BAE Systems plc
Preliminary Results Announcement 2024

Charles Woodburn, Chief Executive, said: *"The results we're reporting today reflect the outstanding efforts of our employees and continue our track record of strong top-line and earnings growth, free cash flow and orders.*

"We're supporting our customers around the world, while shaping our portfolio towards higher growth and strategically important markets. Across our business, we're also investing in our people, facilities and technologies to drive efficiencies, boost capacity and increase our agility to deliver in a rapidly evolving environment.

"Based on the exceptional visibility of our record order backlog and sustainability of our value-compounding business model, we remain confident in the positive momentum of our business into the future."

Financial highlights

Financial performance measures as defined by Group[1]	Year ended 31 December 2024	Year ended 31 December 2023	Variance[2]
Sales	**£28,335m**	£25,284m	14%
Underlying earnings before interest and tax (EBIT)	**£3,015m**	£2,682m	14%
Underlying Earnings Per Share (EPS)	**68.5p**	63.2p	10%
Free cash flow	**£2,505m**	£2,593m	£(88)m
Order intake	**£33.7bn**	£37.7bn	£(4.0)bn
Order backlog	**£77.8bn**	£69.8bn	£8.0bn

Financial performance measures as derived from IFRS	Year ended 31 December 2024	Year ended 31 December 2023	Variance[2]
Revenue	**£26,312m**	£23,078m	14%
Operating profit	**£2,685m**	£2,573m	4%
EPS – basic	**64.9p**	61.3p	6%
Net cash flow from operating activities	**£3,925m**	£3,760m	£165m
Order book	**£60.4bn**	£58.0bn	£2.4bn
Dividend per share	**33.0p**	30.0p	10%

As defined by Group

- The 14%[2] growth in sales and underlying EBIT reflects strong programme performance across all sectors and the benefit of M&A activities in the year, including the acquisition of Ball Aerospace (now Space & Mission Systems (SMS)) in February.
- Growth of 10%[2] in underlying EPS reflects the increase in underlying EBIT, partially offset by the increase in underlying net finance costs incurred as a result of the $4.8bn (£3.8bn) debt finance raised in the year.
- Free cash flow was £2,505m, reflecting a high level of customer advances towards the end of the year and strong operational cash conversion. This was offset by higher capital expenditure and net finance costs.
- Our order backlog grew by 11% to a record £77.8bn, which included order backlog of £3.0bn related to SMS.

As derived from IFRS

- The growth in revenue of 14% reflects the same strong programme performance across the portfolio.
- Operating profit was up 4% as the growth in underlying EBIT was offset by the additional amortisation of intangible assets acquired with SMS.
- Basic EPS was up 6%, also reflective of the additional finance costs and amortisation of intangibles incurred as a result of M&A activities in the year.
- The increase in net cash flow from operating activities was driven by strong operational cash conversion.

Capital deployment

- The Board has recommended a final dividend of 20.6p, taking the total dividend for 2024 to 33.0p - an increase of 10% on last year. Subject to shareholder approval at the 2025 Annual General Meeting, the dividend will be paid on 2 June 2025 to shareholders on the share register on 22 April 2025.
- During the year, the Company repurchased 43m of shares under our share buyback programmes, at a cost of £555m. Combined with dividends, the Group returned £1,492m to shareholders in the year ended 31 December 2024.
- In March, we successfully raised \$4.8bn (£3.8bn) of debt finance following the \$5.5bn (£4.4bn) acquisition of Ball Aerospace.

Delivering for our customers

Our continued focus on operational performance and contracting discipline enables our consistent delivery of critical capabilities and technologies for our customers worldwide. During the year, we secured £33.7bn of orders and made good progress executing on our long-term major programmes. Highlights included:

- we reached agreement with our international partners, Leonardo SpA and Japan Aircraft Industrial Enhancement Co Ltd (JAIEC), to form a new joint venture company, which will be accountable for the design, development and delivery of a next generation combat aircraft under the Global Combat Air Programme (GCAP), subject to regulatory approvals;
- under the AUKUS announcement, we were selected to deliver Australia's new fleet of nuclear-powered submarines, alongside ASC Pty Ltd (ASC). In November, we also entered into an initial mobilisation arrangement with the Australian Government to progress its SSN-AUKUS programme together with ASC;
- we signed a contract, worth £4.6bn, for the delivery of the first three Hunter Class frigates in Australia, following which, 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;
- continued strong demand for our combat vehicles and, building on an initial contract in May, our Hägglunds business received further orders in December, bringing the total value to approximately \$2.5bn (£2.0bn); and
- multiple satellite launches with our systems on board for the US Space Force and NASA. We also completed testing and delivery of the primary scientific instrument for the Nancy Grace Roman Space Telescope to NASA's Goddard Space Flight Center.

Investing in tomorrow

Alongside good operational delivery, we continue to invest in our people, research and development (R&D) and capital expenditure. Highlights included:

- we recruited around 2,300 new apprentices and graduates in the UK and, in the US our intern programme provided placement opportunities for nearly 500 interns;
- we opened our new state-of-the-art shipbuilding academy in Glasgow, UK, greatly enhancing our ability to develop and train our Naval Ships workforce and expanding on our established academies in Barrow-in-Furness and Samlesbury, UK;
- we made significant progress on the construction of our new ship build assembly hall in Glasgow, which we expect to be fully operational in 2025;
- we are investing more than £160m in our Hägglunds business, based in Sweden, in advanced manufacturing capabilities and a new customer test and acceptance centre to expand our production and delivery capabilities; and
- we have committed to investing £220m in an advanced technology factory in Rochester, UK, to support our UK-based Electronic Systems business, which is expected to deliver increased capacity through a more efficient and sustainable facility.

Shaping the portfolio

We continued to enhance our world class portfolio to strengthen our relevance in a rapidly evolving global threat environment. Highlights included:

- making excellent progress on integration activities within our new SMS business, with the bulk of our core systems and processes now transitioned;
- reducing our shareholding in Air Astana from 49% to 17%, following its Initial Public Offering (IPO) in February - with cash proceeds on disposal of £166m and a profit on disposal of £75m; and
- completing several smaller acquisitions in the UK during the year to strengthen our drone and counter-drone capabilities.

