offsets the foreign exchange translation on the Group's external US dollar-denominated borrowing (see below).

Net cash flow from loans in 2016 represented repayment of a \$350m (£286m) 3.5% bond at maturity.

Foreign exchange translation primarily arises in respect of the Group's US dollar-denominated borrowing. In 2016, this was materially offset by the cash flow from matured derivative financial instruments (see above).

Net debt

	2017 £m	2016 £m
Components of net debt		
Cash and cash equivalents	3,271	2,769
Debt-related derivative financial instrument assets	60	114
Loans – non-current	(4,069)	(4,425)
Loans and overdrafts – current	(14)	–
Net debt	(752)	(1,542)

The Group's **net debt** at 31 December 2017 is £752m, a net decrease of £790m from the net debt position of £1,542m at the start of the year. There are no material debt maturities before 2019.

Cash and cash equivalents of £3,271m (2016 £2,769m) are held primarily for the repayment of debt securities, pension deficit funding, payment of the 2017 final dividend and management of working capital.

Accounting policies

Changes in accounting policies

Effective 1 January 2018, BAE Systems adopted IFRS 15, Revenue from Contracts with Customers. The Group's results announcement for the half year ending 30 June 2018 will be the first to be prepared under IFRS 15.

The new Standard does not change the way in which we manage our contracts under Lifecycle Management, our mandated project management process, or the lifetime profitability and cash flow.

Revenue on the majority of contracts, currently being recognised based on the completion of milestones or deliveries, will cumulatively be recognised earlier.

The provisional impact of restating our results for the adoption of IFRS 15 is a reduction in underlying earnings per share of 1.4p to 42.1p for the year ended 31 December 2017 and an increase in net assets of £57m at 31 December 2017. The restated results will be used as the comparatives for the Group's financial statements for the year ending 31 December 2018. The earnings impact on 2018 and beyond is not expected to be material.

The following table shows the effect of adopting IFRS 15 on net assets in the Consolidated balance sheet at 31 December 2016 and 2017:

	£m
Increase in net assets at 31 December 2016	92
Decrease in profit for the year ended 31 December 2017	(42)
Increase in total other comprehensive income for the year ended 31 December 2017 (net of tax)	7
Increase in net assets at 31 December 2017	57

Segmental analysis

The Group reports its performance through five principal reporting segments¹.

	Year ended 31 December 2017									
	As defined by the Group					Defined in IFRS ²				
	Sales £m	Underlying EBITA £m	Return on sales %	Operating business cash flow £m	Order intake ³ £m	Order backlog ³ £bn	Revenue £m	Operating profit/ (loss) £m	Return on revenue %	Net cash flow from operating activities £m
Electronic Systems	3,635	562	15.5	450	4,175	5.4	3,635	542	14.9	569
Cyber & Intelligence	1,820	52	2.9	116	1,859	2.1	1,820	(367)	(20.2)	127
Platforms & Services (US)	2,928	242	8.3	222	3,542	4.6	2,825	218	7.7	286
Platforms & Services (UK)	7,682	794	10.3	427	6,817	16.8	7,624	774	10.2	607
Platforms & Services (International)	4,138	472	11.4	671	4,365	13.3	3,136	427	13.6	669
HQ ⁴	287	(88)		(134)	288	–	–	(114)		(134)
Deduct Intra-group	(864)				(789)	(1.0)	(718)			
Deduct Taxation ⁵										(227)
Total	19,626	2,034	10.4	1,752	20,257	41.2	18,322	1,480	8.1	1,897

	Year ended 31 December 2016									
	As defined by the Group					Defined in IFRS ²				
	Sales £m	Underlying EBITA £m	Return on sales %	Operating business cash flow £m	Order intake ³ £m	Order backlog ³ £bn	Revenue £m	Operating profit/ (loss) £m	Return on revenue %	Net cash flow from operating activities £m
Electronic Systems	3,282	494	15.1	469	3,322	5.2	3,282	474	14.4	568
Cyber & Intelligence	1,778	90	5.1	83	1,885	2.4	1,778	59	3.3	106
Platforms & Services (US)	2,874	211	7.3	58	3,308	4.6	2,783	182	6.5	129
Platforms & Services (UK)	7,806	810	10.4	199	8,024	17.8	7,699	780	10.1	385
Platforms & Services (International)	3,943	400	10.1	435	6,175	13.1	3,037	365	12.0	473
HQ ⁴	233	(100)		(240)	226	–	–	(118)		(245)
Deduct Intra-group	(896)				(497)	(1.1)	(789)			
Deduct Taxation ⁵										(187)
Total	19,020	1,905	10.0	1,004	22,443	42.0	17,790	1,742	9.8	1,229

1. Effective 1 January 2018, BAE Systems revised its reporting segments to reflect the organisational changes described on page 8. See page 32 for more information.
2. International Financial Reporting Standards.
3. Including share of equity accounted investments.
4. HQ comprises the Group's head office activities, together with a 49% interest in Air Astana.
5. Taxation is managed on a Group-wide basis.

Segmental performance: Electronic Systems

Electronic Systems, with 14,400 employees¹, comprises the US and UK-based electronics activities, including electronic warfare 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, and hybrid electric drive systems.

Operational and strategic highlights

- Orders worth over \$450m (£333m) received for F-35 Lightning II hardware production and support
- Invested more than \$100m (£74m) in our 'Ramp to Rate' initiative to prepare the business for future Electronic Warfare growth
- Received a \$311m (£230m) contract to provide the Digital Electronic Warfare System (DEWS) to support the sale of new aircraft to an international customer
- Growing demand for APKWS™ laser-guided rockets, with awards totalling approximately \$300m (£222m) during the year
- LiteHUD® head-up display selected by critical launch customers, with first flights in 2017
- The FADEC Alliance joint venture transitioned to Full-Rate Production of the full authority digital engine control for the LEAP commercial aircraft engine
- Major milestone achieved with the delivery of our 8,000th hybrid-electric system

Financial performance

Financial performance measures as defined by the Group ²	2017		2016		
	2017	2016	2017	2016	
Sales	£3,635m	£3,282m	Revenue	£3,635m	£3,282m
Underlying EBITA	£562m	£494m	Operating profit	£542m	£474m
Return on sales	15.5%	15.1%	Return on revenue	14.9%	14.4%
Operating business cash flow	£450m	£469m	Cash flow from operating activities	£569m	£568m
Order intake ¹	£4,175m	£3,322m			
Order backlog ¹	£5.4bn	£5.2bn			

- Sales compared with 2016 were up 5% at \$4.7bn (£3.6bn). The growth came in the electronic warfare business from the F-35 Lightning II and DEWS programmes, as well as increasing classified activity. Volumes of the APKWS™ product almost doubled over the year and now represent one of the top five sales lines.
- The return on sales achieved of 15.5% (2016 15.1%) reflects continued strong programme execution and risk retirement.
- Cash conversion of underlying EBITA for the full year was at 85% (2016 97%), excluding pension deficit funding.
- Order backlog was at a record high of \$7.3bn (£5.4bn) following further awards for F-35 Lightning II systems, classified Electronic Warfare activity and APKWS™ product.

Operational performance

Electronic Combat

BAE Systems has sustained its leadership position in the US electronic warfare market and production is ramping up across a number of programmes, some of which are classified.

Low-Rate Initial Production (LRIP) hardware deliveries for the F-35 Lightning II programme continue with Lot 10 and 11 deliveries. We have received initial Lot 12 funding, with an anticipated final award value in excess of \$300m (£222m), and a Request for Proposal for a potential block buy encompassing multiple lots.

BAE Systems reached a price agreement with Lockheed Martin on a \$155m (£115m) Electronic Warfare Performance Based Logistics contract. The award provides Electronic Warfare material availability and support for the F-35 Lightning II aircraft over a five-year period.

The business is under contracts from Boeing and Warner Robins Air Logistics Complex, totalling more than \$1.0bn (£0.7bn), to install the Digital Electronic Warfare System on select new F-15 aircraft, upgrade existing F-15 aircraft, and to provide spare units and modules for an international customer. The

programme remains on schedule. BAE Systems has also received a \$311m (£230m) contract to provide the Digital Electronic Warfare System to support the sale of new F-15 aircraft to another international customer.

Following our selection by Boeing in 2015 to develop and manufacture the next-generation digital electronic warfare system for the US Air Force's Eagle Passive Active Warning Survivability System programme to upgrade up to 400 F-15 aircraft, we are currently executing the \$161m (£119m) engineering and manufacturing development contract. The programme could be worth more than \$1.0bn (£0.7bn) over its life.

We have been awarded \$87m (£64m) worth of modifications to a competitively awarded contract for an electronic warfare system for the US Air Force Special Operations Command's fleet of C-130J aircraft. The total value of the contract, including all options, could exceed \$300m (£222m). This award extends our position to include our electronic warfare capabilities on large, fixed-wing aircraft.

Production of our sensor technology for the Long Range Anti-Ship Missile has commenced following a \$40m (£30m) order from prime contractor Lockheed Martin. We provided the sensor technology that supported a successful launch of the missile, demonstrating its ability to address the US Navy's requirement for versatile, multi-platform precision munitions that enable distributed operations.

For over a decade, we have provided full lifecycle support as the prime mission system integrator for the US Air Force's EC-130H Compass Call stand-off electronic attack platform. We are under contract to cross-deck the mission electronics onto a new Gulfstream G550 business jet for the US Air Force. BAE Systems will continue to sustain the existing EC-130H electronics as we develop, manufacture, procure, integrate and sustain the electronics. The programme could be worth more than \$2.0bn (£1.5bn) over the next decade.

Due to the sensitive nature of electronic combat systems and technology, many of our programmes are classified. As a world leader in electronic warfare, we continue to experience growth in these increasingly important areas.

Survivability, Targeting & Sensing

Our Advanced Precision Kill Weapon System (APKWS™) laser-guided rocket is experiencing growing demand, with over 13,000 units delivered as at 31 December 2017. In addition to expanding its use in the US military, the system is generating strong international attention, with 19 nations expressing interest. The programme received awards totalling approximately \$300m (£222m) during the year.

We continue to execute on the Terminal High-Altitude Area Defence programme. We have received a \$30m (£22m) production contract for long-lead material on Lots 9 and 10, and anticipate that additional units will be added in response to increasing demand.

On the \$236m (£174m) Common Missile Warning System programme, we continue to deliver to schedule.

Under the five-year, \$434m (£321m) Enhanced Night Vision Goggle III and Family of Weapon Sights – Individual Indefinite Delivery, Indefinite Quantity contract, we continued to progress the production qualification testing.

The US Army's Family of Weapon Sights – Crew Served programme completed its System Critical Design Review during the year. This seven-year contract awarded in 2016 has a potential value of up to \$384m (£284m).

The LiteHUD® head-up display has been selected by critical launch customers for integration on multiple platforms. In 2017, it had its first flights on a C-130J aircraft, a Textron Scorpion jet and our advanced Hawk demonstrator aircraft.

