Group financial review

Group income statement

As defined by Group[1]

	Six months ended 30 June 2024 £m	Six months ended 30 June 2023 £m
Sales	**13,399**	12,018
Return on sales	**10.4%**	10.5%
Underlying EBIT	**1,393**	1,258
Underlying net finance costs	**(180)**	(111)
Underlying tax expense	**(225)**	(206)
Underlying profit for the period	**988**	941
Attributable to:		
Equity shareholders	**948**	901
Non-controlling interests	**40**	40

As derived from IFRS

	Six months ended 30 June 2024 £m	Six months ended 30 June 2023 £m
Revenue	**12,477**	10,997
Return on revenue	**10.4%**	11.2%
Operating profit	**1,296**	1,233
Net finance costs	**(133)**	(35)
Tax expense	**(175)**	(193)
Profit for the period	**988**	1,005
Attributable to:		
Equity shareholders	**948**	965
Non-controlling interests	**40**	40

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.
2. Current period compared with prior period translated at current period exchange rates. The comparatives have not been restated.

As defined by Group

Sales for the period were £13.4bn (2023 £12.0bn) representing growth, on a constant currency basis[2], of 13% with all sectors delivering growth in the period. The growth includes the effect of the SMS acquisition from February.

Electronic Systems recorded sales of £3.4bn (2023 £2.6bn), equating to growth of 34% on a constant currency basis. This was driven by the acquisition of the SMS business and organic growth of 11% in the underlying business, led by the precision strike & sensing and commercial avionics businesses.

Our Platforms & Services sector posted sales of £2.1bn (2023 £1.9bn), with growth of 13% on a constant currency basis, driven by increased vehicle production in our Hägglunds and Combat Mission Systems businesses.

Our Air sector recorded sales of £4.0bn (2023 £3.8bn), representing growth of 7% on a constant currency basis. The sector saw increased activity on support programmes and MBDA. This was offset by a reduced contribution from the Qatar Typhoon programme as deliveries complete.

Maritime recorded sales of £2.9bn (2023 £2.6bn), which was an increase of 14% on a constant currency basis, primarily due to increased activity on the Hunter Class Frigate Programme.

Sales in the Cyber & Intelligence sector increased by 4% on a constant currency basis, to £1.2bn (2023 £1.2bn).

Underlying EBIT was up 13%, on a constant currency basis, to £1,393m (2023 £1,258m).

Our Electronic Systems sector grew underlying EBIT to £473m (2023 £391m), an increase of 24% on a constant currency basis. The growth in underlying EBIT reflected the acquisition of SMS and organic growth in the underlying business. As anticipated, the lower return on sales of 14.0% (2023 15.1%) reflected the impact of the SMS acquisition and the anticipated absorption of lower pension recoveries (FAS/CAS).

Platforms & Services reported underlying EBIT of £216m (2023 £172m), an increase of 29% on a constant currency basis, with the return on sales increasing to 10.4% (2023 9.1%). The growth reflected the strong operational performance in our Hägglunds and Combat Mission Systems businesses.

Our Air sector reported underlying EBIT of £446m (2023 £454m), a return on sales of 11.1% (2023 12.0%). This reflected good operational performance, with the comparative period benefitting from risk retirement.

The Maritime sector reported underlying EBIT of £228m (2023 £193m) in line with the growth in sales, generating a return on sales of 7.8% (2023 7.4%).

Reconciliation of underlying EBIT to operating profit	**Six months ended 30 June 2024 £m**	Six months ended 30 June 2023 £m
Underlying EBIT	**1,393**	1,258
Adjusting items	**46**	48
Amortisation of programme, customer-related and other intangible assets and impairment of intangibles	**(143)**	(56)
Net finance income of equity accounted investments	**26**	2
Tax expense of equity accounted investments	**(26)**	(19)
Operating profit	**1,296**	1,233

Adjusting items totalled a net gain of £46m (2023 £48m). During the period, the Group realised a profit on the sale of its partial shareholding in Air Astana of £75m and recognised a settlement gain of £13m on a US pension buy-out. This was offset by £42m of acquisition-related costs, primarily in relation to Ball Aerospace. The comparative period comprised a settlement gain on a US pension annuity buy-out of £51m, offset by charges relating to historical acquisitions and disposals of £3m.

Amortisation of programme, customer-related and other intangible assets and impairment of intangibles resulted in a charge of £143m (2023 £56m), with £86m relating to amortisation of intangibles acquired with the SMS business.

Underlying net finance costs were £180m (2023 £111m), an increase of £69m largely reflecting the additional interest expense on the $4.8bn (£3.8bn) of debt financing raised during the period, of which $4.0bn (£3.2bn) was used to fund the Ball Aerospace acquisition.

Underlying tax expense of £225m (2023 £206m) was an increase of £19m, reflecting the higher underlying pre-tax profits and a marginal increase in the underlying effective tax rate to 19% (2023 18%).

As derived from IFRS

Revenue was £12.5bn (2023 £11.0bn), with growth during the period of 13% on a reported currency basis, reflective of the same drivers behind the increase in sales for the period.

Operating profit increased 5% to £1,296m (2023 £1,233m), on a reported currency basis. On an operating sector basis, this reflected the same drivers as the growth in underlying EBIT. This growth was offset by adjusting items and amortisation of programme, customer-related and other intangible assets, details of which are provided in the sections above.

Net finance costs were £133m (2023 £35m), an increase of £98m also as a result of additional interest costs incurred from the $4.8bn (£3.8bn) of debt financing raised during the period.