Group guidance[3] for 2025

Guidance is provided on the basis of an exchange rate of $1.28:£1, which is in line with the actual 2024 exchange rate.

Year ended 31 December 2025	Guidance	Year ended 31 December 2024 Results
Sales	**Increase by 7% to 9%**	£28,335m
Underlying EBIT	**Increase by 8% to 10%**	£3,015m
Underlying EPS	**Increase by 8% to 10%**	68.5p
Free cash flow target	**>£1.1bn**	£2,505m

Three-year cumulative free cash flow guidance	Guidance
Cumulative free cash flow 2023-2025 (previously in excess of £5.0bn)	In excess of £6.0bn
Cumulative free cash flow 2024-2026 (previously in excess of £5.0bn)	In excess of £5.5bn
Cumulative free cash flow 2025-2027	In excess of £5.5bn

- Underlying net finance costs c.£400m
- Effective tax rate c.20%
- Non-controlling interests c.£90m

Sensitivity to foreign exchange rates: the Group operates in a number of currencies, the most significant of which is the US dollar. As a guide, a 5 cent movement in the £/$ exchange rate will impact sales by c.£525m, Underlying EBIT by c.£75m and Underlying EPS by c.1.4p.

1. We monitor the underlying financial performance of the Group using alternative performance measures (APMs). These measures are not defined in International Financial Reporting Standards (IFRS) and therefore are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. The relevant IFRS measures are presented where appropriate. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.
2. Growth rates for sales, underlying EBIT and underlying EPS are on a constant currency basis (i.e. calculated by translating the results from entities in functional currencies other than pounds sterling for the year ended 31 December 2023 to pounds sterling at the average exchange rate of such currencies for the year ended 31 December 2024). The comparatives have not been restated. All other growth rates and year-on-year movements are on a reported currency basis.
3. While the Group is subject to geopolitical and other uncertainties, the Group guidance is provided on current expected operational performance. The guidance is based on the measures used to monitor the underlying financial performance of the Group.

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Analyst and investor presentation

A presentation, for analysts and investors, of the Group's Results for 2024 will be available at 9.00am GMT today (19 February 2025) on the investor website, followed by a live Q&A.

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

About BAE Systems

We are supporting our customers so that they can stay ahead of evolving threats across land, sea, air, cyber and space. We are a workforce of 107,400[1] highly skilled people in more than 40 countries. Working with our customers and local partners, we develop, engineer, manufacture and support products and systems that deliver military capability, protect national security and keep critical information and infrastructure secure.

1. As at 31 December 2024 and including share of equity accounted investments.

Shareholder information

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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 plc 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, appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of BAE Systems plc concerning, amongst other things, its results in relation to operations, financial condition, liquidity, prospects, growth, commitments and targets (including environmental, social and governance commitments and targets), strategies and the industry in which it operates. Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "intends", "will", "will continue", "should", "would be", "seeks", "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not guarantees of future performance and the actual results of operations, financial condition and liquidity of BAE Systems plc, the development of the industry in which it operates and the ability of BAE Systems plc to meet its commitments and targets may differ materially from those made in or suggested by the forward-looking statements contained in this document. In addition, even if results of operations, financial condition and liquidity of BAE Systems plc, the development of the industry in which it operates and/or performance against commitments and targets are consistent with the forward-looking statements contained in this document, those results, developments or performance may not be indicative of results, developments or performance in subsequent periods.

These forward-looking statements speak only as of the date of this document. Subject to the requirements of the Disclosure Guidance and Transparency Rules, the Market Abuse Regulation or applicable law, BAE Systems plc explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of it. All subsequent written and oral forward-looking statements attributable to either BAE Systems plc or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to herein and contained elsewhere in this document.

BAE Systems plc and its directors accept no liability to third parties in respect of this document save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Schedule 10A of the Financial Services and Markets Act 2000. It should be noted that Schedule 10A and Section 463 of the Companies Act 2006 contain limits on the liability of the directors of BAE Systems plc so that their liability is solely to BAE Systems plc.

Preliminary results statement

Overview

In November 2024, we celebrated the 25th anniversary of British Aerospace and Marconi Electronic Systems coming together to create BAE Systems.

Even as the world around us has changed dramatically, our deep commitment to collaboration and building long-term partnerships means that government customers have trusted us for decades to develop the next generation of defence and security capabilities.

Today, nations are facing increasingly varied and complex threats to security. These growing threats have reinforced the essential nature of our work and highlighted the need for continued global investment in defence.

By focusing on operational excellence, contracting discipline and growing our workforce, we are consistently delivering critical capabilities and technologies for our customers worldwide.

The fundamentals of the business are strong and 2024 was another year of strong operational and financial performance, extending our track record of delivery.

We know that our success relies on our people, their unwavering focus on protecting those who protect us and our tireless commitment to responsible business practices. We continue to invest in our people and our business for the long term, which together with our broad geographic and product diversity, positions us well for more growth in the years ahead.

Delivering for our customers

We made good operational progress in 2024, as our highly skilled employees continued to support our customers, helping them to stay ahead of evolving threats across land, sea, air, cyber and space.

Our focus on operational excellence continues to benefit our customers and shareholders, as we execute on complex, long-term programmes like Dreadnought, Type 26 and Hunter Class frigates, Typhoon and F-35 jets, electronic warfare systems, combat vehicles, and many other programmes across our business.

We also maintained momentum on key strategic international collaborations, which will define the next generation of capabilities and underpin our business for decades to come. Working with our industry partners in Italy and Japan, we reached agreement to form a joint venture, subject to regulatory approvals, to design and develop next-generation fighter jets under GCAP while, under the AUKUS announcements, we have been selected to partner with the Australian submarine builder ASC Pty Ltd to deliver Australia's SSN-AUKUS programme.