In December, the US Department of Defense announced that we were awarded a contract by the US Army for the Limited Interim Missile Warning System programme.

C4ISR Systems

In September, the Communications & Navigation Solutions product line joined the Intelligence, Surveillance & Reconnaissance business to form a new C4ISR Systems business that spans the entire mission lifecycle (sensing, processing, exploitation and dissemination).

As a leading provider of space-qualified subsystems and components, we continue to experience growth in the areas of integrated on-board processors, reconfigurable processing payloads and secure communications.

We have been awarded an \$81m (£60m) contract for the Network Tactical Common Data Link programme to provide the US Navy with the ability to simultaneously transmit and receive real-time intelligence, surveillance and reconnaissance data over multiple data links with a system to be fielded on various surface ship types.

Since winning the Geospatial Data Services Foundational GEOINT Content Management programme in 2014, we have been awarded orders valued at \$214m (£158m). The business is meeting all delivery requirements in assisting US intelligence community customers with the development of advanced geospatial intelligence data collection and processing solutions.

As a provider of signals intelligence capabilities, we are executing the \$132m (£98m) Tactical Signals Intelligence Payloads programme for the US Army's Gray Eagle unmanned aircraft.

Work continues on the US Navy's P-8A Poseidon maritime surveillance aircraft programme to provide state-of-the-art processing capabilities. The programme is expected to be worth \$1.2bn (£0.9bn) over its life.

Controls & Avionics

BAE Systems is a major supplier of engine controls, flight controls, and cabin and flight deck systems. The development of the integrated flight control electronics and remote electronic units for Boeing's next-generation 777X aircraft remains on schedule, with all hardware in qualification and systems integration testing progressing to plan.

On the Boeing 737 MAX aircraft, a successful first flight was completed on the MAX 9 with our spoiler controls, flight deck systems and utilities electronics.

The development of our civil active inceptors is progressing, with Gulfstream G500 and Embraer KC390 aircraft continuing flight tests with positive pilot feedback. A derivative of the civil inceptors for the Boeing CH-47 Chinook helicopter, LinkEdge™ (Active Parallel Actuation Subsystem), has successfully completed its Preliminary Design Review.

FADEC Alliance, a joint venture between FADEC International (our joint venture with Safran Electronics & Defense) and GE Aviation, has transitioned the full authority digital engine control (FADEC) for the LEAP engine to Full-Rate Production. The LEAP engine powers the Airbus A320neo, the Boeing 737 MAX and the Comac C919. The development of the FADEC for the GE9x engine for the Boeing 777X is on schedule, with certification planned for 2018.

On the F-35 Lightning II programme, LRIP Lot 11 is ongoing for the current vehicle management computer and active inceptor system equipment. Orders for Lot 12 are expected in 2018.

BAE Systems has been awarded a multi-million dollar contract to provide flight control computers, active inceptors, accelerometers and integrated colour display systems for new Taiwanese Air Force training aircraft. The award establishes our footprint on a new platform.

Power & Propulsion Solutions

With the transit bus market continuing its shift towards more electric bus systems to meet emission targets and to satisfy an environmentally-conscious public, BAE Systems achieved a major milestone with the delivery of its 8,000th hybrid-electric system. Transit operators around the world are looking for reliable, low-emission technologies and major cities, such as Seattle, Boston, Quebec, London and Paris, are adopting our advanced hybrid solutions, which are capable of emission-free driving up to half of the time.

Looking forward

Forward-looking information for the Electronic Systems reporting segment is provided on page 33.

1. Including share of equity accounted investments.
2. For alternative performance measure definitions see glossary on page 9.
3. International Financial Reporting Standards.

Segmental performance: Cyber & Intelligence

Cyber & Intelligence, with 10,900 employees¹, comprises the US-based Intelligence & Security business and UK-headquartered Applied Intelligence business, and covers the Group's cyber security, secure government, and commercial and financial security activities.

Operational and strategic highlights

Intelligence & Security

- Six task orders secured valued at more than \$180m (£133m) for Full-Motion Video Intelligence, Surveillance and Reconnaissance analysis support
- Won a position on a US Department of Treasury programme to support the Office of Terrorism and Financial Intelligence, with a maximum lifecycle value of \$135m (£100m)
- Awarded three US Navy contracts with an estimated lifecycle value of approximately \$180m (£133m) to provide engineering and integration support for critical mission systems
- Selected by the US Navy to pursue orders to provide equipment and support services for Space and Naval Warfare Systems Center Atlantic

Applied Intelligence

- Contracts won with UK government and commercial customers for secure IT transformation and cyber defence
- Restructuring activities under way, including headcount and facility reductions and a move to a revised operating model, effective 1 January 2018, to drive profitable growth

Financial performance

Financial performance measures as defined by the Group ²	2017		2016		
	2017	2016	2017	2016	
Sales	£1,820m	£1,778m	Revenue	£1,820m	£1,778m
Underlying EBITA	£52m	£90m	Operating (loss)/profit	£(367)m	£59m
Return on sales	2.9%	5.1%	Return on revenue	(20.2)%	3.3%
Operating business cash flow	£116m	£83m	Cash flow from operating activities	£127m	£106m
Order intake ¹	£1,859m	£1,885m			
Order backlog ¹	£2.1bn	£2.4bn			

- In aggregate, sales were marginally lower at \$2.3bn (£1.8bn). The Intelligence & Security business saw a 4% decrease largely in the highly competitive area of IT support services to the intelligence community. Growth in Applied Intelligence was at 6%, benefiting from increases in the UK Services and International Services & Solutions divisions.
- Return on sales was 2.9% (2016 5.1%), after a restructuring charge taken in the Applied Intelligence business. Return on sales in the Intelligence & Security business was similar to last year at 8.8%. In Applied Intelligence, the underlying loss for the year was £61m, including £24m for the restructuring charge. The first half loss of £27m was followed by a reduced second half loss, before the restructuring charge, of £10m as the cost-reduction actions under the ongoing restructuring started to deliver bottom-line benefit.
- There was an operating loss of £367m (2016 profit £59m), which includes a £384m goodwill impairment in Applied Intelligence reflecting the future level and timing of expected returns from the business.
- Cash conversion of underlying EBITA for the year was in excess of 100%.
- Order backlog reduced marginally to \$2.9bn (£2.1bn).

Operational performance

Intelligence & Security

Global Analysis & Operations

We are pursuing task orders under a new Indefinite Delivery, Indefinite Quantity contract with an estimated value of more than \$400m (£296m) to expand our work in motion-imagery analysis, analytic training, multi-media support and research for the US intelligence community. During the year, the business secured six task order contracts valued at more than \$180m (£133m).

We won a position on a US Department of Treasury programme to support the Office of Terrorism and Financial Intelligence. The maximum lifecycle value of all task orders to be awarded under the programme is estimated at \$135m (£100m).

Integrated Electronics & Warfare Systems

The business is executing on the second year of a five-year, sole-source contract worth up to \$368m (£272m) to provide systems engineering services to the US Navy's Strategic Systems Programs office. The programme provides support for weapons systems on board US Ohio and UK Vanguard Class submarines, as well as future Ohio Class replacement and UK Dreadnought Class submarines.

US Navy contract awards in the year include: a new five-year, \$42m (£31m) multiple-award contract with the Naval Undersea Warfare Center Division to install submarine multi-mission trainer systems at bases in the US, Guam and Australia; a 22-month, \$76m (£56m) contract to support the rapid design, development, fabrication, customisation and lifecycle maintenance of new and existing communication and electronic platforms for the Naval Warfare Center Aircraft Division; and a five-year, \$64m (£47m) contract to provide lifecycle systems engineering and technical support for a variety of deployed systems that ensure operational readiness of the fleet.

In addition, the US Navy awarded BAE Systems a position on a five-year Indefinite Delivery, Indefinite Quantity contract to provide research, development, test and evaluation services support for the Naval Warfare Center Aircraft Division's Aircraft Prototype Systems Division. The potential lifecycle value of all task orders under this contract across the eight awardees could reach \$487m (£360m).

The US Navy has also selected BAE Systems to provide equipment and support services for Space and Naval Warfare Systems Center Atlantic. As one of several companies involved, we will pursue future orders as part of this five-year, Indefinite Delivery, Indefinite Quantity contract. The total value of all orders to be awarded over the life of the contract is estimated at \$180m (£133m).

On the US Air Force Intercontinental Ballistic Missile Integration Support Contractor programme, we were awarded over \$29m (£21m) of additional engineering change proposals in 2017, raising the total lifecycle value of the contract to \$922m (£682m). Our work includes programme management, systems sustainment, and cyber security assessment and defence.

We continue to pursue task orders on a nine-year Indefinite Delivery, Indefinite Quantity contract to support the US Army in developing next-generation technologies for space, high-altitude and missile defence.

IT Solutions

Our contract to connect a number of US agencies under one shared IT environment passed significant security testing and was authorised for adoption into the government IT infrastructure. Although we executed on our task orders and provided IT services to foster greater systems integration and information sharing for the intelligence community, we have been advised that future contract options will not be exercised as the government reassesses its acquisition strategy in favour of a more federated desktop approach. We therefore do not anticipate any future awards beyond the \$164m (£121m) of funding to date.

Our business was awarded a contract increase of \$160m (£118m) to extend the period of performance of a major software development and IT support contract for a US intelligence community customer.

We received a five-year, \$41m (£30m) contract with the US Department of Homeland Security, National Protection and Programs Directorate to provide data analytics, risk scoring and systems engineering support, as well as cyber security assessment, governance and training to ensure all federal civilian agencies are in compliance with government cyber security regulations.

Organisational changes

Effective 12 February 2018, the business moved to a revised operating model to position for growth through three customer-focused business areas: Integrated Defence Solutions; Intelligence Solutions; and Air Force Solutions.

Applied Intelligence

The business has delivered revenue growth from the continued delivery of national security solutions for the UK and international governments, as well as deployment of anti-fraud, regulatory compliance, and cyber security products and services to commercial customers.

UK Services

The business continues to invest in engineering disciplines and specialist expertise in the cyber, digital and data domains to support our customers in national security intelligence, national-scale cyber defence, commercial cyber security and regulatory compliance.

We have won a number of contracts with both UK government and commercial enterprises, helping our customers to maximise the benefits of secure IT transformation and cyber defence.

International Services & Solutions

The business was underpinned by significant demand for our national-scale cyber defence capabilities. We continue to work with key national security customers in Asia-Pacific and the Middle East. Our technical capability in multi-source intelligence analytics has advanced significantly. In order to improve the cost competitiveness of our engineering, we are continuing to expand our off-shore service operations and delivery centres.

Commercial Solutions

We have a focused set of cyber security, anti-fraud and regulatory compliance solutions.

We continue to see demand for our NetReveal™ anti-fraud and compliance suite, with solutions being deployed to an increasing number of prominent multi-national customers in the financial services sector. Customers are increasingly consuming these solutions as multi-year managed services.