Tax expense of £175m (2023 £193m) was a decrease of £18m and reflects an effective tax rate of 15% (2023 16%), which excludes the Group’s share of tax expense in our equity accounted investments after which the effective tax rate was 17% (2023 17%).

Earnings per share (EPS)

As defined by Group[1]	Six months ended 30 June 2024	Six months ended 30 June 2023
Underlying profit for the period attributable to equity shareholders	**£948m**	£901m
Underlying EPS – basic	**31.4p**	29.6p

As derived from IFRS	Six months ended 30 June 2024	Six months ended 30 June 2023
Profit for the period attributable to equity shareholders	**£948m**	£965m
EPS - basic	**31.4p**	31.8p

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.
2. Current period compared with prior period translated at current period exchange rates. The comparatives have not been restated.

As defined by Group

Underlying EPS - basic increased to 31.4p (2023 29.6p), 7% on a constant currency basis[2]. This is largely driven by the improved underlying profit for the period as a result of the strong operational performance across the portfolio and the acquisition of the SMS business in February.

As derived from IFRS

EPS - basic decreased 1% to 31.4p (2023 31.8p) with the gain in underlying profit being offset by amortisation on the intangibles acquired with SMS in the period.

Cash flow

As defined by Group[1]	**Six months ended 30 June 2024 £m**	Six months ended 30 June 2023 £m
Free cash flow	**219**	1,070
Operating business cash flow	**474**	1,307

As derived from IFRS	**Six months ended 30 June 2024 £m**	Six months ended 30 June 2023 £m
Net cash flow from operating activities	**757**	1,484
Net cash flow from investing activities	**(4,569)**	(129)
Net cash flow from financing activities	**2,583**	(1,200)
Net (decrease)/increase in cash and cash equivalents	**(1,229)**	155
Cash and cash equivalents at 1 January	**4,067**	3,107
Effect of foreign exchange rate changes on cash and cash equivalents	**(7)**	(58)
Cash and cash equivalents at 30 June	**2,831**	3,204

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.

As defined by Group

Free cash flow of £219m (2023 £1,070m) was a decrease of £851m on the prior period.

Operating business cash flow of £474m (2023 £1,307m) was a decrease of £833m on the prior period.

Both reflect the decrease in customer advances as reflected in net cash flow from operating activities described below.

As derived from IFRS

Net cash flow from operating activities was an inflow of £757m (2023 £1,484m), a decrease of £727m on the prior period. Although the Group saw increased profitability in the six months to 30 June 2024, the comparative period included a high level of customer advances in the Air and Platforms & Services sectors, reflecting timing of orders and the significant order intake.

Net cash flow from investing activities was an outflow of £4,569m (2023 £129m). The acquisition of subsidiaries, including Ball Aerospace, has accounted for a net cash outflow of £4,536m. This is offset by cash proceeds of £166m from the partial sale of the Group's shareholding in Air Astana. There was no significant M&A activity in the comparative period.

Net cash flow from financing activities was an inflow of £2,583m (2023 outflow of £1,200m). Cash returns to shareholders, through dividend and share repurchases, of £812m (2023 £884m) were offset by the net proceeds from debt financing raised in the period of £3,765m primarily to fund the Ball Aerospace acquisition (2023 £166m net cash inflow from a US private placement to fund the modern shiplift and land-level repair complex at our Jacksonville, Florida shipyard in the Platforms & Services sector).

The net cash outflow in respect of derivative financial instruments was £25m (2023 £182m), reflective of hedging against foreign exchange movements on the US dollar-denominated borrowings.

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

Net debt (excluding lease liabilities)

Components of net debt (excluding lease liabilities)	**As at 30 June 2024 £m**	As at 31 December 2023 £m
Cash and cash equivalents	**2,831**	4,067
Debt-related derivative financial instruments (net)	**53**	22
Loans – non-current	**(8,234)**	(4,432)
Loans – current	**(738)**	(679)
Net debt (excluding lease liabilities)[1]	**(6,088)**	(1,022)

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.

Cash and cash equivalents of £2,831m (2023 £4,067m) are held primarily for management of working capital as well as the repayment of debt securities, pension funding when required and committed shareholder returns. During the period, the Group cash-settled $1.5bn (£1.2bn) of the $5.5bn (£4.4bn) consideration for Ball Aerospace, with the balance funded from debt raised during the period.

The Group's net debt (excluding lease liabilities) at 30 June was £6,088m (31 December 2023 £1,022m), a net increase of £5,066m from the position at the start of the year. This was primarily as a result of additional debt raised during the period of £3,765m, the majority of which has been used to fund the Ball Aerospace acquisition.

Other movements in net debt (excluding lease liabilities) comprised the following:

Shareholder returns of £812m (2023 £884m) reflected dividends of £562m (2023 £508m) and share repurchases of £250m (2023 £376m). Dividends paid represented the 2023 final dividend (2023 represented the 2022 final dividend). During the period to 30 June 2024, we repurchased 19,403,928 shares under the 2022 share buyback programme (2023 40,460,554).

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

Exchange rates

	Average		**Period end**		**Year end**
	Six months ended 30 June 2024	Six months ended 30 June 2023	**30 June 2024**	30 June 2023	31 December 2023
£/$	**1.265**	1.233	**1.264**	1.271	1.275
£/€	**1.170**	1.141	**1.180**	1.165	1.154
£/A$	**1.921**	1.826	**1.893**	1.910	1.868

Segmental review

The Group reports its performance through six reporting segments.