Our financial performance

We finished the year by delivering records across our key financial measures of order backlog, sales, underlying EBIT, underlying EPS and dividend per share.

On a constant currency basis, we grew sales and underlying EBIT by 14% and underlying EPS by 10%. We delivered £2.5bn of free cash flow, taking our three-year cumulative free cash flow to over £7.0bn.

Our order intake was £33.7bn which, combined with £3.0bn of order backlog in SMS, pushed our order backlog to a record £77.8bn.

We ended 2024 with a strong balance sheet, featuring a cash position of £3.4bn, after we returned a further £1.5bn to shareholders in the year. Our net debt (excluding lease liabilities) of £4.9bn is an increase of £3.9bn and primarily reflects M&A activity, including the $5.5bn (£4.4bn) Ball Aerospace acquisition which was partially funded by debt raised during the year.

Our strong financial performance gives us the strategic flexibility to invest in the business to support its long-term strength and expected growth, whilst maintaining focused and disciplined capital allocation.

Investing in tomorrow

Investing in our people, technologies and facilities is essential to achieving our ambitions and ensuring our business has the agility to anticipate and respond to the emerging threats our government customers face in a constantly changing world.

We grew our global workforce by 7,600, including employees within our SMS business, to 107,400 employees. Given the long-term nature of many of our programmes, we are particularly focused on early careers to sustain our talent pipeline, recruiting around 2,300 apprentices and graduates in the UK. We increased our self-funded R&D to £357m, in key technology areas including electronic warfare, autonomy, laser-guided weapons, uncrewed air systems (UAS), synthetic training, electrification applications and space solutions.

We also increased capital expenditure, compared to 2023, taking it to over £1.0bn as we continue to develop and modernise our systems and facilities to deliver an effective working environment and build greater capacity for the future, focused primarily on maritime, munitions, combat vehicles and electronics.

Shaping the portfolio

Alongside our organic investment, we are evolving our portfolio with a focus on the advanced technologies we believe will be highly relevant as our customers address evolving global threats and which will help drive higher growth. Notably, we completed the largest acquisition in the Company's history: the acquisition of Ball Aerospace in the US, forming our new SMS business and significantly enhancing our presence in the growing space market. We also made a number of smaller acquisitions in the UK, which further strengthen our UAS and counter UAS capabilities, and divested certain non-core business areas.

Our capital distribution

The strength and outlook for the Group, alongside our disciplined capital allocation, means that, after increasing investments in our people, technologies and capital expenditure, we were able to increase returns to shareholders. During the year, the Company repurchased £555m worth of shares and paid £937m in dividends, returning £1,492m to shareholders. The Board has recommended a 20.6p final dividend for approval by shareholders at the 2025 Annual General Meeting, which will take the total dividend in respect of 2024 to 33.0p – an increase of 10% on last year.

Our market differentiation

Our business has a unique combination of a diverse geographic footprint and multi-domain capabilities. We believe our technologies, expertise and global reach position BAE Systems as a leader in our industry and enable us to support our customers to meet the elevated threat environment of today and tomorrow. This breadth continues to be a real strength and a differentiator.

Looking ahead, our key growth drivers are spread across major markets and include huge multi-national endeavours, including GCAP and AUKUS, which are significant for the Group in the medium and long term, and highlight the global reach, scale and longevity of our business.

Responsible business

The work we do is vital. We support our government customers to fulfil their primary obligation to keep their citizens safe, whilst contributing to the economic and social development of the communities and nations in which we operate, helping to build a stronger and more secure future.

Our people are the heart of everything we do and it is critical that we attract and retain the very best talent so that we can support our customers' requirements and our own long-term growth. We remain fully committed to fostering a workplace culture and environment where everyone feels they belong and can thrive, which includes investing in our people's skills development from early careers through to lifelong learning.

The safety, health and wellbeing of our people is an enduring priority. Despite our focused efforts, our safety performance deteriorated in 2024 and we are committed to strengthening our safety management programme to improve our performance in 2025 and beyond.

We continue to focus on resource efficiency, ensuring that our energy and infrastructure strategies reduce our greenhouse gas emissions across our operations, while supporting our business growth.

We do all of this while maintaining a robust governance structure and high standards. This includes continuing to operate under tight regulation and complying fully with applicable trade controls and sanctions.

Board changes

In September, Lord Sedwill stood down from the Board as a Non-Executive Director due to his evolving parliamentary and other commitments.

Summary investment case

We have a strong track record of delivering financial returns for investors and, through the careful long-term sustainable management and governance of our business, we are well placed to continue to generate good returns. This is supported by our seven key advantages:

1. We provide customers with world-class defence products and capabilities across multiple markets.
2. We undertake multi-decade programmes with long-term embedded value. Our contract order backlog provides a high level of sales visibility, driven by multi-year programmes.
3. We have a growing global opportunity pipeline. Our diverse geographic footprint supports us in pursuing excellent opportunities across all sectors as countries around the world face up to the multi-faceted threat environment.
4. We foster a high-performance, innovative culture and consistently invest in R&D to build on existing world-leading capabilities and generate new innovative and disruptive technologies.
5. We have an intense focus on operational excellence, with strong, consistent programme performance. We focus on creating value for our investors and customers.
6. Sustainability is embedded in our business - it forms part of our strategic framework and underpins our purpose.
7. We operate a value-enhancing operating model, undertaking our core business activities with a clear, consistent and careful capital allocation.