We are continuing to renew existing long-term customer contracts where we deploy a comprehensive portfolio of products. Provision of our anti-fraud and anti-money laundering capabilities continues to see demand with financial services customers.

Organisational changes

In the second half of the year, the business commenced a restructuring that resulted in a headcount reduction and, effective 1 January 2018, the business moved to a revised operating model to deliver a more targeted portfolio of products and services focused on customers within three core business units: Government; Financial Services; and Technology & Commercial. The restructuring will enable a greater focus on customer needs and higher levels of operational efficiency, in the commercial business, that will accelerate improvements in competitiveness and profitability.

Looking forward

Forward-looking information for the Cyber & Intelligence reporting segment is provided on page 33.

1. Including share of equity accounted investments.
2. For alternative performance measure definitions see glossary on page 9.
3. International Financial Reporting Standards.

Segmental performance: Platforms & Services (US)

Platforms & Services (US), with 11,400 employees¹, has operations in the US, UK and Sweden. It manufactures combat vehicles, weapons and munitions, and delivers services and sustainment activities, including ship repair and the management of government-owned munitions facilities.

Operational and strategic highlights

- Vehicle deliveries nearing completion under the engineering and manufacturing development phase of the Armored Multi-Purpose Vehicle programme
- Awarded a \$414m (£306m) contract for the third and final option for Low-Rate Initial Production under the Paladin Integrated Management programme
- Completed deliveries of the 16 Amphibious Combat Vehicle prototypes to the US Marine Corps
- First two M777 lightweight howitzers shipped to India for testing under the \$542m (£401m) contract awarded in January 2017
- \$140m (£104m) contract awarded for the modernisation of USS Tortuga
- Construction of the final commercial ship is nearing completion and the ship is expected to be delivered in the first half of 2018
- FNSS received a €155m (£138m) contract to provide 27 amphibious assault vehicles to the Turkish Ministry of National Defence

Financial performance

Financial performance measures as defined by the Group ²	2017		Financial performance measures defined in IFRS ³	2017	
	2017	2016		2017	2016
Sales	£2,928m	£2,874m	Revenue	£2,825m	£2,783m
Underlying EBITA	£242m	£211m	Operating profit	£218m	£182m
Return on sales	8.3%	7.3%	Return on revenue	7.7%	6.5%
Operating business cash flow	£222m	£58m	Cash flow from operating activities	£286m	£129m
Order intake ¹	£3,542m	£3,308m			
Order backlog ¹	£4.6bn	£4.6bn			

- Sales reduced by 3% to \$3.8bn (£2.9bn) as deliveries of land vehicles to Brazil and Japan slipped into the first half of 2018.
- The business delivered an improved return on sales of 8.3% (2016 7.3%). Charges taken in the year on the commercial shipbuilding programmes amounted to \$16m (£12m), with just one contract now remaining for completion.
- Cash conversion of underlying EBITA was significantly improved despite the impact from the use of provisions on the commercial shipbuilding programmes.
- Order backlog was increased to \$6.3bn (£4.6bn), supportive of future growth expectations. Key awards in the year included the \$0.5bn (£0.4bn) Indian order for M777 howitzers, \$0.4bn (£0.3bn) for Paladin production and a total of \$1.3bn (£1.0bn) in the Ship Repair business.

Operational performance

US Combat Vehicles

The business continues to perform on a number of key franchise combat vehicle programmes across both domestic and international markets.

On the US Army's Armored Multi-Purpose Vehicle programme, we have nearly concluded deliveries of the first 29 vehicles under the engineering and manufacturing development phase. The contract, which has a potential value of \$1.2bn (£0.9bn), including options for 289 vehicles in Low-Rate Initial Production, brings the US Army closer to achieving its objective to replace its legacy M113 armoured personnel carriers.

In December, we received a \$414m (£306m) contract for the third and final option for Low-Rate Initial Production of 48 M109A7 self-propelled howitzers and M992A3 ammunition carriers under the Paladin Integrated Management programme. With options for Full-Rate Production of a further 180 vehicle sets over three years, the award is worth approximately \$1.7bn (£1.3bn).

The business is executing a \$286m (£211m) engineering and manufacturing development contract to address the space, weight, power and cooling limitations of the Bradley family of vehicles and to prepare the vehicle for communication network upgrades. The US customer's production decision regarding the upgrade of approximately 500 vehicles over a three-year period is expected in 2018.

In September, we received a contract from the US Army worth up to \$69m (£51m) for the conversion of the next 20 M88A1 recovery vehicles to the more capable Heavy Equipment Recovery Combat Utility Lift Evacuation Systems (HERCULES) configuration. In March, we received a contract from the US Army worth up to \$112m (£83m) for technical support and sustainment of M88 recovery vehicles.

Teamed with Iveco Defence, we completed deliveries of the 16 Amphibious Combat Vehicle (ACV) 1.1 prototypes to the US Marine Corps for testing under the \$158m (£117m) engineering and manufacturing development phase of the programme. We are one of two competitors for this programme, with final down-selection expected in 2018.

Whilst we have encountered some production challenges, work continues on multiple contracts totalling \$165m (£122m) for Assault Amphibious Vehicles (AAVs) for the Japanese Ministry of Defence, including a contract for 30 new AAVs, and an \$82m (£61m) contract with Brazil to provide 23 upgraded AAVs.

Weapon Systems

BAE Systems remains a leading provider of gun systems and precision strike capabilities. In February 2017, we completed the acquisition of IAP Research, Inc., a US engineering company focused on the development and production of electromagnetic launchers, power electronics and advanced materials.

We continue to execute on a £183m contract to provide the gun system known as the Maritime Indirect Fire System for the Royal Navy's Type 26 frigate.

Following the contract modification received in 2016 from the Swedish government formalising its purchase of an additional 24 Archer systems, production work continues with deliveries expected to begin in 2018. In October, we received a contract to deliver additional Bofors 155mm BONUS smart anti-armour munitions to the Swedish Army in 2019.

In January 2017, we received a \$542m (£401m) Foreign Military Sale contract from the US government to provide 145 M777 lightweight howitzers to the Indian Army. We will build the first 25 guns in our facilities, with the remaining systems assembled in India by Mahindra Defence Services, our selected supplier to establish an assembly, integration and test facility in India. The first two guns were shipped during the year and are progressing through in-country testing.

In July, we received a \$47m (£35m) contract for the continued development of the precision-guided Hypervelocity Projectile, a next-generation, low-drag projectile capable of executing multiple missions from a number of gun systems.

In the complex ordnance manufacturing business, we continue to manage the US Army's Radford and Holston munitions facilities, operating near capacity. In 2017, we received additional funding of \$177m (£131m) to continue construction of a new nitrocellulose facility in Radford. At Holston, we are performing on modernisation contracts totalling \$135m (£100m) for waste water management and a \$146m (£108m) contract for the construction of a nitric acid recovery facility to produce larger quantities of insensitive munitions.

US Ship Repair

As a leading provider of US Navy ship repair and modernisation services, we secured firm orders across our US shipyards totalling approximately \$1.3bn (£1.0bn) in 2017, including a \$140m (£104m) contract for the modernisation of the USS Tortuga at our Norfolk shipyard.

We continue to adjust our workforce and facilities to meet evolving customer demand, including the new dry dock in our San Diego shipyard, which completed operational certification in February and welcomed the USS New Orleans as its first vessel for servicing.

One of the final two commercial ships is complete and awaiting acceptance sea trials pending identification of a buyer following the original customer's decision not to take delivery of the vessel. Construction of the final ship is nearing completion and the ship is expected to be delivered in the first half of 2018.

BAE Systems Hägglunds

Series production of CV90 Infantry Fighting Vehicles for Norway was completed during the year under the \$865m (£640m) contract.

We have received contracts from the Estonian government for a sustainment programme for 44 CV90s. We are performing to schedule on the refurbishment of Swedish CV90 vehicles, and the sustainment and upgrade of Danish CV90s. We are integrating Mjölner mortar systems on 40 Swedish CV90s, and testing and verification of Active Protection Systems on Dutch CV90s is under way, together with significant vehicle upgrades.

We continue to perform on a contract to produce 32 BvS10 military vehicles for Austria.

FNSS

FNSS, our land systems joint venture based in Turkey, continues to perform under its \$524m (£387m) programme to produce 259 8x8 wheeled armoured vehicles for the Royal Malaysian Army.

Production has completed on a contract to upgrade M113 tracked armoured personnel carriers for the Royal Saudi Land Forces. The next phase of the contract is expected in 2018.

In support of an export contract to Oman awarded in 2015 for the PARS Wheeled Armoured Vehicle, work continues to deliver 8x8 and 6x6 vehicles in a number of configurations. Deliveries of the first 8x8 and 6x6 vehicles have been accepted, with the first production batch of 8x8 vehicles delivered in December.

Work has begun under two Turkish Land Forces contracts, a €278m (£247m) contract signed in June 2016 to supply 260 Anti-Tank Vehicles and an €84m (£75m) contract signed in December 2016 for air defence vehicles.

In March, FNSS received a €155m (£138m) contract to provide 27 amphibious assault vehicles to the Turkish Ministry of National Defence.

Looking forward

Forward-looking information for the Platforms & Services (US) reporting segment is provided on page 33.

1. Including share of equity accounted investments.
2. For alternative performance measure definitions see glossary on page 9.
3. International Financial Reporting Standards.

Segmental performance: Platforms & Services (UK)

Platforms & Services (UK), with 30,100 employees¹, comprises the Group's UK-based air, maritime, land and shared services activities.

Operational and strategic highlights

- Contract valued at approximately £5bn signed in December to supply 24 Typhoon aircraft and support to Qatar, subject to financing conditions and receipt by the Group of first payment
- First eight Typhoon and all eight Hawk aircraft for Oman delivered to the Sultanate of Oman
- Signed the full £3.7bn production contract for the initial batch of three Type 26 frigates
- Received the full £1.4bn contract for the sixth Astute Class submarine from the Royal Navy in March, and the fourth Astute boat, Audacious, was launched in April
- Rationalisation activities announced, including potential headcount reductions in the Military Air & Information and Maritime Services businesses

Financial performance

Financial performance measures as defined by the Group ²	Financial performance measures defined in IFRS ³				
	2017	2016	2017	2016	
Sales	£7,682m	£7,806m	Revenue	£7,624m	£7,699m
Underlying EBITA	£794m	£810m	Operating profit	£774m	£780m
Return on sales	10.3%	10.4%	Return on revenue	10.2%	10.1%
Operating business cash flow	£427m	£199m	Cash flow from operating activities	£607m	£385m
Order intake ¹	£6,817m	£8,024m			
Order backlog ¹	£16.8bn	£17.8bn			

- Sales of £7.7bn (2016 £7.8bn) were marginally lower than 2016. Activity levels on the submarine programmes were ahead of plan.
- Return on sales was at 10.3% (2016 10.4%).
- There was a cash inflow of £427m (2016 £199m), which includes a £106m temporary benefit relating to VAT. Consumption of customer advances on the Omani, Saudi Arabian and European Typhoon contracts has now largely completed.
- Order backlog reduced to £16.8bn (2016 £17.8bn). The £5bn order received from Qatar in December for 24 Typhoon aircraft and support has not yet been taken into order backlog, pending completion of the financing package which we expect in the coming months.