	As defined by Group[1]					
Six months ended 30 June 2024	Sales £m	Underlying EBIT £m	Return on sales %	Operating business cash flow[3] £m	Order intake £bn	Order backlog £bn
Electronic Systems	3,383	473	14.0%	184	3.2	11.6
Platforms & Services	2,085	216	10.4%	(13)	2.8	12.2
Air	4,009	446	11.1%	724	2.3	25.4
Maritime	2,929	228	7.8%	(247)	5.7	24.0
Cyber & Intelligence	1,182	101	8.5%	16	1.2	1.9
HQ[2]	85	(71)	–	(190)	0.1	–
Deduct Intra-group	(274)	–	–	–	(0.2)	(1.0)
Total	**13,399**	**1,393**	**10.4%**	**474**	**15.1**	**74.1**

	As derived from IFRS				
Six months ended 30 June 2024	Revenue £m	Operating profit £m	Return on revenue %	Net cash flow from operating activities £m	Order book £bn
Electronic Systems	3,394	301	8.9%	264	8.2
Platforms & Services	2,061	215	10.4%	83	11.7
Air	3,252	456	14.0%	697	16.3
Maritime	2,845	226	7.9%	(91)	23.1
Cyber & Intelligence	1,182	97	8.2%	40	1.3
HQ[2]	5	1	–	(156)	–
Deduct Intra-group	(262)	–	–	–	(1.0)
Deduct Tax[4]	–	–	–	(80)	–
Total	**12,477**	**1,296**	**10.4%**	**757**	**59.6**

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.
2. HQ comprises the Group's head office activities, together with a 17% interest in Air Astana as at 30 June 2024.
3. At a Group level, the key cash flow metric is free cash flow (see Alternative performance measures section on page 46). In 2024, free cash flow was £219m (2023 £1,070m).
4. Tax is managed on a Group-wide basis.

Segmental performance: Electronic Systems

Electronic Systems, with 22,600[1] employees, comprises the Group's US- and UK-based electronic solutions business and the US-based Space & Mission Systems business. The teams deliver electronic warfare systems, navigation systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, electric drive propulsion systems, as well as space electronics, spacecraft and ground systems.

Financial performance

Financial performance measures derived by Group[2]	Six months ended 30 June 2024	Six months ended 30 June 2023	Financial performance measures derived from IFRS	Six months ended 30 June 2024	Six months ended 30 June 2023
Sales	**£3,383m**	£2,583m	Revenue	**£3,394m**	£2,583m
Underlying EBIT	**£473m**	£391m	Operating profit	**£301m**	£386m
Return on sales	**14.0%**	15.1%	Return on revenue	**8.9%**	14.9%
Operating business cash flow	**£184m**	£157m	Cash flow from operating activities	**£264m**	£225m
Order intake	**£3.2bn**	£3.1bn			
	As at 30 June 2024	As at 31 December 2023		**As at 30 June 2024**	As at 31 December 2023
Order backlog	**£11.6bn**	£8.9bn	Order book	**£8.2bn**	£7.6bn

- Sales of £3.4bn reflected an increase of 34%[3], driven by the acquisition of the SMS business and organic growth of 11% in the underlying business which was led by the precision strike & sensing and commercial avionics businesses.
- Underlying EBIT grew 24%[3], generating a return on sales of 14.0%. The growth in underlying EBIT reflects the acquisition of SMS and the organic growth in the underlying business. As expected, the lower return on sales reflected the impact of the SMS acquisition and the anticipated absorption of lower pension recoveries during the period (FAS/CAS).
- Operating profit was down 22%, resulting in a return on revenue of 8.9%, as the growth in underlying EBIT from SMS was offset by acquisition-related costs and amortisation on the acquired intangibles.
- Order intake of £3.2bn includes orders of £0.7bn awarded to the SMS business during the period. Order backlog of £11.6bn includes £2.2bn of order book acquired with SMS in February.

1. Including share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.
3. Constant currency basis.

Operational performance

We continued to experience strong demand across our customer base for Electronic Systems in the first half of the year as evidenced by our order generation. We supported existing customers on key electronic warfare and precision guided-munition programmes, while pursuing and maturing new opportunities.

On 16 February 2024, we completed the Ball Aerospace acquisition to form our SMS business, which delivers a range of products and differentiated technologies for civil, commercial, and defence applications, including world-class instruments, spacecraft, tactical hardware, ground systems, data exploitation solutions and mission-enabling technologies for the US Intelligence Community, Department of Defense, and civilian space markets. In SMS, the integration remains a top priority and is progressing at pace, as the team is on track to separate from the Transition Services Agreements with Ball Corporation before year-end.

In our commercial businesses, airline traffic has returned to pre-pandemic levels, generating stronger demand for aftermarket services. However, headwinds exist in Original Equipment Manufacturer demand schedules as airframe manufacturers address supply chain issues. Clean air regulations continue to drive the transportation industry towards alternative energy sources, like our propulsion solutions and energy storage and power management developments for more-electric and hybrid-electric aircraft.

Operational highlights

- We are under contract to deliver seven Network Tactical Common Datalink production systems to support US Navy requirements for real time intelligence, surveillance, reconnaissance, and command and control. After completing the development programme phase in 2023, we have successfully delivered our first system to the US Navy for installation on one of its aircraft carriers.
- The Compass Call programme is executing contracts, inclusive of international support. Valued at more than $1bn (£0.8bn) focused on the cross-decking of prime mission equipment to the new EA-37B aircraft, while sustaining and upgrading the existing EC-130H fleet. The next-generation system evolves the US Air Force's electromagnetic attack capabilities and is targeted to initially field in 2024.
- The F-35 Lightning II programme is delivering on Lot 16 electronic warfare (EW) systems and has delivered a cumulative total of over 1,400 EW systems.
- The Eagle Passive Active Warning Survivability System successfully completed initial operational test and evaluation in the first half of 2024.
- The APKWS® laser-guidance kit programme continues to execute production under an Indefinite Delivery, Indefinite Quantity contract with more than 7,300 units shipped in the first half of the year.
- Our SMS team marked the launches of satellites with our systems on board, including MethaneSAT that will provide reliable scientific data about the sources and scale of methane emissions globally, and the Weather System Follow-on – Microwave (WSF-M) satellite that will bridge critical gaps in current space-based environmental monitoring capabilities for the US Space Force.