Group financial review

Group income statement	Underlying - as defined by the Group[1]		Statutory - as derived from IFRS	
	2024 £m	2023 £m	**2024 £m**	2023 £m
Sales/Revenue	**28,335**	25,284	**26,312**	23,078
Underlying EBIT/Operating profit	**3,015**	2,682	**2,685**	2,573
Finance income	**117**	131	**135**	172
Finance costs	**(513)**	(342)	**(488)**	(419)
Net finance costs	**(396)**	(211)	**(353)**	(247)
Profit before tax	**2,619**	2,471	**2,332**	2,326
Tax expense	**(469)**	(472)	**(291)**	(386)
Profit for the year[2]	**2,150**	1,999	**2,041**	1,940
Return on Sales/Revenue	**10.6%**	10.6%	**10.2%**	11.1%

Reconciliation of underlying EBIT to operating profit

	2024 £m	2023 £m
Underlying EBIT	**3,015**	2,682
Adjusting items	**23**	40
Amortisation of programme, customer-related and other intangible assets, and impairment of equity accounted investments and intangible assets	**(344)**	(116)
Net finance income and tax of equity accounted investments	**(9)**	(33)
Operating profit	**2,685**	2,573

As defined by the Group

Sales for the year were £28.3bn (2023 £25.3bn) representing growth, on a constant currency basis[3], of 14% (2023 9%). All sectors delivered growth in the year as detailed below.

Electronic Systems recorded sales of £7.2bn (2023 £5.5bn), equating to growth of 35% (2023 9%) on a constant currency basis and including the benefit of SMS. Excluding SMS, our Electronic Systems sector delivered organic growth of 9% driven by the precision strike & sensing and commercial aviation businesses.

Our Platforms & Services sector posted sales of £4.4bn (2023 £3.9bn), with growth of 15% (2023 8%) on a constant currency basis. The US combat vehicles business grew following demand for Armored Multi-Purpose Vehicles (AMPV) and Bradley vehicles, while Hägglunds and Bofors both grew with European demand for CV90 and Archer.

The Air sector recorded sales of £8.5bn (2023 £8.1bn), representing growth of 7% (2023 4%) on a constant currency basis. Activities in MBDA increased combined with our acquisitions in FalconWorks®, which have expanded our capabilities in UAS.

Maritime recorded sales of £6.2bn (2023 £5.5bn), with growth of 12% (2023 22%) on a constant currency basis. The ramp-up of the Hunter Class frigate programme in Australia contributed significantly to the growth, with our submarines business in the UK also making a material contribution from design work on SSN-AUKUS in the year. Demand for munitions also increased on 2023.

Sales in the Cyber & Intelligence sector grew to £2.4bn (2023 £2.3bn), an increase of 6% (2023 6%) on a constant currency basis.

Underlying EBIT was up 14% (2023 9%), on a constant currency basis, to £3,015m (2023 £2,682m).

Our Electronic Systems sector grew underlying EBIT to £1,071m (2023 £878m), an increase of 25% (2023 5%), on a constant currency basis, and including the benefit of SMS. Excluding SMS, our Electronic Systems sector had organic growth of 6% following the increase in sales. Return on sales was 14.9% (2023 16.1%) due to absorption of lower pension recoveries and incorporation of SMS.

Platforms & Services reported underlying EBIT of £448m (2023 £354m), an increase of 29% (2023 10%) on a constant currency basis, with return on sales increasing to 10.2% (2023 9.0%). This was driven by full-rate production volumes on AMPV, combined with growth in our Hägglunds and Bofors businesses.

Our Air sector reported underlying EBIT of £1,007m (2023 £949m), an increase of 7% (2023 12%) on a constant currency basis, maintaining a strong return on sales of 11.8% (2023 11.8%). This was driven by higher sales volumes.

Maritime reported underlying EBIT of £474m (2023 £425m), growth of 12% (2023 20%) on a constant currency basis in line with sales, delivering a return on sales of 7.7% (2023 7.7%).

Finally, Cyber & Intelligence reported underlying EBIT of £199m (2023 £199m), with a return on sales of 8.3% (2023 8.6%).

Adjusting items totalled a net gain of £23m (2023 £40m). During the year, the Group realised a net profit of £94m on the disposal of a number of businesses, the most significant being the partial disposal of our partial shareholding in Air Astana which generated a profit of £75m. In addition, we recognised a settlement gain of £13m on a US pension buyout. This was largely offset by £72m of acquisition and integration-related costs, primarily in relation to Ball Aerospace, and £12m of other costs related to historic business transactions.

Underlying net finance costs were £396m (2023 £211m), an increase of £185m. Of this, net costs of £455m (2023 £231m) related to the Group and net income of £59m (2023 £20m) related to the Group's share of equity accounted investments.

As derived from IFRS

Revenue was £26.3bn (2023 £23.1bn) with growth during the year of 14% (2023 9%), on a reported currency basis, reflective of the same drivers behind the increase in sales for the year excluding the impact of MBDA in the Air sector and other equity accounted investments.

Operating profit increased 4% (2023 8%), to £2,685m (2023 £2,573m), on a reported currency basis. On an operating sector basis this reflected the same drivers as underlying EBIT, however, operating profit also reflected additional costs from the amortisation of acquired intangibles and impairment of equity accounted investments and intangibles, which increased by £228m to £344m in 2024. Of the £344m incurred in the year, £213m related to the assets acquired with Ball Aerospace.

Net finance costs were £353m (2023 £247m), an increase of £106m reflective of the additional cost of debt raised during the year. Interest on loans and financial instruments totalled £482m compared to £286m in 2023.

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.
2. On a Group basis, £85m (2023 £83m) of profit for the year is attributable to non-controlling interests, with £2,065m (2023 £1,916m) attributable to equity shareholders. On an IFRS basis, £85m (2023 £83m) of profit for the year is attributable to non-controlling interests, with £1,956m (2023 £1,857m) attributable to equity shareholders.
3. Current year compared with prior year translated at current year exchange rates. The comparatives have not been restated.

Earnings per share (EPS)

As defined by the Group[1]	2024	2023
Underlying earnings for the year attributable to equity shareholders	£2,065m	£1,916m
Underlying EPS	68.5p	63.2p

As derived from IFRS	2024	2023
Profit for the year attributable to equity shareholders	£1,956m	£1,857m
Basic EPS	64.9p	61.3p

As defined by the Group

Underlying EPS increased to 68.5p (2023 63.2p), 10% on a constant currency basis. This is largely driven by the improved underlying profit for the year, with detailed movements set out in the table below.