Operational performance

Military Air & Information

In December, BAE Systems and the Government of Qatar entered into a contract, valued at approximately £5bn, for the supply of 24 Typhoon aircraft. Alongside supplying the aircraft, the agreement provides for the supply of ground support to the Qatar Armed Forces and delivery of technical and pilot training in Qatar. The contract is subject to financing conditions and receipt by the Group of first payment which are expected to be fulfilled no later than mid-2018.

In the year, 20 Typhoon aircraft were delivered from the UK final assembly facility, of which four were delivered to Saudi Arabia, completing the contract for 72 aircraft. All 236 Tranche 2 aircraft have been delivered to the UK, Germany, Italy and Spain, together with 51 of the 88 contracted Tranche 3 aircraft.

There were eight Typhoon and eight Hawk aircraft deliveries to the Oman customer in the year, with the remaining four Typhoon aircraft scheduled to be delivered in 2018.

Good progress continues to be made on airframe manufacture for the contract to supply 28 Typhoon aircraft to Kuwait secured by Italian Eurofighter partner, Leonardo, in 2016, with fuselage deliveries due to commence in 2018.

Development towards the Royal Air Force Centurion standard continues, which will enable transition of air capabilities from Tornado to Typhoon. Flight testing for Storm Shadow and Meteor weapons capability enhancements was completed during the year. Integration of the Captor E-Scan radar continues.

We have continued to support our UK and European customers' Typhoon and Tornado aircraft and their operational commitments. The ten-year partnership arrangement with the Ministry of Defence to support the UK Typhoon fleet continues as planned, with availability of aircraft being sustained at contractual levels.

The initial support package has been substantially delivered as part of the contract to commence operations at a new operating air base at Adam in Oman.

On the F-35 Lightning II programme, full contract award was secured on Lot 10 and 82 rear fuselage assemblies were manufactured for the Low-Rate Initial Production Lot 10 and 11 contracts. Negotiations continued on Lot 11, with additional order intake received in the year of £248m. Lot 11 negotiations are expected to conclude during the first quarter of 2018, with the balance of the order intake also expected in this timeframe.

At RAF Marham in Norfolk, good progress has been made on construction of the engineering and training facilities and the stand-up of the operational service in readiness for the arrival of the UK's first F-35 Lightning II aircraft in 2018.

Following the announcement that the UK had been chosen as a major European repair hub for the maintenance, repair, overhaul and upgrade of F-35 Lightning II avionics and components, we have established a joint venture with the UK Ministry of Defence and Northrop Grumman, and progress on establishing the repair facility and capability continues to plan.

Support continues to be provided to users of Hawk trainer aircraft around the world. The long-term support contract for the Royal Air Force's UK fleet of Hawk fast jet trainer aircraft continues to deliver against all contractual milestones.

Discussions continue with the Government of India and Hindustan Aeronautics Limited (HAL) for the supply of additional kit sets which will result in aircraft built under licence by HAL for the Indian Air Force and Indian Navy.

Following an extensive review with our partner, Northrop Grumman, of the requirements and conditions of the US Air Force future trainer programme, both companies decided not to proceed with the competitive bid.

An initial contract for the Anglo-French unmanned combat air system feasibility and definition phase of £16m was received during the year. It is anticipated that an Anglo-French follow-on programme will be agreed in 2018.

A £119m contract was secured for collaboration on the first design and development phase of an indigenous fifth-generation fighter jet for the Turkish Air Force.

As a result of reducing production activity on Typhoon and Hawk, and also taking into account the changes to support requirements as the Royal Air Force transitions from Tornado to F-35 Lightning II, the business announced in October a total proposed headcount reduction of up to 1,400 roles over the next three years.

Maritime

On the aircraft carrier programme, HMS Queen Elizabeth successfully concluded initial sea trials and entered HM Naval Base, Portsmouth, for the first time in August. Operational handover and acceptance by the Royal Navy took place in December. HMS Prince of Wales floated out of the dock at Rosyth in December. Large volume installation activities continue to progress, with commissioning of systems planned to commence in 2018 and sea trials beginning in 2019.

The full £3.7bn production contract was signed in June for the first batch of three Type 26 frigates, with £2.8bn of order intake in the year, following funding in previous years for long-lead items. Production of the first ship, Glasgow, commenced in July. The programme currently employs over 1,000 people and production activities will progressively build up during 2018 as more of the ship transitions from completion of the detailed design through to production readiness.

The first Offshore Patrol Vessel (OPV), HMS Forth, completed sea trials in December and was accepted by the Ministry of Defence in January 2018. Construction of the remaining four OPVs on the Clyde continues.

Under the Maritime Support Delivery Framework contract, which the Ministry of Defence has agreed in principle to extend until 31 March 2020, we provide services at HM Naval Base, Portsmouth, and support to half of the Royal Navy's surface fleet. We remain on track to achieve target cost. The business was unsuccessful on a competitive bid to provide equipment procurement and equipment management services for the Queen Elizabeth Class aircraft carriers and Type 45 destroyers.

BAE Systems provides significant support and maintenance to the Royal Navy's fleet of Type 45 destroyers, and has responded to a Ministry of Defence competitive proposal on its power improvement project, with the award decision expected in 2018.

Progress continues on the £270m Spearfish torpedo upgrade demonstration and manufacture phases, with the demonstration phase forecast to complete in 2020.

Evolving customer requirements and a focus on improved efficiency and removing cost in the Maritime Services business have led to the announcement in October of a proposed headcount reduction of around 375 roles. The proposed rationalisation will more closely align capacity with workload and improve competitiveness to retain and grow our position on key programmes, while retaining critical skills.

The first three Astute Class submarines are in operational service with the Royal Navy. Progress continues on the manufacture of the remaining four boats, with launch of the fourth boat, Audacious, achieved in April. A full contract award for the sixth boat, Agamemnon, was secured in March for £1.4bn, with £0.6bn of order intake in the year after order intake in previous years for long-lead items. Further funding of £80m was received for the seventh boat.

Functional and spatial design, and the production of the first of class continues to advance on the Dreadnought Class submarine, the replacement for the Royal Navy's Vanguard Class submarine. The next phase of the contract is scheduled to commence in April 2018.

The major programme of building works at the Barrow site continues, with contracts in place totalling more than £500m, with two further major buildings being completed during the year.

The detailed arrangements for the Dreadnought Alliance, including the organisational, governance and commercial arrangements between the three parties, the Ministry of Defence, BAE Systems and Rolls-Royce, continue to be developed.

Land UK

The business continues to provide UK and international customers with a full range of light and heavy munitions, with orders totalling £133m received in the year.

During the year, 131 40mm cased-telescopic cannons were delivered to the Ministry of Defence by CTA International, a joint venture between BAE Systems and Nexter, bringing cumulative deliveries to 160 of 515. This is the first entirely new medium calibre cannon and ammunition system qualified by the British Army since the late 1960s.

The business has continued to provide support to previously supplied armoured vehicles and bridging systems, with orders of £48m received in the year. The business is one of two contenders delivering the design stages of the Challenger 2 Life Extension Programme and the British Army's bridging system.

Organisational changes

Effective 1 January 2018, BAE Systems revised its reporting segments to reflect the organisational changes described on page 8. The Platforms & Services (UK) and Platforms & Services (International) management structures have been removed with the organisation streamlined, and strengthened Air and Maritime reporting segments created.

Looking forward

Forward-looking information reflecting the organisational changes described above is provided on page 33.

1. Including share of equity accounted investments.
2. For alternative performance measure definitions see glossary on page 9.
3. International Financial Reporting Standards.

Segmental performance: Platforms & Services (International)

Platforms & Services (International), with 13,800 employees¹, comprises the Group's businesses in Saudi Arabia, Australia and Oman, together with its 37.5% interest in the pan-European MBDA joint venture.

Operational and strategic highlights

- Final four of 72 Typhoon aircraft delivered to Saudi Arabia on the Salam Typhoon programme
- The Typhoon support contracts are operating well and a contract for support to additional flying hours was agreed in April
- Contracts agreed to provide ongoing support services to the Royal Saudi Air Force and Royal Saudi Naval Forces for a further five years
- The first major units of the second batch of Hawk aircraft delivered on schedule to Saudi Arabia allowing final assembly to commence
- Assigned the role of F-35 Regional Warehouse provider for the Asia-Pacific region
- Selected as the preferred tenderer for the Jindalee Operational Radar Network upgrade programme
- MBDA signed a contract in December to supply Brimstone and Meteor missiles to Qatar, subject to financing conditions and receipt of first payment
- MBDA contracts for naval fleet air defence and coastal defence in Qatar became effective in July

Financial performance

Financial performance measures as defined by the Group ²	2017		Financial performance measures defined in IFRS ³	2017	
	2017	2016		2017	2016
Sales	£4,138m	£3,943m	Revenue	£3,136m	£3,037m
Underlying EBITA	£472m	£400m	Operating profit	£427m	£365m
Return on sales	11.4%	10.1%	Return on revenue	13.6%	12.0%
Operating business cash flow	£671m	£435m	Cash flow from operating activities	£669m	£473m
Order intake ¹	£4,365m	£6,175m			
Order backlog ¹	£13.3bn	£13.1bn			

- Sales of £4.1bn (2016 £3.9bn) were 5% up over 2016. With all 72 Salam Typhoon aircraft now in service, we have seen higher levels of support. In addition, we have seen the expected ramp-up from MBDA's strong order backlog.
- Underlying EBITA of £472m (2016 £400m) and the return on sales of 11.4% (2016 10.1%) benefited from improving performance from our Saudi partner companies and stronger performance at MBDA.
- Operating cash inflow was £671m (2016 £435m), although approximately £300m of this was for an advance payment on the Saudi support programme.
- Order backlog was marginally higher at £13.3bn (2016 £13.1bn) as further order intake was booked under the renewal of the five-year support contract in Saudi Arabia and Qatari naval orders became effective within MBDA.

Operational performance

Saudi Arabia

On the Salam Typhoon programme, with four deliveries in the year, all 72 contracted aircraft have been delivered to the customer. Typhoon capability development programmes continue to progress.

The Typhoon support contracts are operating well and a contract for support to additional flying hours was agreed in April.

Discussions have continued with the Saudi Arabian customer through 2017, resulting in contractual agreements under the Saudi British Defence Co-operation Programme to provide ongoing support services to the Royal Saudi Air Force and Royal Saudi Naval Forces for a further five years to 31 December 2021.