Strategic and order highlights

- Our Dual Band Decoy team was selected by the US Navy to develop one of the most advanced radio frequency (RF) countermeasures in the world. The cutting-edge RF self-protection jammer will initially be fielded on the US Navy's F/A-18E/F Super Hornet.
- Following a rapid-response contract and demonstration in 2021 with the US Navy, our Advanced Survivability Pod team received an engineering and manufacturing development (EMD) contract from the US Navy worth $95m (£75m) for advanced countermeasure pods to protect the P-8A Poseidon Multi-Mission Maritime Aircraft from missiles and other threats. This award builds on our platform survivability portfolio that uses the full electromagnetic spectrum to detect, exploit, and counter advanced threats.
- We have signed a memorandum of understanding with Eaton to expand collaboration and deliver electric drive solutions for heavy-duty commercial vehicles. In addition, we signed a long-term partnership agreement with bus manufacturer, GILLIG, supplying our electric drive technology to power GILLIG's new hydrogen fuel cell transit buses, enabling emissions-free operations.
- After receiving two new contracts in May on the National Oceanic and Atmospheric Administration's (NOAA) Geostationary Extended Observations (GeoXO) satellite constellation, we are now contracted to build all three hyperspectral instruments for the mission, including the Ocean Color Instrument, the Atmospheric Composition Instrument, and the GeoXO Sounder awarded in September 2023. The three GeoXO contracts total approximately $1.3bn (£1.0bn) and are scheduled to launch in the early 2030s, as NOAA's current geostationary weather satellites near the end of their planned mission.

Looking forward

- Our Electronic Systems sector remains positioned for growth in the medium term. We maintain a diverse portfolio of defence and commercial products and capabilities for US and international customers and expect to benefit from applying innovative technology solutions to defence customers' existing and changing requirements, building on our significant roles on F-35 Lightning II, F-15 upgrades, M-Code GPS upgrades and classified programmes, as well as a number of precision weapon products.
- Over the long term, we are poised to build on our technology strengths in emerging areas of demand, including precision weaponry, space resilience, hyper-velocity projectiles, autonomous platforms, and the development of multi-domain capabilities.
- In our commercial portfolio, we continue to leverage our leading electric drive propulsion capabilities to address growing demand for low and zero emission solutions across an increasing number of civil platforms, with opportunities to migrate these technologies to defence applications.
- In SMS, we continue to secure new awards and grow our strong space portfolio in alignment with the priorities identified in the US National Defense Strategy and the US Intelligence Strategy. We are also taking steps to capture new opportunities and unlock synergies in collaboration with our other business segments.

Segmental performance: Platforms & Services

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

Financial performance

Financial performance measures derived by Group[2]	Six months ended 30 June 2024	Six months ended 30 June 2023	Financial performance measures derived from IFRS	Six months ended 30 June 2024	Six months ended 30 June 2023
Sales	**£2,085m**	£1,891m	Revenue	**£2,061m**	£1,864m
Underlying EBIT	**£216m**	£172m	Operating profit	**£215m**	£172m
Return on sales	**10.4%**	9.1%	Return on revenue	**10.4%**	9.2%
Operating business cash flow	**£(13)m**	£21m	Cash flow from operating activities	**£83m**	£95m
Order intake	**£2.8bn**	£4.1bn			
	As at 30 June 2024	As at 31 December 2023		**As at 30 June 2024**	As at 31 December 2023
Order backlog	**£12.2bn**	£11.5bn	Order book	**£11.7bn**	£11.1bn

- Sales were £2.1bn, an increase of 13%[3] driven by increased vehicle production in our Hägglunds and Combat Mission Systems businesses.
- Underlying EBIT grew 29%[3], reflecting a return on sales of 10.4%, following a period of strong operational performance.
- Order intake was £2.8bn for the period, reflecting continued demand for AMPVs and CV90s. The comparative period saw significant demand for combat vehicles and included a number of large awards including the Czech Republic award for 246 CV90s worth $2.2bn (£1.8bn).

1. Including share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.
3. Constant currency basis.

Operational performance

Our customers continue to prioritise defence spending to enhance and replenish capabilities and manage sustainment of their defence materiel as ongoing global uncertainty and conflicts continue. Our business remains focused on meeting growing customer demand for our products and services, including munitions, tracked combat vehicles, artillery systems and support services.

In the US, our Combat Mission Systems team continues to produce at heightened volumes across multiple combat vehicle and naval programmes. This work is carried out across our manufacturing network, with support from our engineering teams across the US. Our ongoing production expansion efforts continue, with investment in advanced manufacturing technologies to ensure we are able to deliver at the pace our customers need. This includes investment in robotic welding capability, test and integration, paint, and high-precision machining.

Our BAE Systems Hägglunds team is growing its order backlog with additional awards for our CV90 combat vehicles for Sweden and partner nations. Ongoing builds and upgrades continue for the current fleet of CV90s for a number of nations.