As derived from IFRS

Basic EPS increased 6% to 64.9p (2023 61.3p) with the gain in underlying profit being offset by amortisation on the intangibles acquired within the year, predominantly within our SMS business.

Movement in underlying EPS

	2024 pence	2023 pence
As at 1 January	63.2	55.5
Foreign exchange	(1.0)	(0.2)
Underlying EBIT (excluding impact of M&A activity)	5.7	5.8
Impact of M&A activity	0.6	-
Underlying net finance costs (excluding impact of M&A activity)	(1.4)	0.8
Tax	1.0	(0.2)
Share repurchases	0.4	1.5
As at 31 December	68.5	63.2

Orders

As defined by the Group[1]	2024 £bn	2023 £bn
Order intake[2]	33.7	37.7
Order backlog[2]	77.8	69.8

As derived from IFRS	2024 £bn	2023 £bn
Order book[3]	60.4	58.0

Order intake, was £33.7bn which, combined with £3.0bn of order backlog in SMS, pushed order backlog to a record of £77.8bn. Order intake remained high across all sectors. Details of awards in the year are covered in the segmental reviews on pages 14 to 24 with significant orders in the year including:

- In Maritime, a contract worth £4.6bn for delivery of the first three Hunter Class frigates (Batch 1) in Australia, following which 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.
- Our Hägglunds business, within the Platforms & Services sector, received orders worth a total of approximately $2.5bn (£2.0bn) for CV9035 MkIIIC vehicles for Sweden and Denmark.
- Our Air sector confirmed orders totalling £1.1bn for our work share on additional Typhoon aircraft, including 25 for the Spanish Air Force and up to 24 for the Italian Air Force.

1. The purposes and definitions of non-GAAP measures are provided in the Alternative performance measures section on page 46.
2. Including share of equity accounted investments.
3. Order book represents the transaction price allocated to unsatisfied and partially satisfied performance obligations as defined by IFRS 15 Revenue from Contracts with Customers.

Net debt (excluding lease liabilities)

Components of net debt[1]	2024 £m	2023 £m
Cash and cash equivalents	**3,378**	4,067
Debt-related derivative financial instruments (net)	**89**	22
Loans – non-current	**(7,713)**	(4,432)
Loans – current	**(699)**	(679)
Net debt (excluding lease liabilities)	**(4,945)**	(1,022)

Cash and cash equivalents of £3,378m (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 year, 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 year.

The Group's net debt (excluding lease liabilities) at 31 December 2024 was £4,945m (2023 £1,022m), a net increase of £3,923m (2023 decrease of £1,001m) from the position at the start of the year. This was primarily as a result of M&A activities in the year, including the $5.5bn (£4.4bn) acquisition of Ball Aerospace which was partially funded by debt finance raised during the year.

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

Movement in net debt (excluding lease liabilities)	2024 £m	2023 £m
As at 1 January	**(1,022)**	(2,023)
Operating business cash flow	**3,093**	3,218
Interest and tax	**(588)**	(625)
Shareholder returns	**(1,492)**	(1,418)
Business transactions and other	**(4,936)**	(174)
As at 31 December	**(4,945)**	(1,022)

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

Balance sheet

	2024 £m	2023 £m
Goodwill	**13,297**	11,386
Other intangible assets	**2,965**	713
Property, plant and equipment, right-of-use assets and investment property	**6,636**	5,003
Equity accounted investments and other investments	**906**	916
Working capital	**(6,386)**	(5,468)
Lease liabilities net of finance lease receivables	**(1,817)**	(1,396)
Group's share of IAS 19 post-employment benefits surplus	**768**	229
Net tax assets and liabilities	**422**	474
Net other financial assets and liabilities	**(69)**	(112)
Net debt (excluding lease liabilities)	**(4,945)**	(1,022)
Net assets	**11,777**	10,723

Goodwill of £13.3bn (2023 £11.4bn) was an increase of £1.9bn on the prior year, driven by M&A activities including the acquisition of Ball Aerospace.

Other intangible assets of £3.0bn (2023 £0.7bn) was an increase of £2.3bn on the prior year, also driven by the acquisition of Ball Aerospace and other M&A activities.

Property, plant and equipment, right-of-use assets and investment property was £6.6bn (2023 £5.0bn), an increase of £1.6bn. Property, plant and equipment increased by a net £1.2bn, reflecting M&A activities and capex spend across the business, offset by depreciation.

Equity accounted investments and other investments was £906m (2023 £916m). The partial disposal of the Group's partial shareholding in Air Astana and disposal of its 49% interest in FNSS were offset by a net increase in the Group's share of profits of its remaining equity accounted investments.

Working capital saw a £0.9bn decrease, in aggregate, mainly reflecting the movement on customer advances and the impact of M&A activities.

Lease liabilities, net of finance lease receivables, was £1.8bn (2023 £1.4bn), with the increase being driven by lease renewals in the year, mainly in the Air sector.

The Group's share of the net IAS 19 post-employment benefits surplus was £0.8bn (2023 £0.2bn), net of a 25% (2023 35%) withholding tax of £0.4bn (2023 £0.4bn). The increase in the net surplus of £0.5bn largely reflects changes in the underlying assumptions. Details of the Group's post-employment benefit schemes are provided in note 6.

Cash flow

As defined by Group[1]	**2024 £m**	2023 £m
Free cash flow	**2,505**	2,593
Operating business cash flow	**3,093**	3,218

As derived from IFRS	**2024 £m**	2023 £m
Net cash flow from operating activities	**3,925**	3,760
Net cash flow from investing activities	**(5,269)**	(541)
Net cash flow from financing activities	**695**	(2,188)
Net (decrease)/increase in cash and cash equivalents	**(649)**	1,031
Cash and cash equivalents at 1 January	**4,067**	3,107
Effect of foreign exchange rate changes on cash and cash equivalents	**(40)**	(71)
Cash and cash equivalents at 31 December	**3,378**	4,067

As defined by the Group

Free cash flow of £2,505m (2023 £2,593m) was above guidance, with higher than anticipated customer advances towards the end of the year together with good operational cash conversion.