Final aircraft deliveries for the first batch of 22 Hawk aircraft were completed in the second half of the year. The first major units of the second batch of 22 aircraft, contracted in 2015, have been delivered on schedule to Saudi Arabia allowing final assembly to commence.

Under the Royal Saudi Naval Forces' Minehunter mid-life update programme, acceptance of the third and final ship is expected in the first half of 2018.

Under the planned reorganisation of our portfolio of interests in a number of industrial companies in Saudi Arabia, Riyadh Wings Aviation Academy LLC acquired a 4.1% shareholding in a Group subsidiary, Overhaul and Maintenance Company, during 2016 and is expected to acquire a further interest up to a maximum of 49%. The reorganisation supports our strategy to expand the customer base of our In-Kingdom Industrial Participation programme, promoting training, development and employment opportunities in line with the Kingdom's National Transformation Plan and Vision 2030.

The Saudi Arabian In-Kingdom Industrial Participation programme continues to make good progress. During 2017, there has been further capability and knowledge transfer on the Typhoon and Hawk platforms. The first Hawk aircraft assembled in Saudi Arabia will come off the production line in 2018 for delivery to the Royal Saudi Air Force.

We have commenced discussions with the new Saudi Arabian Military Industries (SAMI) organisation to explore how we can collaborate to deliver further In-Kingdom Industrial Participation. All of these activities are aligned with our long-term industrialisation strategy, as well as the Saudi Arabian government's National Transformation Plan and Vision 2030.

Australia

We have continued to provide in-service support to the Navy's two Landing Helicopter Docks under a four-year support contract awarded in 2014. Final acceptance of these vessels is expected in 2018.

HMAS Stuart, the final Anzac Class frigate to be modernised under the Anti-Ship Missile Defence programme, has been accepted into service by the Commonwealth.

The scope of activities for the next five years of sustainment and upgrade of the Anzac fleet under the Warship Asset Management Alliance has been agreed and contracts totalling A\$561m (£324m) have been awarded to BAE Systems.

The next upgrade cycle for the Anzac frigate fleet, the Mid-Life Capability Assurance Programme, has commenced, with the first ship, HMAS Arunta, being docked at our Henderson shipyard during the second half of the year. The upgrade programme is planned to run through to 2023.

The delayed JP 2008 Phase 3F programme to provide enhanced defence satellite communications services was formally accepted by the Commonwealth in November. We will continue to provide in-service support to the system under a five-year support contract.

Mobilisation activities for sustainment of the Regional F-35 Lightning II fleet continues to progress at our Williamstown facility, with an increased scope following the announcement in August that BAE Systems was assigned the role of F-35 Regional Warehouse provider for the Asia-Pacific region.

Our existing Hawk Mk127 Lead-in Fighter sustainment contracts continue to perform strongly.

The Capability Assurance Programme to upgrade the Hawk fleet to meet the training requirements of the fifth-generation F-35 Lightning II is progressing ahead of schedule, with 20 of the 33 aircraft modified at the end of 2017. During 2017, the Australian Air Force customer declared achievement of initial operating capability and has commenced training with the aircraft.

In June, the Commonwealth announced that we have been selected as the preferred tenderer for the Jindalee Operational Radar Network upgrade programme. If successful, the expected value of the contract over the initial award term of ten years is approximately A\$1.0bn (£0.6bn).

Following down-select in 2016 as one of two tenderers for the Land 400 Phase 2 Combat Reconnaissance Vehicle programme, we have completed the Risk Mitigation Activity contract and submitted our final proposal to the Commonwealth in August. Customer evaluation is ongoing, with final preferred tender selection anticipated in the first half of 2018.

Our tender response for the Commonwealth's nine-ship SEA 5000 Future Frigate programme was submitted in August. The Commonwealth continues to fund Schedule Protection Activity to support its evaluation timetable and we anticipate a preferred tender selection in the first half of 2018.

Oman

The Oman Typhoon and Hawk aircraft programme, being undertaken by Platforms & Services (UK), completed delivery of the first eight Typhoon aircraft and all eight Hawk trainer aircraft in 2017. The remaining four Typhoon aircraft are scheduled to be delivered in 2018.

Separately, we continue to fulfil our legacy industrial participation obligations in Oman through delivery of an agreed training and knowledge transfer programme.

MBDA

In March, MBDA secured a contract from the UK and French governments for a three-year concept phase of the Future Cruise/Anti-Ship Weapon, which will prepare for the replacement of the existing missiles deployed by the UK and French armed forces. This contract follows on from the joint UK-France 2016 programme for the mid-life refurbishment of their current inventory of missiles.

In July, MBDA finalised the financing package to secure effectivity of the Qatari contracts signed in 2016, which will supply air defence systems and anti-ship missiles for the naval surface fleet along with coastal defence systems.

The German Ministry of Defence and MBDA have entered into a formal negotiation process for the German ground-based air defence system, TLVS, a key element of the German defence strategy. Lockheed Martin will be the joint venture partner with MBDA on this programme.

Significant progress has been made in securing positions on a number of fast jet platforms. The Meteor Beyond Visual Range Air-to-Air Missile is already in operational service on Gripen with the Swedish Air Force and has now achieved qualification for both Typhoon and Rafale aircraft. A contract has been received to procure further Brimstone missiles to equip Typhoon. Integration of MBDA missiles on F-35 Lightning II has progressed well, with successful Advanced Short Range Air-to-Air Missile qualification firings achieved and contracts received from the UK to integrate Meteor.

In December, MBDA entered into a contract with Qatar for the supply of Brimstone and Meteor missiles. The contract is subject to financing conditions and receipt by MBDA of first payment which are expected to be fulfilled no later than mid-2018.

Success in both domestic and export markets has significantly increased MBDA's production volumes resulting in the requirement to expand production capacities. A new manufacturing facility is fully operational in Bolton, UK, and a capacity enhancement is under way in Bourges, France.

Organisational changes

Effective 1 January 2018, BAE Systems revised its reporting segments to reflect the organisational changes described on page 8. The Platforms & Services (UK) and Platforms & Services (International) management structures have been removed with the organisation streamlined, and strengthened Air and Maritime reporting segments created.

Looking forward

Forward-looking information reflecting the organisational changes described above is provided on page 33.

1. Including share of equity accounted investments.
2. For alternative performance measure definitions see glossary on page 9.
3. International Financial Reporting Standards.

Re-presentation of 2017 results

Effective 1 January 2018, BAE Systems revised its reporting segments to reflect the organisational changes described on page 8 and adopted IFRS 15, Revenue from Contracts with Customers.

Financial performance measures for the year ended 31 December 2017 as re-presented to reflect the organisational changes are as follows:

Year ended 31 December 2017	As defined by the Group						Defined in IFRS ¹			
	Sales £m	Underlying EBITA £m	Return on sales %	Operating business cash flow £m	Order intake ² £m	Order backlog ² £bn	Revenue £m	Operating profit/ (loss) £m	Return on revenue %	Net cash flow from operating activities £m
Electronic Systems	3,635	562	15.5	450	4,175	5.4	3,635	542	14.9	569
Cyber & Intelligence	1,820	52	2.9	116	1,859	2.1	1,820	(367)	(20.2)	127
Platforms & Services (US)	2,928	242	8.3	222	3,542	4.6	2,825	218	7.7	286
Air	8,059	1,000	12.4	832	6,128	20.4	7,120	952	13.4	888
Maritime	3,151	258	8.2	278	4,671	9.1	3,119	247	7.9	396
HQ ³	336	(80)		(146)	337	–	47	(112)		(142)
Deduct Intra-group	(303)				(455)	(0.4)	(244)			
Deduct Taxation ⁴										(227)
Total	19,626	2,034	10.4	1,752	20,257	41.2	18,322	1,480	8.1	1,897

Financial performance measures for the year ended 31 December 2017 as re-presented to reflect both the organisational changes and the impact of the adoption of IFRS 15 are as follows:

Year ended 31 December 2017	As defined by the Group						Defined in IFRS ¹			
	Sales £m	Underlying EBITA £m	Return on sales %	Operating business cash flow £m	Order intake ² £m	Order backlog ² £bn	Revenue £m	Operating profit/ (loss) £m	Return on revenue %	Net cash flow from operating activities £m
Electronic Systems	3,598	541	15.0	450	4,175	4.8	3,598	521	14.5	569
Cyber & Intelligence	1,818	58	3.2	116	1,859	2.1	1,818	(361)	(19.9)	127
Platforms & Services (US)	2,951	237	8.0	222	3,542	4.2	2,848	213	7.5	286
Air	7,210	967	13.4	832	6,128	19.5	6,312	921	14.6	888
Maritime	2,877	251	8.7	278	4,671	8.5	2,845	240	8.4	396
HQ ³	336	(80)		(146)	337	–	47	(112)		(142)
Deduct Intra-group	(303)				(455)	(0.4)	(244)			
Deduct Taxation ⁴										(227)
Total	18,487	1,974	10.7	1,752	20,257	38.7	17,224	1,422	8.3	1,897

The Group and segmental guidance for 2018 shown on page 3 is based on the Group's actual financial performance for 2017 as re-presented to reflect both the organisational changes and the impact of the adoption of IFRS 15.

1. International Financial Reporting Standards.
2. Including share of equity accounted investments.
3. HQ comprises the Group's UK-based head office and shared services activities, together with a 49% interest in Air Astana.
4. Taxation is managed on a Group-wide basis.

Segmental looking forward

Effective 1 January 2018, BAE Systems has five principal reporting segments, Electronic Systems, Cyber & Intelligence, Platforms & Services (US), Air and Maritime, which align with the strategic direction of the Group.

US defence budget

Whilst we continue to operate under a Continuing Resolution, the bipartisan budget agreement passed on 9 February 2018 would increase the US defence budget by approximately 10% over current levels, reflecting continued growth in defence spending to \$700bn (£518bn) for the fiscal year ending 30 September 2018. This budget agreement increases the budget caps for two years and extends the Continuing Resolution to 23 March 2018 to allow lawmakers to pass a 2018 spending bill.

Electronic Systems

Electronic Systems comprises the US and UK-based electronics activities, including electronic warfare 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, and hybrid electric drive systems.

Electronic Systems is well positioned to address current and evolving priority programmes from its strong franchise positions in electronic warfare, precision guidance and seeker solutions. Electronic Systems has a long-standing programme of research and development, and its focus remains on maintaining a diverse portfolio of defence and commercial products and capabilities for US and international customers.

The business expects to benefit from its ability to apply innovative technology solutions that meet defence customers' changing requirements. That, along with strong programme positions, particularly on F-35 Lightning II and F-15 upgrades, and specific products such as APKWS™, position the business well for the medium term.

In the commercial aviation market, Electronic Systems' technology innovations are enabling the business to maintain its long-standing customer positions and to compete for, and win, new business.

Cyber & Intelligence

Cyber & Intelligence comprises the US-based Intelligence & Security business and UK-headquartered Applied Intelligence business, and covers the Group's cyber security, secure government, and commercial and financial security activities.