In our support services operations, modernisation and maintenance activities continue in our US shipyards for the US Navy's non-nuclear fleet. We are also working with the US Government to finalise its first significant order under a new 10-year contract for the US Army's Holston Army Ammunition Plant and we continue to operate and modernise the Radford Army Ammunition Plant under contract into 2026.

Operational highlights

- Our US Army customer continues to grow its fleet of AMPVs, which we are now delivering in five variants. In addition, the AMPV team designed and integrated a new universal top plate for the vehicle, which provides flexibility to quickly integrate new mission equipment based on an assigned role. The US Marine Corps is also growing its fleet of ACVs, which had its first successful operational deployment in the first half.
- Our Hägglunds team is expanding production and delivery capabilities by investing more than $200m (£160m) in advanced manufacturing capabilities, a new customer test and acceptance centre and office space.
- We continue to progress a modern shiplift and land-level repair complex at our Jacksonville, Florida, shipyard that is expected to be operational in early 2025. While recent developments show US Navy ship repair requirements are stabilising, we have continued to operate at a scaled-back level at our San Diego shipyard in response to reduced demand for Pacific-coast ship repair services.

Strategic and order highlights

- Our Hägglunds business received a new order for CV9035 MkIIIC vehicles, as well as associated integrated logistic support for the Swedish Army. In addition, the Swedish Government signed a framework agreement with Denmark to deliver new CV90s for the Danish Army and Sweden is procuring more new-build CV90 vehicles to expand Ukraine capabilities. The new contract will provide the opportunity for other nations to join in the procurement of CV90 MkIIICs.
- We secured a $754m (£596m) Year 2 order from the US Army for AMPV, as the programme entered into full-rate production.
- Our Combat Mission Systems team also secured a five-year contract, valued up to $318m (£251m), from the US Army to perform technical and sustainment support services for its fleet of M109A6 and A7 Self-Propelled Howitzers and their companion, M992A3 carrier, ammunition, tracked vehicles.
- The US Navy awarded our Norfolk Ship Repair yard an $87m (£69m) contract for repair work aboard the dock landing ship USS Carter Hall (LSD 50).
- In March, our Hägglunds business signed a framework agreement with the Danish Ministry of Defence Acquisition and Logistics Organisation to provide repair and maintenance services for the Danish Army's CV90s over a 15-year period, worth approximately $355m (£281m) including options. Hägglunds also received a contract from Denmark for the Mid-Life Upgrade of 44 CV9035 vehicles at a value of $300m (£237m).
- The UK Ministry of Defence has awarded a contract to our Weapon Systems UK business to provide Maintenance, Repair and Overhaul (MRO) services in Ukraine for the L119 gun through a partnership with a British maintenance specialist already delivering MRO services in the country.

Looking forward

- We continue to focus on increased long-term demand from US and international customers. We remain a critical provider of US Army combat vehicles with our current franchises of AMPV, M109A7, M88 and additional Bradley infantry fighting vehicles and are experiencing increased international interest in these products.
- In Sweden, we have an ongoing pipeline of future business opportunities for the CV90 and BvS10 from our Hägglunds business, as well as for artillery systems and munitions from our Bofors business.
- We continue to manage and operate the US Army's Radford and Holston ammunition plants and remain focused on key modernisation activities.
- We are maintaining our strong positions on naval guns, missile launch programmes and submarine programmes, as well as US Navy ship repair and modernisation activities where the business has invested in capitalised infrastructure and facilities in key home ports.

Segmental performance: Air

Air, with 26,700[1] employees, comprises the Group's UK-based air build and support activities for European and international markets, US programmes, development of our Future Combat Air Systems and FalconWorks®, alongside our business in the Kingdom of Saudi Arabia and interests in our European joint ventures: Eurofighter and MBDA.

Financial performance

Financial performance measures derived by Group[2]

	Six months ended 30 June 2024	Six months ended 30 June 2023
Sales	**£4,009m**	£3,786m
Underlying EBIT	**£446m**	£454m
Return on sales	**11.1%**	12.0%
Operating business cash flow	**£724m**	£1,330m
Order intake	**£2.3bn**	£8.4bn
	As at 30 June 2024	As at 31 December 2023
Order backlog	**£25.4bn**	£27.2bn

Financial performance measures derived from IFRS

	Six months ended 30 June 2024	Six months ended 30 June 2023
Revenue	**£3,252m**	£3,054m
Operating profit	**£456m**	£456m
Return on revenue	**14.0%**	14.9%
Cash flow from operating activities	**£697m**	£1,307m
	As at 30 June 2024	As at 31 December 2023
Order book	**£16.3bn**	£18.5bn

– Sales were £4.0bn, an increase of 7%[3] reflecting increasing activity on support programmes and MBDA. This is offset by a reduced contribution from the Qatar Typhoon programme as deliveries complete.

– Return on sales of 11.1% reflected good operational performance, with the comparative period benefitting from risk retirement.

– Operating business cash flow was £0.7bn. The comparative period reflected customer advances and down payments from the significant level of awards in the first half of 2023 including agreement of a further five-year Salam Typhoon support contract, valued at £3.7bn, as well as multiple awards in MBDA across both the import and export markets.

1. Including share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.
3. Constant currency basis.

Operational performance

We continue to work with our UK and international customers to support their existing platforms and provide new enhanced capabilities. We made further deliveries of Typhoon aircraft to Qatar. Our US Programmes division remains focused on delivery execution across all production lines. Our Future Combat Air and FalconWorks® organisations continue to invest in our people, facilities and cutting-edge technologies.