Operating business cash flow of £3,093m (2023 £3,218m) was a decrease of £125m (2023 increase of £666m) driven by the increase in capex spend in the year, with over £1.0bn (2023 £0.8bn) being invested across our systems and facilities.

As derived from IFRS

Net cash flow from operating activities was £3,925m (2023 £3,760m), an increase of £165m (2023 £921m) primarily resulting from increased profitability of the Group in the year.

Net cash flow from investing activities was an outflow of £5,269m (2023 £541m). M&A investment in the year was significant with a number of acquisitions, including Ball Aerospace, accounting for a net cash outflow of £4.8bn. This was offset by cash proceeds of £194m from non-core business disposals in the year, including the partial disposal of the Group's partial shareholding in Air Astana, combined with interest and dividends from our equity accounted investments. There was no significant M&A activity in the comparative year. Capex also remained high, with over £1.0bn of cash invested in the year.

Net cash flow from financing activities was an inflow of £695m (2023 outflow of £2,188m), an increase of £2,883m (2023 decrease of £145m). Cash returns to shareholders, through dividend and share repurchases, increased £74m to £1,492m. Although dividends increased, the value of share repurchases was lower. Dividends paid represent the 2023 final dividend and the 2024 interim dividend. During 2024, we repurchased 43m shares under the 2022 and 2023 share buyback programmes (2023 59m shares under the 2022 share buyback programme). This year also saw a net cash inflow from debt financing in the year of £3,139m primarily to fund the Ball Aerospace acquisition (2023 £162m from a private placement).

Exchange rates

	Average		**Year end**	
	2024	2023	**2024**	2023
£/$	**1.278**	1.244	**1.253**	1.275
£/€	**1.181**	1.150	**1.210**	1.154
£/A$	**1.938**	1.874	**2.023**	1.868

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

Segmental review

	As defined by the Group[1]					
Year ended 31 December 2024	Sales £m	Underlying EBIT £m	Return on sales %	Operating business cash flow £m	Order intake £bn	Order backlog £bn
Electronic Systems	7,189	1,071	14.9%	801	7.3	12.7
Platforms & Services	4,390	448	10.2%	732	7.4	14.3
Air	8,519	1,007	11.8%	1,243	8.3	26.8
Maritime	6,187	474	7.7%	436	8.7	23.2
Cyber & Intelligence	2,411	199	8.3%	139	2.4	1.8
HQ[2]	203	(184)	–	(258)	0.2	–
Deduct Intra-group	(564)	–	–	–	(0.6)	(1.0)
Total	**28,335**	**3,015**	**10.6%**	**3,093[3]**	**33.7**	**77.8**

	As derived from IFRS				
Year ended 31 December 2024	Revenue £m	Operating profit £m	Return on revenue %	Net cash flow from operating activities £m	Order book £bn
Electronic Systems	7,186	708	9.9%	1,044	8.6
Platforms & Services	4,344	456	10.5%	976	13.6
Air	6,880	1,009	14.7%	1,359	15.6
Maritime	6,002	465	7.7%	734	22.3
Cyber & Intelligence	2,411	182	7.5%	194	1.3
HQ[2]	24	(135)	–	(207)	–
Deduct Intra-group	(535)	–	–	–	(1.0)
Deduct Tax[4]	–	–	–	(175)	–
Total	**26,312**	**2,685**	**10.2%**	**3,925**	**60.4**

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 31 December 2024.
3. At a Group level, the key cash flow metric is free cash flow (see Alternative performance measures on page 46). In 2024, free cash flow was £2,505m (2023 £2,593m).
4. Tax is managed on a Group-wide basis.

Segmental performance: Electronic Systems

Electronic Systems, with 22,400[1] employees, comprises the Group's US- and UK-based Electronic Systems business and the US-based Space & Mission Systems business.

Financial performance

Financial performance measures defined by Group[2]

	2024	2023	Variance[3]
Sales	**£7,189m**	£5,458m	+35%
Underlying EBIT	**£1,071m**	£878m	+25%
Return on sales	**14.9%**	16.1%	-120bps
Operating business cash flow	**£801m**	£811m	£(10m)
Order intake	**£7.3bn**	£6.7bn	£0.6bn
Order backlog	**£12.7bn**	£8.9bn	£3.8bn

Financial performance measures derived from IFRS

	2024	2023	Variance[3]
Revenue	**£7,186m**	£5,456m	+32%
Operating profit	**£708m**	£806m	-12%
Return on revenue	**9.9%**	14.8%	-490bps
Cash flow from operating activities	**£1,044m**	£961m	£83m
Order book	**£8.6bn**	£7.6bn	£1.0bn

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. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

Operational performance

We continued to experience strong demand across our customer base for Electronic Systems in 2024 as evidenced by our order intake. We supported existing customers on key electronic warfare and precision guided-munition programmes, while pursuing and maturing new opportunities.

After completing the Ball Aerospace acquisition in mid-February to form our SMS business, we have made excellent progress in integrating the organisation into our US operations. SMS is realising cost synergies and meeting key workforce integration milestones. It also continues to hold and reap benefits from 'synergy summits' to identify areas where our businesses can partner to pursue and capture new revenue opportunities for the US Intelligence Community, Department of Defense and civilian space agencies.

In our commercial businesses, airline traffic exceeded pre-pandemic levels, generating stronger demand for aftermarket services. However, Original Equipment Manufacturer demand schedules are recovering from supply chain and labour relation issues experienced by airframe manufacturers.