Intelligence & Security

The outlook for the US government services sector is stable, although market conditions remain highly competitive and continue to evolve.

Whilst the government's decision not to exercise future options on our contract to develop a shared IT environment for US agencies could impact revenue in 2018, the shift in the government's IT strategy could present new opportunities for the business.

With effect from 12 February 2018, the business has restructured to better align with its customer base and position the business to more effectively compete and grow in critical, mission-focused areas with three business areas: Integrated Defence Solutions; Intelligence Solutions; and Air Force Solutions.

Applied Intelligence

With effect from 1 January 2018, the Applied Intelligence business has restructured to focus on a more targeted portfolio of products and services, delivering for customers within three core business units: Government; Financial Services; and Technology & Commercial. The restructuring will enable a greater focus on customer needs and higher levels of operational efficiency, in the commercial business, that will accelerate improvements in competitiveness and profitability.

Sales growth is expected to continue as cyber security is an increasingly important part of government security and a core element of stewardship for commercial enterprises in a sophisticated and persistent threat environment.

Platforms & Services (US)

Platforms & Services (US), with operations in the US, UK and Sweden, manufactures combat vehicles, weapons and munitions, and delivers services and sustainment activities, including ship repair and the management of government-owned munitions facilities.

The land vehicles business is underpinned by strong positions on key franchise programmes. These include the US Army's Armored Multi-Purpose Vehicle, M109A7 self-propelled howitzer and Bradley upgrade programmes, and the CV90 and BvS10 export programmes from our BAE Systems Hägglunds business.

The business continues to pursue a range of domestic and international opportunities in combat and amphibious vehicles as well as weapon systems.

FNSS has grown its order book with both domestic and international orders.

These long-term contracts and our franchise position in tracked vehicles, which offer opportunities in international markets, make the land business well placed for growth in the medium term.

In the maritime domain, the Group has a strong position on naval gun programmes and US Navy ship repair. Additional dry dock ship repair capacity has been established in San Diego to support the US Navy's increased requirements in the Asia-Pacific region.

The Group remains a leading provider of gun systems and precision strike capabilities and, in the complex ordnance manufacturing business, we continue to manage the US Army's Radford and Holston munitions facilities under long-term contracts.

Air

Air comprises the Group's UK-based air activities for European and International markets and US Programmes and its businesses in Saudi Arabia and Australia, together with its 37.5% interest in the pan-European MBDA joint venture.

In the UK, as current export contracts for Typhoon and Hawk complete, and UK Tornado support ends, sales are underpinned by our workshare on Typhoon for Kuwait, Typhoon and Hawk support, and F-35 Lightning II production and support. UK-based production of rear fuselage assemblies for F-35 Lightning II will increase over the next three years to reach its expected peak rate for the next decade. We play a significant role in the F-35 Lightning II sustainment programme in support of Lockheed Martin.

Discussions continue with current and prospective operators on contract awards for Typhoon and Hawk, and we continue to develop long-standing international partnerships in the air domain, maintaining our skills and capabilities.

The UK and Saudi support operations are underpinned by long-term contracts. In Saudi Arabia, the In-Kingdom Industrial Participation programme continues to make good progress consistent with our long-term strategy, as well as the Saudi Arabian government's National Transformation Plan and Vision 2030.

In Australia, the business is structured around long-term sustainment and upgrade activities, and we are progressing significant opportunities with the Australian government in the maritime and land domains.

MBDA has a strong order book which is driving increasing production and sales. Development programmes continue to improve the long-term capabilities of the business.

Maritime

Maritime comprises the Group's UK-based maritime and land activities.

Maritime

In Maritime, there remains pressure on the Navy's near-term budgets and a highly-competitive environment in ship support and upgrade.

Within submarines, the business is executing on the Astute Class programme, with four boats still in build. On the Dreadnought programme, production on the first boat of four commenced in 2016.

Investment continues in the Barrow facilities to provide the capability on these long-term programmes through the next decade.

In shipbuilding, sales are underpinned by the contracts to manufacture the Queen Elizabeth Class aircraft carriers, Type 26 frigates and River Class Offshore Patrol Vessels.

The through-life support of surface ship platforms provides a sustainable business in technical services and mid-life upgrades.

Land UK

The Land UK business continues to deliver support to armoured vehicle and bridging systems in UK and international markets, munitions under the 15-year Munitions Acquisition Supply Solution partnering agreement secured in 2008 and 40mm cased-telescopic cannons for the UK and French armies.

Consolidated income statement

for the year ended 31 December

	Notes	2017		2016	
		£m	Total £m	£m	Total £m
Continuing operations					
Sales	2	19,626		19,020	
<i>Deduct</i> Share of sales by equity accounted investments		(2,575)		(2,427)	
<i>Add</i> Sales to equity accounted investments		1,271		1,197	
Revenue	2		18,322		17,790
Operating costs			(17,089)		(16,274)
Other income			131		136
Group operating profit			1,364		1,652
Share of results of equity accounted investments			116		90
<i>Underlying EBITA</i>					
	2	2,034		1,905	
<i>Non-recurring items</i>		(13)		(12)	
<i>EBITA</i>		2,021		1,893	
<i>Amortisation of intangible assets</i>		(86)		(87)	
<i>Impairment of intangible assets</i>		(384)		–	
<i>Financial expense of equity accounted investments</i>		(34)		(28)	
<i>Taxation expense of equity accounted investments</i>		(37)		(36)	
Operating profit	2		1,480		1,742
<i>Financial income</i>					
		416		713	
<i>Financial expense</i>					
		(762)		(1,304)	
Net finance costs	3		(346)		(591)
Profit before taxation			1,134		1,151
Taxation expense	4		(250)		(213)
Profit for the year			884		938
Attributable to:					
Equity shareholders			854		913
Non-controlling interests			30		25
			884		938
Earnings per share					
	5				
Basic earnings per share			26.8p		28.8p
Diluted earnings per share			26.7p		28.7p

Consolidated statement of comprehensive income

for the year ended 31 December

	2017			2016		
	Other reserves £m	Retained earnings £m	Total £m	Other reserves £m	Retained earnings £m	Total £m
Profit for the year	–	884	884	–	938	938
Other comprehensive income						
Items that will not be reclassified to the income statement:						
Subsidiaries:						
Remeasurements on retirement benefit schemes	–	2,105	2,105	–	(1,468)	(1,468)
Tax on items that will not be reclassified to the income statement	–	(490)	(490)	–	260	260
Equity accounted investments (net of tax)	–	53	53	–	(53)	(53)
Items that may be reclassified to the income statement:						
Subsidiaries:						
Currency translation on foreign currency net investments	(625)	–	(625)	1,287	–	1,287
Amounts credited to hedging reserve	59	–	59	96	–	96
Tax on items that may be reclassified to the income statement	(11)	–	(11)	(17)	–	(17)
Equity accounted investments (net of tax)	(15)	–	(15)	45	–	45
Total other comprehensive income for the year (net of tax)	(592)	1,668	1,076	1,411	(1,261)	150
Total comprehensive income for the year	(592)	2,552	1,960	1,411	(323)	1,088
Attributable to:						
Equity shareholders	(587)	2,522	1,935	1,408	(348)	1,060
Non-controlling interests	(5)	30	25	3	25	28
	(592)	2,552	1,960	1,411	(323)	1,088

Consolidated statement of changes in equity

for the year ended 31 December

	Attributable to equity holders of BAE Systems plc						Total equity £m
	Issued share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	
At 1 January 2017	87	1,249	6,685	(4,583)	3,438	26	3,464
Profit for the year	–	–	–	854	854	30	884
Total other comprehensive income for the year	–	–	(587)	1,668	1,081	(5)	1,076
Share-based payments (inclusive of tax)	–	–	–	53	53	–	53
Net purchase of own shares	–	–	–	(1)	(1)	–	(1)
Ordinary share dividends	–	–	–	(684)	(684)	(8)	(692)
At 31 December 2017	87	1,249	6,098	(2,693)	4,741	43	4,784
At 1 January 2016	87	1,249	5,277	(3,624)	2,989	13	3,002
Profit for the year	–	–	–	913	913	25	938
Total other comprehensive income for the year	–	–	1,408	(1,261)	147	3	150
Share-based payments (inclusive of tax)	–	–	–	59	59	–	59
Net sale of own shares	–	–	–	3	3	–	3
Ordinary share dividends	–	–	–	(670)	(670)	(24)	(694)
Partial disposal of shareholding in subsidiary undertaking	–	–	–	(3)	(3)	9	6
At 31 December 2016	87	1,249	6,685	(4,583)	3,438	26	3,464

Consolidated balance sheet

as at 31 December

	Notes	2017 £m	2016 £m
Non-current assets			
Intangible assets		10,378	11,264
Property, plant and equipment		2,230	2,098
Investment property		101	110
Equity accounted investments		384	299
Other investments		6	6
Other receivables		387	351
Retirement benefit surpluses	6	302	223
Other financial assets		226	345
Deferred tax assets		724	1,251
		14,738	15,947
Current assets			
Inventories		723	744
Trade and other receivables including amounts due from customers for contract work		3,586	3,305
Current tax		20	5
Other financial assets		89	204
Cash and cash equivalents		3,271	2,769
Assets held for sale		26	2
		7,715	7,029
Total assets		22,453	22,976
Non-current liabilities			
Loans		(4,069)	(4,425)
Other payables		(1,722)	(1,027)
Retirement benefit obligations	6	(4,222)	(6,277)
Other financial liabilities		(133)	(102)
Deferred tax liabilities		(4)	(10)
Provisions		(413)	(372)
		(10,563)	(12,213)
Current liabilities			
Loans and overdrafts		(14)	–
Trade and other payables		(6,322)	(6,540)
Other financial liabilities		(104)	(212)
Current tax		(305)	(311)
Provisions		(345)	(234)
Liabilities held for sale		(16)	(2)
		(7,106)	(7,299)
Total liabilities		(17,669)	(19,512)
Net assets		4,784	3,464
Capital and reserves			
Issued share capital		87	87
Share premium		1,249	1,249
Other reserves		6,098	6,685
Retained earnings – deficit		(2,693)	(4,583)
Total equity attributable to equity holders of BAE Systems plc		4,741	3,438
Non-controlling interests		43	26
Total equity		4,784	3,464

Approved by the Board on 21 February 2018 and signed on its behalf by:

C N Woodburn
Chief Executive

P J Lynas
Group Finance Director

Consolidated cash flow statement

for the year ended 31 December

	Notes	2017 £m	2016 ¹ £m
Profit for the year		884	938
Taxation expense		250	213
Research and development expenditure credits		(20)	(22)
Share of results of equity accounted investments		(116)	(90)
Net finance costs		346	591
Depreciation, amortisation and impairment		728	345
Profit on disposal of property, plant and equipment		(1)	(5)
Profit on disposal of investment property		(9)	(12)
Loss on disposal of businesses		13	–
Cost of equity-settled employee share schemes		61	55
Movements in provisions		150	(122)
Decrease in liabilities for retirement benefit obligations		(138)	(214)
(Increase)/decrease in working capital:			
Inventories		(29)	95
Trade and other receivables		(449)	(93)
Trade and other payables		454	(263)
Taxation paid		(227)	(187)
Net cash flow from operating activities		1,897	1,229
Dividends received from equity accounted investments		72	38
Interest received ¹		23	10
Purchase of property, plant and equipment, and investment property		(389)	(408)
Purchase of intangible assets		(87)	(82)
Proceeds from sale of property, plant and equipment, and investment property		34	45
Proceeds from sale of intangible assets		1	–
Purchase of subsidiary undertakings		(3)	–
Equity accounted investment funding		(3)	(5)
Cash flow from sale of subsidiary undertakings		(6)	6
Cash and cash equivalents disposed of with subsidiary undertakings		(2)	–
Net cash flow from investing activities		(360)	(396)
Interest paid ¹		(204)	(210)
Net (purchase)/sale of own shares		(1)	3
Equity dividends paid	7	(684)	(670)
Dividends paid to non-controlling interests		(8)	(24)
Cash flow from matured derivative financial instruments		(83)	480
Cash flow from movement in cash collateral		(15)	32
Cash flow from repayment of loans		–	(286)
Net cash flow from financing activities		(995)	(675)
Net increase in cash and cash equivalents		542	158
Cash and cash equivalents at 1 January		2,771	2,537
Effect of foreign exchange rate changes on cash and cash equivalents		(49)	76
Cash and cash equivalents at 31 December		3,264	2,771
Comprising:			
Cash and cash equivalents		3,271	2,769
Overdrafts		(7)	–
Cash classified as held for sale		–	2
Cash and cash equivalents at 31 December		3,264	2,771

1. Re-presented to reclassify interest paid from investing to financing activities.

Notes to the accounts

1. Preparation

Basis of preparation and statement of compliance

The consolidated financial statements of BAE Systems plc have been prepared on a going concern basis and in accordance with EU-endorsed International Financial Reporting Standards (IFRS) 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 available-for-sale financial assets, and other relevant financial assets and financial liabilities (including derivative instruments).

Changes in accounting policies

IFRS 9, Financial Instruments

IFRS 9 is effective from 1 January 2018. The standard, replacing the requirements of IAS 39, Financial Instruments: Recognition and Measurement, introduces new requirements for recognition, classification and measurement, a new impairment model for financial assets based on expected credit losses, and simplified hedge accounting.

Any changes to the classification and measurement of financial instruments are applied retrospectively by adjusting opening retained earnings at 1 January 2018. There is no requirement to restate comparatives for prior periods. The Group has determined that there is no adjustment to retained earnings on transition to IFRS 9.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 is effective from 1 January 2018. The standard requires the identification of performance obligations in contracts with customers and allocation of the total contractual value to each of the performance obligations identified. Revenue is recognised as each performance obligation is satisfied either at a point in time or over time. The standard will replace IAS 11, Construction Contracts, IAS 18, Revenue, and all other existing revenue accounting requirements within IFRS.

IFRS 16, Leases

IFRS 16 is effective from 1 January 2019. The standard, which replaces IAS 17, Leases, was EU endorsed in October 2017. Whilst lessor accounting is similar to IAS 17, lessee accounting is significantly different. Under IFRS 16, the Group will recognise within the balance sheet a right-of-use asset and a lease liability for future lease payments in respect of all leases unless the underlying assets are of low value or the lease term is 12 months or less. Within the income statement, rental expense on the impacted leases will be replaced with depreciation on the right-of-use asset and interest expense on the lease liability.

BAE Systems has operating lease commitments totalling £1.6bn at 31 December 2017 and, therefore, IFRS 16 will have a material impact on the Group. The implications of the standard are currently under review and the Group has not yet determined which transition option will be applied. As the impact of transition is dependent on the option chosen, the Group is unable to quantify the effect at this time.

2. Segmental analysis

Sales and revenue by reporting segment

	Sales		Deduct Share of sales by equity accounted investments		Add Sales to equity accounted investments		Revenue	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Electronic Systems	3,635	3,282	(95)	(79)	95	79	3,635	3,282
Cyber & Intelligence	1,820	1,778	–	–	–	–	1,820	1,778
Platforms & Services (US)	2,928	2,874	(103)	(91)	–	–	2,825	2,783
Platforms & Services (UK)	7,682	7,806	(1,088)	(1,118)	1,030	1,011	7,624	7,699
Platforms & Services (International)	4,138	3,943	(1,002)	(906)	–	–	3,136	3,037
HQ	287	233	(287)	(233)	–	–	–	–
	20,490	19,916	(2,575)	(2,427)	1,125	1,090	19,040	18,579
Intra-group sales/revenue	(864)	(896)	–	–	146	107	(718)	(789)
	19,626	19,020	(2,575)	(2,427)	1,271	1,197	18,322	17,790

Operating profit/(loss) by reporting segment

	Underlying EBITA		Amortisation and impairment of intangible assets		Financial and taxation expense of equity accounted investments		Non-recurring items		Operating profit/(loss)	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Electronic Systems	562	494	(20)	(20)	–	–	–	–	542	474
Cyber & Intelligence	52	90	(419)	(31)	–	–	–	–	(367)	59
Platforms & Services (US)	242	211	(9)	(15)	(2)	(2)	(13)	(12)	218	182
Platforms & Services (UK)	794	810	(16)	(15)	(4)	(15)	–	–	774	780
Platforms & Services (International)	472	400	(6)	(6)	(39)	(29)	–	–	427	365
HQ	(88)	(100)	–	–	(26)	(18)	–	–	(114)	(118)
	2,034	1,905	(470)	(87)	(71)	(64)	(13)	(12)	1,480	1,742
Net finance costs									(346)	(591)
Profit before taxation									1,134	1,151
Taxation expense									(250)	(213)
Profit for the year									884	938

3. Net finance costs

	2017 £m	2016 £m
Interest income	24	10
Gain on remeasurement of financial instruments at fair value through profit or loss ^{1,2}	54	665
Foreign exchange gains ³	338	38
Financial income	416	713
Interest expense on bonds and other financial instruments	(202)	(208)
Facility fees	(4)	(4)
Net present value adjustments	(44)	(43)
Net interest expense on retirement benefit obligations	(165)	(169)
Loss on remeasurement of financial instruments at fair value through profit or loss ^{1,2}	(317)	(55)
Foreign exchange losses ³	(30)	(825)
Financial expense	(762)	(1,304)
Net finance costs	(346)	(591)

1. Comprises gains and losses on derivative financial instruments, including 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 decrease in the gain on remeasurement of financial instruments primarily reflects exchange rate movements on derivatives relating to US dollar-denominated borrowings (2017 £19m; 2016 £446m). Loss on remeasurement of financial instruments includes £299m (2016 £23m) in respect of these exchange rate movements.
3. The foreign exchange gains primarily reflect exchange rate movements on US dollar-denominated borrowings (£319m). The foreign exchange losses in 2016 in respect of these exchange rate movements were £592m.

Additional analysis

	2017 £m	2016 £m
Net finance costs:		
Group	(346)	(591)
Share of equity accounted investments	(34)	(28)
	(380)	(619)
Analysed as:		
Underlying net interest expense:		
Group	(226)	(245)
Share of equity accounted investments	(19)	(12)
	(245)	(257)
Other:		
Group:		
Net interest expense on retirement benefit obligations	(165)	(169)
Fair value and foreign exchange adjustments on financial instruments and investments ¹	45	(177)
Share of equity accounted investments:		
Net interest expense on retirement benefit obligations	(8)	(8)
Fair value and foreign exchange adjustments on financial instruments and investments	(7)	(8)
	(380)	(619)

1. The net gain/(loss) primarily reflects foreign exchange translational gains/(losses) on US dollar-denominated bonds held by BAE Systems plc.

4. Taxation expense

Reconciliation of taxation expense

The following table reconciles the theoretical income tax expense, using the UK corporation tax rate, to the reported tax expense. The reconciling items represent, besides the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from differences between the local tax base and the reported financial statements.

	2017 £m	2016 £m
Profit before taxation	1,134	1,151
UK corporation tax rate	19.25%	20.0%
Expected income tax expense	(218)	(230)
Effect of tax rates in foreign jurisdictions, including US state taxes	(101)	(81)
Effect of intra-group financing	15	15
Expenses not tax effected	(8)	(15)
Income not subject to tax	46	37
Research and development tax credits and patent box benefits	18	12
Non-deductible goodwill impairment	(74)	–
Chargeable gains	(2)	(3)
Utilisation of previously unrecognised tax losses	3	3
Adjustments in respect of prior years	9	41
Adjustments in respect of equity accounted investments	22	18
Tax rate adjustment ¹	39	(2)
Other	1	(8)
Taxation expense	(250)	(213)

1. 2017 includes a £40m credit in respect of US tax reform enacted in December 2017.

Calculation of the underlying effective tax rate

	2017 £m	2016 £m
Profit before taxation	1,134	1,151
Add back:		
Taxation expense of equity accounted investments	37	36
Goodwill impairment	384	–
Adjusted profit before taxation	1,555	1,187
Taxation expense	(250)	(213)
Taxation expense of equity accounted investments	(37)	(36)
Exclude: Impact of US tax reform enacted in December 2017	(40)	–
Adjusted taxation expense (including equity accounted investments)	(327)	(249)
Underlying effective tax rate	21%	21%

5. Earnings per share

	2017			2016		
	£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	854	26.8	26.7	913	28.8	28.7
Add back/(deduct):						
Amortisation and impairment of intangible assets, post tax ¹	68			69		
Impairment of goodwill	384			–		
Non-cash movements, being net interest expense on retirement benefit obligations, post tax ¹	137			140		
Non-cash movements, being fair value and foreign exchange adjustments on financial instruments and investments, post tax ¹	(30)			146		
Non-recurring items, post tax ¹	10			9		
Impact of US tax reform enacted in December 2017	(40)			–		
Underlying earnings, post tax	1,383	43.5	43.3	1,277	40.3	40.1
		Millions	Millions		Millions	Millions
Weighted average number of shares used in calculating basic earnings per share		3,182	3,182		3,171	3,171
Incremental shares in respect of employee share schemes			15			14
Weighted average number of shares used in calculating diluted earnings per share			3,197			3,185

1. The tax impact is calculated using the underlying effective tax rate of 21% (2016 21%).

6. Retirement benefits

Funding

Introduction

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

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

The funding valuations are performed by professionally qualified independent actuaries and include assumptions which differ from the actuarial assumptions used for IAS 19 accounting purposes shown on page 45. The purpose of the funding valuations is to design funding plans which ensure that the schemes have sufficient funds available to meet future benefit payments.

UK valuations

Funding valuations of the Group's nine UK defined benefit pension schemes are performed every three years. The latest valuations were performed as at 31 March 2017. The next funding valuation will have an effective date of no later than 31 March 2020.