Operational highlights

- In the Kingdom of Saudi Arabia, we have continued to deliver services under the five-year Saudi British Defence Co-operation Programme and Salam Programme including our support to the Royal Saudi Air Force's Tornado and Typhoon fleets.
- Activity on our Qatar Typhoon and Hawk programmes continued with two further Typhoon deliveries in the first half of the year - a total of 20 Typhoon aircraft are now in service with the Qatar Emiri Air Force.
- In the first half, we continued to make good progress on discussions with our Japanese and Italian partners on GCAP. We also continued developing the UK flying combat air demonstrator, which will test next-generation skills, tools, processes and techniques needed to underpin GCAP and the entry into service of the core aircraft platform, which will be called Tempest in the UK, by 2035. At Farnborough International Airshow we unveiled a new concept model of the next-generation combat aircraft.
- Through FalconWorks®, our Air sector continues to invest in promising new and innovative technologies for the future, including the development of uncrewed systems in collaboration across industry.

Strategic and order highlights

- We have sustained production of the rear fuselage assemblies for the F-35 at full-rate levels at our Samlesbury site in the UK, with approximately 150 aft fuselages being completed annually. We have agreed pricing with Lockheed Martin for F-35 production lots 18/19, supporting the continuation of Major Unit production deliveries at Samlesbury into 2027.
- On GCAP, concept and assessment work continues with our international partners in all three nations under their respective national contracts.
- During the first half of 2024, we completed the acquisitions of Malloy Aeronautics Ltd and Callen-Lenz Associates Ltd, strengthening the position of the Group in the fixed wing and rotary UAS domains.
- MBDA secured significant orders in the first half of 2024, in particular in the Air Defence domain. These include production orders for ASTER missiles for the Italian Armed Forces, Patriot GEM-T missiles (under the European Sky Shield Initiative via the COMLOG Joint Venture) for the NATO Support and Procurement Agency and an expansion of Sea Ceptor with the Common Anti-Air Module Missile to include Polish, Swedish and Kingdom of Saudi Arabian navies.

Looking forward

- GCAP is a strategically important partnership that will foster innovation, technological advancements and safeguard long-term industrial capability to design, develop, manufacture and maintain combat aircraft and the wider systems within which they will operate in the UK.
- We will continue to focus on ensuring that deliveries of Typhoon aircraft and support are made in line with agreed customer milestones on our existing contracts. Current Typhoon production and support sales are underpinned by existing contracts and we continue to pursue a number of export opportunities in Europe and the Middle East to extend production beyond the latter part of this decade.
- We expect production of the rear fuselage assemblies for the F-35 to be sustained at current levels. The business plays a significant role in the F-35 sustainment programme in support of Lockheed Martin and support volumes should increase as the number of jets in service continues to rise.
- In the Kingdom of Saudi Arabia, the In-Kingdom Industrial Participation programme continues to make good progress consistent with our long-term strategy, whilst supporting the Kingdom’s National Transformation Plan and Vision 2030. A demonstration of this long-term strategy and commitment took place at the World Defense Show in Riyadh in February 2024, at which the Royal Saudi Air Force conducted an official acceptance ceremony, attended by key personnel from our customer and stakeholder community, for the final in-Kingdom manufactured Hawk Aircraft.
- We expect our Saudi in-Kingdom support business to remain stable underpinned by long-standing contracts that are anticipated to be renewed every five years, while we continue to address the Kingdom’s current and future combat air requirements.
- Our FalconWorks® organisation will continue to pursue internal and external investment opportunities which enhance our capabilities and technologies.
- MBDA has a strong order backlog and development programmes continue to improve the long-term capabilities of the business in air, land and sea domains. MBDA continues to be well placed to benefit from increased defence spending in Europe and internationally.

Segmental performance: Maritime

Maritime, with 28,500[1] employees, comprises the Group's UK-based maritime and land activities, including major submarine, ship build and support programmes, as well as our Australian business.

Financial performance

Financial performance measures derived by Group[2]

	Six months ended 30 June 2024	Six months ended 30 June 2023
Sales	**£2,929m**	£2,603m
Underlying EBIT	**£228m**	£193m
Return on sales	**7.8%**	7.4%
Operating business cash flow	**£(247)m**	£(79)m
Order intake	**£5.7bn**	£4.2bn
	As at 30 June 2024	As at 31 December 2023
Order backlog	**£24.0bn**	£21.3bn

Financial performance measures derived from IFRS

	Six months ended 30 June 2024	Six months ended 30 June 2023
Revenue	**£2,845m**	£2,541m
Operating profit	**£226m**	£192m
Return on revenue	**7.9%**	7.6%
Cash flow from operating activities	**£(91)m**	£37m
	As at 30 June 2024	As at 31 December 2023
Order book	**£23.1bn**	£20.4bn

– Sales of £2.9bn were up 14%[3], primarily due to increased activity on the Hunter Class Frigate Programme (HCFP).

– Underlying EBIT was up 19%[3], in line with the growth in sales, generating a return on sales of 7.8% (2023 7.4%).

– Operating business cash outflow of £247m was due to the ongoing capital investment programmes across a number of sites including the Ship Build Assembly Hall in Glasgow and our munitions facilities in Glascoed, combined with timing of receipts and payments.

– Order intake of £5.7bn has pushed order backlog to £24.0bn, primarily driven by the award of £4.6bn for Batch 1 of the HCFP.

1. Including share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.
3. Constant currency basis.

Operational performance

Our major Maritime platform programmes continue to progress, with construction of the first three Dreadnought Class submarines and the final two Astute Class submarines continuing at Barrow-in-Furness. Construction on the first four City Class Type 26 frigates is underway with the fifth ship currently forecast to commence construction later this year. In Australia, the HCFP has transitioned to the construction phase. We continue to support customer requirements in both Munitions and Maritime Services. Ongoing investments in our facilities and our people support this delivery and, with the future potential of the AUKUS trilateral programme, the sector is well positioned for growth.