Key operational points for the year

- Our SMS team marked multiple satellite launches with our systems on board; the Weather System Follow-on Microwave satellite to bridge critical gaps in environmental monitoring capabilities for the US Space Force and NASA's Europa Clipper mission that will orbit Jupiter and conduct detailed observations of one of its moons.
- We completed testing and delivered the primary scientific instrument for the Nancy Grace Roman Space Telescope to NASA's Goddard Space Flight Center. The Roman Space Telescope is scheduled to launch by 2027 and we were selected as one of three teams to mature a next-generation stable optical system for the Habitable Worlds Observatory – NASA's next flagship astrophysics mission.
- The F-35 Lightning II programme completed deliveries on Lot 16 and is delivering Lot 17/18/DTIP+ electronic warfare (EW) systems for a cumulative total of over 1,600 EW systems as at year end.
- The US Air Force Commander of Air Combat Command declared the F-15EX programme of record had successfully achieved initial operating capability by delivering eight F-15EXs equipped with the Eagle Passive Active Warning Survivability System. BAE Systems is on contract through Boeing for Full-Rate Production Lot 5.
- The EA-37B programme is executing contracts, inclusive of international support, valued at more than $1.0bn (£0.8bn). The team is focused on the cross-decking of prime mission equipment to the new EA-37B aircraft while sustaining and upgrading the existing EC-130H fleet. We have delivered three EA-37B aircraft for formal testing and training to the US Air Force, which will evolve its electromagnetic attack capabilities.

- We are under contract to deliver additional Network Tactical Common Datalink production systems to support US Navy requirements for real-time intelligence, surveillance, reconnaissance, and command and control. Systems are currently being installed on US Navy aircraft carriers and Constellation-class guided-missile frigates.
- We delivered our first RAD510™ software development unit to a space customer. The RAD510 builds on our proven legacy of space processing to provide the next generation of radiation-hardened space computing. These software development units will enable our customers to integrate their software for testing prior to receiving flight units for their space systems.

Strategic and order highlights

- We continue to support the F-35 Block 4 EW modernisation that is on track to begin incremental production starting with Lot 17, with full lot complete by Lot 19.
- We were awarded the first task order of $116m (£91m), with follow-on production awards expected, to provide terminals and spares for the Multifunctional Information Distribution System Joint Tactical Radio System from Data Link Solutions, our joint venture with Collins Aerospace, Inc.
- Production continues on the APKWS® laser-guidance kit programme under an Indefinite Delivery, Indefinite Quantity (IDIQ) contract, and we demonstrated the APKWS counter-unmanned aircraft systems capability, leading to orders supporting both ground-to-air and air-to-air configurations.
- Our Navigation & Sensor Systems team received the annual order for military GPS receivers for strategic munitions under another five-year IDIQ contract with a major US defence prime.
- After receiving two new contracts in May on the National Oceanic and Atmospheric Administration's (NOAA) Geostationary Extended Observations (GeoXO) satellite constellation, SMS is contracted to build all three hyperspectral instruments for the mission totalling approximately $1.3bn (£1.0bn). The GeoXO satellites are expected 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, EA-37B, M-Code GPS upgrades, 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 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 grow our expanding space portfolio, while also leveraging our proven capabilities in tactical systems to diversify our market presence. We continue to focus on cross-segment collaboration to identify new opportunities, unlock synergies and drive future growth.

Segmental performance: Platforms & Services

Platforms & Services, with 11,600[1] employees and operations in the US, Sweden and the UK, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including US naval ship repair and the management and operation of two government-owned, contractor-operated ammunition plants.

Financial performance

Financial performance measures defined by Group[2]				Financial performance measures derived from IFRS			
	2024	2023	Variance[3]		**2024**	2023	Variance[3]
Sales	**£4,390m**	£3,922m	+15%	Revenue	**£4,344m**	£3,842m	+13%
Underlying EBIT	**£448m**	£354m	+29%	Operating profit	**£456m**	£373m	+22%
Return on sales	**10.2%**	9.0%	+120bps	Return on revenue	**10.5%**	9.7%	+80bps
Operating business cash flow	**£732m**	£426m	£306m	Cash flow from operating activities	**£976m**	£624m	£352m
Order intake	**£7.4bn**	£7.7bn	£(0.3)bn				
Order backlog	**£14.3bn**	£11.5bn	£2.8bn	Order book	**£13.6bn**	£11.1bn	£2.5bn

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. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

Operational performance

We have continued to scale operations to meet continued 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 increased volumes across our key combat vehicle and naval programmes. Our US network of manufacturing facilities is delivering against customer demand, with support from our operations and engineering teams. We also continue to expand our production capabilities, whilst leveraging our investments in advanced manufacturing technologies, such as robotic welding capability, test and integration, paint and high-precision machining.

Our Hägglunds team continues to grow a record backlog of orders, with more contracts for CV90 combat vehicles for Sweden and partner nations looking to replenish combat vehicle fleets, mainly following donations in kind to Ukraine. In parallel, major upgrade programmes continue for existing fleets 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. In addition, the team is investing to expand our submarine manufacturing offering in order to meet the US Navy's shipbuilding requirements by taking on additional production programmes.

Across the US Army's two munitions facilities at the Radford and Holston ammunition plants, we are working to support the US Army's efforts to increase 155mm artillery ammunition production.

Key operational points for the year

- Full-rate production of the US Army's AMPV programme is underway and we are delivering all five variants in the family of vehicles to Armored Brigade Combat Teams. The team has invested in the development of four additional AMPV prototypes, each featuring different mission equipment packages, further demonstrating the modular platform's future capability options. The US Marine Corps is also growing its fleet of Amphibious Combat Vehicles, which had its first successful operational deployment.
- Our Hägglunds team continues to ramp up production capabilities with investments of more than $200m (£160m) in advanced manufacturing capabilities, a new customer test and acceptance centre and additional office space. A third weld line for CV90s is under construction and expected to be operational in 2026.
- We continue to progress a modern shiplift and land-level repair complex at our Jacksonville, Florida, shipyard that is expected to be operational in 2025.
- Two portfolio-adjusting transactions completed in December: the sale of our 49% share of our Turkish joint venture FNSS to partner Nurol Holdings and the sale of the Anniston Forge and Spares business in Alabama, US.