In November, the 2017 triennial funding valuations and, where necessary, deficit recovery plans were agreed with the trustees and certified by the scheme actuaries after consultation with the UK Pensions Regulator. The funding valuations have resulted in a significantly lower deficit than under IAS 19.

The results of the most recent triennial valuations are shown below:

	At 31 March 2017			
	Main Scheme £bn	2000 Plan £bn	Other £bn	Total £bn
Market value of assets	12.8	4.3	4.5	21.6
Present value of liabilities	(14.4)	(4.6)	(4.7)	(23.7)
Funding deficit	(1.6)	(0.3)	(0.2)	(2.1)
Percentage of accrued benefits covered by the assets at the valuation date	89%	93%	96%	91%

The valuations were determined using the following mortality assumptions:

	2017
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 currently aged 45 (years)	88 – 92
Life expectancy of a female currently aged 45 (years)	91 – 93

The discount rate assumptions are based on prudent levels of expected returns for the assets held by each of the schemes. The discount rates are curves which provide a different rate for each year into the future. The discount rates used in the 2014 valuation were based on a traditional gilts yield plus a margin which varied by scheme and over time. The discount rates used in the 2017 valuation are directly based on prudent return assumptions for the assets held by the schemes, reflecting the planned investment strategies and maturity profiles of each scheme.

The inflation assumptions are 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.

In aggregate, the net funding deficit across the UK schemes at 31 March 2017 was £2.1bn. The funding deficit is approximately £3bn lower than the accounting deficit of the equivalent UK schemes prepared under IAS 19, using like-for-like mortality assumptions and asset values at 31 December 2017, largely due to lower liabilities reflecting the higher discount rate assumption. 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 held in the schemes, which are expected to yield higher returns than bonds.

The agreements reached are underpinned by contingency plans, which include a commitment by the Group to a further £50m of deficit funding into the largest scheme prior to the next triennial valuation in the event that the scheme funding level was to fall below pre-determined parameters. In addition, the Group would be required to pay £187m across its schemes with deficits at the valuation date if the funding levels for those schemes were to fall significantly and were to remain at or below those levels for nine months.

There will be no change 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 2017.

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 deficit funding contributions.

In 2017, total contributions to the Group's pension schemes were £433m (2016 £461m), including amounts funded by equity accounted investments of £31m (2016 £50m), and included approximately £209m and £62m of deficit recovery payments in respect of the UK and US schemes, respectively.

Based on the new funding valuations, current annual deficit recovery payments to the UK schemes, including amounts funded by equity accounted investments, will increase to £220m a year from 1 April 2018. Deficit contributions will further increase in line with any percentage growth in dividend payments made by the Group. Under the new deficit recovery plans, these annual payments would subsequently fall by £50m in 2022 as the deficits on certain schemes are expected to be cleared. The annual payments are expected to end in 2026 when all deficits are projected to be cleared. Under the last agreement made in 2014, all scheme deficits were projected to be cleared in 2026.

Based on the latest valuations of the Group's US pension schemes, contributions are expected to remain at a level consistent with 2017 through to 2022.

In 2018, the Group expects to make total contributions to its pension schemes of £0.5bn.

IAS 19 accounting

Principal actuarial assumptions

The assumptions used are estimates chosen from a range of possible actuarial assumptions which, due to the long-term nature of the obligation covered, may not necessarily occur in practice.

	UK		US	
	2017	2016	2017	2016
Financial assumptions				
Discount rate – past service (%)	2.6	2.7	3.7	4.2
Discount rate – future service (%)	2.7	2.7	3.7	4.2
Retail Prices Index (RPI) inflation (%)	3.1	3.2	n/a	n/a
Rate of increase in salaries (%)	3.1	3.2	n/a	n/a
Rate of increase in deferred pensions (%)	2.1/3.1	2.2/3.2	n/a	n/a
Rate of increase in pensions in payment (%)	1.6 – 3.7	1.7 – 3.7	n/a	n/a
Demographic assumptions				
Life expectancy of a male currently aged 65 (years)	86 – 88	86 – 89	87	87
Life expectancy of a female currently aged 65 (years)	89 – 90	89 – 90	89	89
Life expectancy of a male currently aged 45 (years)	88 – 90	88 – 91	87	87
Life expectancy of a female currently aged 45 (years)	90 – 92	91 – 92	89	89

Deficit allocation

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, which is consistent with prior years. Whilst this methodology is intended to reflect a reasonable estimate of the share of the 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 deficit allocated to the equity accounted investments is included in the balance sheet within equity accounted investments.

Summary of movements in retirement benefit obligations

	UK £m	US and other £m	Total £m
Total net IAS 19 deficit at 1 January 2017	(5,778)	(792)	(6,570)
Actual return on assets excluding amounts included in net interest expense	1,082	444	1,526
Increase in liabilities due to changes in financial assumptions	(242)	(291)	(533)
Decrease in liabilities due to changes in mortality assumptions	971	24	995
Decrease in liabilities due to changes in other demographic assumptions	202	–	202
Experience gains/(losses)	136	(29)	107
Contributions in excess of service cost	98	53	151
Past service cost – plan amendments	(2)	–	(2)
Net interest expense	(147)	(32)	(179)
Foreign exchange adjustments	–	55	55
Movement in US healthcare schemes	–	2	2
Total net IAS 19 deficit at 31 December 2017	(3,680)	(566)	(4,246)
Allocated to equity accounted investments	326	–	326
Group's share of net IAS 19 deficit excluding Group's share of amounts allocated to equity accounted investments at 31 December 2017	(3,354)	(566)	(3,920)
Represented by:			
Retirement benefit surpluses	209	93	302
Retirement benefit obligations	(3,563)	(659)	(4,222)
	(3,354)	(566)	(3,920)

The decrease in liabilities due to changes in mortality assumptions in the UK schemes reflects updated assumptions, both to base tables and future improvements.

Contributions in excess of service cost on an IAS 19 accounting basis of £151m are lower than on a funding basis (£271m) because the service cost is higher on an IAS 19 accounting basis.

Sensitivity analysis

The sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 December 2017 and keeping all other assumptions the same.

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.

	(Increase)/decrease in pension obligation ¹ £bn	Increase/(decrease) in scheme assets ¹ £bn
Discount rate:		
0.1 percentage point increase	0.5	(0.2)
0.1 percentage point decrease	(0.5)	0.2
Inflation:		
0.1 percentage point increase	(0.5)	0.2
0.1 percentage point decrease	0.5	(0.2)

1. Before allocation to equity accounted investments.

The sensitivity of the valuation of the liabilities to changes in the inflation assumption presented above assumes that a 0.1 percentage point change to expectations of future inflation results in a 0.1 percentage point change to all inflation-related assumptions (rate of increase in salaries, rate of increase in deferred pensions and rate of increase in pensions in payment) used to value the liabilities. However, upper and lower limits exist on the majority of inflation-related benefits such that a change in expectations of future inflation may not have the same impact on the inflation-related benefits, and hence will result in a smaller change to the valuation of the liabilities. Accordingly, extrapolation of the above results beyond the specific sensitivity figures shown may not be appropriate. To illustrate this, the (increase)/decrease in the defined benefit pension obligation resulting from larger changes in the inflation assumption would be as follows:

	(Increase)/decrease in pension obligation ¹ £bn
Inflation:	
0.5 percentage point increase	(1.5)
0.5 percentage point decrease	1.5
1.0 percentage point increase	(3.1)
1.0 percentage point decrease	2.8

1. Before allocation to equity accounted investments.

Demographic assumptions

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

	(Increase)/decrease in net deficit ¹ £bn
Life expectancy:	
One-year increase	(1.1)
One-year decrease	1.1

1. Before allocation to equity accounted investments.

7. Equity dividends

	2017 £m	2016 £m
Prior year final 12.7p dividend per ordinary share paid in the year (2016 12.5p)	404	397
Interim 8.8p dividend per ordinary share paid in the year (2016 8.6p)	280	273
	684	670

After the balance sheet date, the directors proposed a final dividend of 13p per ordinary share. The dividend, which is subject to shareholder approval, will be paid on 1 June 2018 to shareholders registered on 20 April 2018. The ex-dividend date is 19 April 2018.

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 2018.

8. Fair value measurement

Fair value of financial instruments

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

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

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

- the fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate balance sheet rates;
- the fair values of both interest rate and cross-currency swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate balance sheet rates; and
- the fair values of loans and overdrafts have been estimated by discounting the future cash flows and translating at the appropriate balance sheet rates.

Due to the variability of the valuation factors, the fair values presented at 31 December may not be indicative of the amounts the Group would expect to realise in the current market environment.

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

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
Financial instruments measured at fair value:				
Non-current				
Available-for-sale financial assets	6	6	6	6
Other financial assets	226	226	345	345
Other financial liabilities	(133)	(133)	(102)	(102)
Current				
Other financial assets	89	89	204	204
Other financial liabilities	(104)	(104)	(212)	(212)
Financial instruments not measured at fair value:				
Non-current				
Loans ¹	(4,069)	(4,478)	(4,425)	(4,805)
Current				
Cash and cash equivalents	3,271	3,271	2,769	2,769
Loans and overdrafts	(14)	(14)	–	–

1. US\$500m of the US\$800m 3.8% bond, repayable 2024, has been converted to a floating rate bond by utilising interest rate swaps. These derivatives have been designated as fair value hedges. Changes in the fair value of the interest rate risk on the bond, and gains and losses on the derivatives are recognised in the income statement. The bond has been included in financial instruments not measured at fair value because its carrying value has only been adjusted for the fair value of the interest rate on a portion of the bond.

All of the financial assets and liabilities measured at fair value are classified as level 2 using the fair value hierarchy. 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 their carrying value approximates to fair value, with the exception of loans, most of which are held at amortised cost.

9. Financial risk management

Currency risk

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

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

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

The estimated impact on foreign exchange gains and losses in net finance costs of a ten cent movement in the closing US dollar exchange rate on the retranslation of US dollar-denominated bonds held by BAE Systems plc is approximately £49m (2016 £59m).

10. Related party transactions

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

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Sales to related parties	1,271	1,197
Purchases from related parties	408	376

	31 December 2017 £m	31 December 2016 £m
Amounts owed by related parties	86	69
Amounts owed to related parties ¹	927	750

1. Amounts owed to related parties in 2016 excludes £285m included within amounts due to long-term contract customers.

11. Annual General Meeting

This year's Annual General Meeting will be held on 10 May 2018. Details of the resolutions to be proposed at that meeting will be included in the notice of Annual General Meeting that will be sent to shareholders at the end of March 2018.

12. Other information

The financial information for the year ended 31 December 2017 contained in this preliminary announcement was approved by the Board on 21 February 2018. This announcement does not constitute statutory accounts of the Company within the meaning of Section 435 of the Companies Act 2006, but is derived from those accounts.

Statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2017 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

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

Cautionary statement:

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