Operational highlights

- We achieved a key milestone on the Astute programme with the official naming of the sixth boat, Agamemnon, in April. The next major step for Agamemnon is the launch which is expected later this year.
- The build of the first three of four Dreadnought Class submarines is also well underway at our Barrow-In-Furness site in Cumbria.
- Construction is underway on the first four City Class Type 26 frigates with a focus on skilled and experienced resource availability, including within the supply chain. The fifth ship, HMS Sheffield, is currently forecast to commence construction later this year. The first City Class Type 26, HMS Glasgow, is progressing through the key stages of outfit, test and commissioning, while the second ship, HMS Cardiff, is being prepared to enter the water for the first time later this year. HMS Belfast continues steelwork construction and unit consolidation ahead of benefiting from final consolidation in our new Ship Build Assembly Hall in Govan, Glasgow.

- In Australia, the HCFP has six schedule protection blocks in production and the programme successfully completed the Production Readiness Review. We entered the construction phase and officially cut steel on the first ship at a ceremony at the Osborne Naval Shipyard in Adelaide, South Australia in June.
- We have made good progress on the installation of Radar 1 as part of the JORN Phase 6 upgrade with the successful completion of Half Radar trials. The penultimate ship of the Anzac frigate upgrade programme, HMAS Ballarat, has returned to water.
- Our Maritime Services business has continued to support the Royal Navy, responding quickly to ensure HMS Prince of Wales was prepared and ready to deploy for NATO exercises in the Arctic. HMS Diamond was also activated to deploy from Gibraltar as part of Operation Kipion.
- Investment activity continues across our Munitions business to meet customer demand. This includes a new 155mm facility in Glascoed and an additional machining line in Washington, Tyne & Wear.
- In RBSL, the Challenger 3 programme has delivered the first two prototype series vehicles, with the first undergoing successful live firing trials. The RBSL Vehicle Support Services continue to support the UK Ministry of Defence and international customers.

Strategic and order highlights

- In Australia, the release of the Surface Combatant Review confirmed a commitment to the production of six Hunter Class frigates, with the contract for the first batch of three ships awarded in June. Following the cancellation of the TransCAP element of the Anzac frigate upgrade programme, we are working with the Commonwealth to determine the appropriate utilisation of our Henderson facility in Western Australia.
- Following the £3.95bn contract from the UK Ministry of Defence last year, we have made substantial progress on the SSN-AUKUS programme, reaching key design maturity milestones. In March, as part of the AUKUS trilateral security pact, the Australian Government announced it had selected BAE Systems and ASC Pty Ltd to build Australia's new future fleet of nuclear powered submarines.
- In March, former UK Prime Minister Rishi Sunak visited our Barrow-in-Furness site to announce the publication of the Government's Defence Nuclear Enterprise Command Paper, which sets out the critical role of the town and BAE Systems' skilled workforce in helping to deliver the national endeavour.
- The build of our new Ship Build Assembly Hall in Govan is maturing according to schedule and is expected to be fully operational in 2025. The build of our Applied Shipbuilding Academy in Scotstoun is on schedule and due to formally open later this year, providing world-class training and upskilling opportunities for our entire Naval Ships workforce.

Looking forward

- The outlook for our Maritime sector remains positive based on long-term contracted positions, with a number of UK, Australian and international opportunities.
- Our Submarines business is executing across three long-term programmes: Astute; Dreadnought; and SSN-AUKUS. Investment continues in the facilities at our Barrow-in-Furness shipyard in order to provide the capabilities to deliver these long-term programmes.
- In shipbuilding, sales are underpinned by the manufacture of Type 26 frigates. In warship support, the fleet time support, upkeeps and capability insertions across a number of vessel classes provide a sustainable business in technical services and upgrades.
- In Australia, we are a key partner to the Commonwealth in the delivery of its National Defence Strategy (NDS), which seeks a strategy of denial and an integrated, focused force. AUKUS nuclear powered submarines, an enhanced lethality surface fleet, strategic surveillance and long range strike are prioritised in the Integrated Investment Plan which supports the NDS.
- As the UK Ministry of Defence’s long-term strategic partner for munitions supply, we continue to focus our operations in support of the UK Ministry of Defence and the UK’s NATO allies, as well as other customers.

Segmental performance: Cyber & Intelligence

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

Financial performance

Financial performance measures derived by Group[2]

	Six months ended 30 June 2024	Six months ended 30 June 2023
Sales	**£1,182m**	£1,157m
Underlying EBIT	**£101m**	£96m
Return on sales	**8.5%**	8.3%
Operating business cash flow	**£16m**	£51m
Order intake	**£1.2bn**	£1.4bn
	As at 30 June 2024	As at 31 December 2023
Order backlog	**£1.9bn**	£2.0bn

Financial performance measures derived from IFRS

	Six months ended 30 June 2024	Six months ended 30 June 2023
Revenue	**£1,182m**	£1,157m
Operating profit	**£97m**	£88m
Return on revenue	**8.2%**	7.6%
Cash flow from operating activities	**£40m**	£86m
	As at 30 June 2024	As at 31 December 2023
Order book	**£1.3bn**	£1.4bn

– Sales increased by 4%[3], to £1.2bn, with the US business seeing increased operations.

– Underlying EBIT was up 7%[3] delivering a return on sales of 8.5%.

– Order backlog has remained steady against the prior year, with a book-to-bill[4] ratio of 1.0.

1. Including share of equity accounted investments.
2. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.
3. Constant currency basis.
4. Ratio of Order intake to Sales.

Operational performance

Our Intelligence & Security business has demonstrated strong performance, providing innovative solutions to government customers in the US Department of Defense, federal agencies and civilian organisations. Our focus remains on creating a robust pipeline of qualified business opportunities across our US-based business areas, including Air & Space Force Solutions, Integrated Defense Solutions and Intelligence Solutions.

In Digital Intelligence, we have continued to work collaboratively to collect, connect and understand complex data for governments, nation states, armed forces and commercial businesses in both the UK and international markets. Our services, solutions and products span customers in Law Enforcement, National Security, Central Government, Critical National Infrastructure, Telecommunications, Defence and Space.

Operational highlights

- As part of the Ball Aerospace acquisition in mid-February, we acquired Topaz Intelligence, which is now part of our Intelligence & Security business. This acquisition expands our Modelling & Simulation portfolio to provide data intelligence-as-a-service to drive agile decision making for customers.
- We successfully delivered a prototype constructive simulation solution with the goal of enhancing mission command, training and predictive analysis capabilities from the tactical to the operational level to the US Army Europe and Africa Command in support of its war planning exercise effort "Austere Challenge 2024" that was conducted in March.
- In Digital Intelligence, we have made good progress in advancing or securing positions on strategic programmes in National Security, Defence and the Middle East.
- During the period, in collaboration with University of Portsmouth, we launched the UK's first ever degree apprenticeship in Space Systems Engineering.

Strategic and order highlights

- Our Intelligence Solutions business was awarded multiple contracts with a total potential life cycle value of more than $600m (£474m).
- In February 2024, BAE Systems was notified that we were not selected for the ISC 2.0 contract, which followed corrective action taken by the US Air Force following an earlier sustained protest upheld by the Government Accountability Office (GAO). Subsequently, in March 2024, we filed a protest to this award and were notified in June 2024 that the GAO had sustained our protest and recommended the US Air Force take additional corrective action. The Air Force has not yet stated what corrective action it will take. Our current ISC 1.0 contract runs through January 2025.
- Our Integrated Defense Solutions business was awarded a five-year, $87m (£69m) contract to provide engineering and technical services for new and legacy Mobile Deployable C5ISR systems and platforms. Under this US Naval Air Systems Command contract, we will continue our support to a variety of C5ISR products including small craft, transportable systems, en-route communication systems, and intra-platform systems for US Navy, Special Operations Forces, Homeland Security and other Department of Defense agencies.
- We secured a spot on the Federal Bureau of Investigation's ITSSS-2 BPA – the largest IT contract vehicle ever established by the FBI with accessibility broadly within the Department of Justice and an estimated spend of $8bn (£6bn) over the next eight years. This award is crucial to defending and growing our work for this critical customer.
- In Digital Intelligence, we secured key renewals and extensions on existing contracts as well as seeing the emergence of new customers across the UK and international markets.
- In the space domain, our Digital Intelligence business has consolidated In-Space Missions with space expertise across the Digital Intelligence business to focus and expand capabilities in this area.

Looking forward

- Our Intelligence & Security business continues to maintain a promising pipeline of qualified business opportunities. Despite some delays in Department of Defense procurement decisions, we have observed an increase in demand driven by ongoing global security threats.
- The outlook for our US Government services in Intelligence & Security is strong, offering opportunities for mid-term growth. However, market conditions remain highly competitive and are subject to shifts in response to US Government priorities.
- We continue to actively expand our wargaming capabilities to new markets and customers both domestically and internationally, enhancing our potential for growth and diversification in the modelling, simulation and synthetic training environment through the strong positions held by both Bohemia Interactive Simulations and Pitch Technologies.
- In Digital Intelligence, we continue to ensure the business is optimally placed to take advantage of favourable market conditions. Going forward, we are looking to progress strategic engagements and campaigns with key customers and gain accreditation for cross-domain products for the US market.

Principal risks and uncertainties

Having considered recent geopolitical and macroeconomic events, the Group believes the principal risks and uncertainties we face for the remainder of the year are included in, and are therefore unchanged from, those reported in the Annual Report 2023.

The Group's principal risks and uncertainties at 31 December 2023 were detailed on pages 70 to 77 of the Annual Report 2023, and related to the following areas: government customers, defence spending and terms of trade; contract risk, execution and supply chain; international markets; cyber security; people; safety; acquisitions; climate change and the environment; laws and regulations; outbreak of contagious diseases; and pension funding.

Responsibility statement of the directors in respect of the half-yearly financial report

Each of the directors (as detailed below) confirms that to the best of his/her knowledge:

- The condensed set of financial statements has been prepared in accordance with United Kingdom adopted International Accounting Standard 34 Interim Financial Reporting.
- The interim management report on pages 1 to 25 includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules (DTR), being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

  (b) DTR 4.2.8R of the DTR, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Company during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the directors:

Cressida Hogg

Chair
31 July 2024

Directors

Cressida Hogg	Chair
Charles Woodburn	Chief Executive
Tom Arseneault	President and Chief Executive Officer of BAE Systems, Inc.
Brad Greve	Chief Financial Officer
Nick Anderson	Non-executive director
Crystal E. Ashby	Non-executive director
Angus Cockburn	Non-executive director
Dame Elizabeth Corley	Non-executive director
Jane Griffiths	Non-executive director
Ewan Kirk	Non-executive director
Stephen Pearce	Non-executive director
Nicole Piasecki	Non-executive director
Lord Mark Sedwill	Non-executive director