Strategic and order highlights

- Our Combat Mission Systems team secured a $754m (£590m) order from the US Army for the second phase of AMPV full-rate production, securing production through to February 2027. We also received a follow-on contract to this second phase for additional AMPVs, valued at $184m (£144m).
- We secured a five-year contract, valued up to $318m (£249m), 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 Ammunition Carriers. In addition, we received a $493m (£386m) contract for additional orders of the M109A7 and M992A3, extending new production through to July 2026.
- Using supplemental funding, the US Army contracted BAE Systems to deliver conversions of legacy analogue Bradleys to the modern A4 variant. The most recent September and December contracts, jointly worth over $800m (£626m), include the conversions of more A4 variants, some of which are replacing the Bradleys the US Government has provided to Ukraine. These production contracts extend vehicle deliveries into 2027.
- In the first half, our Hägglunds business signed a framework agreement with the Danish Ministry of Defence to provide repair and maintenance services for the Danish Army's CV90s over a 15-year period, worth approximately $355m (£278m) including options.
- Building on an initial contract in May, our Hägglunds business received orders in December bringing the total value to approximately $2.5bn (£2.0bn) for CV9035 MkIIIC vehicles for both Sweden and Denmark. In addition to spares, logistics and training support, the agreement includes more than 165 new-build vehicles, plus some vehicles for Ukraine.
- Our US Ship Repair business received multiple US Navy contracts in the year supporting backlog into 2025. Our Jacksonville Ship Repair business was awarded contracts by General Dynamics Electric Boat for deck module fabrication for both US Navy Columbia- and Virginia-class submarines.

Looking forward

- We continue to shape our business to deliver on increased demand from US and international customers for production and sustainment of combat vehicles and artillery systems. We are also maintaining our position as a key supplier of US Army combat vehicles through our AMPV, M109A7 and M88 franchises. In addition, following the performance of Bradley in Ukraine, we are working with the US Army to develop the most advanced Bradley configuration to date, the M2A4E1, which features an enhanced range of defence capabilities. We are seeing increased international interest in these products.
- Across our Swedish businesses, we continue to build a growing pipeline of business opportunities for the CV90, BvS10 and Beowulf from our Hägglunds business, as well as for artillery, naval and air defence systems and munitions from our Bofors business.
- We are maintaining our strong positions on naval guns, missile launch 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 27,800[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 System 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 defined by Group[2]	2024	2023	Variance[3]	Financial performance measures derived from IFRS	2024	2023	Variance[3]
Sales	**£8,519m**	£8,058m	+7%	Revenue	**£6,880m**	£6,517m	+6%
Underlying EBIT	**£1,007m**	£949m	+7%	Operating profit	**£1,009m**	£948m	+6%
Return on sales	**11.8%**	11.8%	–	Return on revenue	**14.7%**	14.5%	+20bps
Operating business cash flow	**£1,243m**	£1,669m	£(426)m	Cash flow from operating activities	**£1,359m**	£1,808m	£(449)m
Order intake	**£8.3bn**	£11.0bn	£(2.7)bn				
Order backlog	**£26.8bn**	£27.2bn	£(0.4)bn	Order book	**£15.6bn**	£18.5bn	£(2.9)bn

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. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

Operational performance

We continue to work with our UK and international customers to support their existing platforms and provide new enhanced capabilities. Deliveries of Typhoon aircraft to Qatar continue, alongside support to the in-service fleet. 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.

Key operational points for the year

- In the Kingdom of Saudi Arabia, we continued to deliver services under the five-year Saudi British Defence Co-operation and Salam programmes, including our support to the Royal Saudi Air Force's Tornado and Typhoon fleets.
- Activity on our Qatar Typhoon and Hawk programmes continued with four Typhoon deliveries in the year. 22 Typhoon aircraft have entered into service with the Qatar Emiri Air Force.
- Development continued on the UK's Combat Air flying demonstrator, which will test the 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.
- Through FalconWorks®, we continue to invest in promising new and innovative technologies for the future, including the development of uncrewed systems in collaboration across industry. PHASA-35®, our persistent high-altitude solar-powered aircraft, completed another successful stratospheric flight trials programme during the year.

Strategic and order highlights

- We have agreed to form a joint venture with Leonardo in Italy and JAIEC in Japan, subject to regulatory approvals, for the design and development of a next-generation combat aircraft, under GCAP.
- Alongside this, concept and assessment work on GCAP continues with our international partners in Italy and Japan under our respective national contracts.
- We also confirmed orders for our workshare on an additional 25 Typhoon aircraft for the Spanish Air Force and for an order for up to 24 Typhoon aircraft for the Italian Air Force. These were valued at a combined initial total of £1.1bn.
- We sustained production of the rear fuselage assemblies for the F-35 at full-rate levels at our Samlesbury site in the UK, with 152 aft fuselages completed, and agreed pricing with Lockheed Martin for F-35 production lots 18/19. This supports the continuation of production deliveries at Samlesbury into 2027.
- During the first half of 2024, we completed the acquisitions of Malloy Aeronautics and Callen-Lenz, strengthening our position in the fixed wing and rotary UAS domains.
- MBDA continued to secure significant orders through 2024. These include a large production order from the Polish Armament Agency to supply launchers and CAMM-ER (Common Anti-Air Modular Missile Extended Range) for the NAREW Air Defence System. Other air defence production orders were received 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 CAMM to include the Polish, Swedish and 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. Future Typhoon production and support sales are underpinned by existing contracts and discussions continue to secure potential further contract awards.
- We expect production of the rear fuselage assemblies for the F-35 to be sustained at current levels. We play 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. This included a further package of industrialisation agreed during 2024 on our Salam programme.
- We expect our Saudi in-Kingdom support business to remain stable underpinned by long-standing contracts 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. 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 30,100[1] employees, comprises the Group's UK-based maritime and land activities, including ship build and support activities, major submarine build programmes, as well as our Australian business.

Financial performance

Financial performance measures defined by Group[2]

	2024	2023	Variance[3]
Sales	**£6,187m**	£5,536m	+12%
Underlying EBIT	**£474m**	£425m	+12%
Return on sales	**7.7%**	7.7%	–
Operating business cash flow	**£436m**	£291m	£145m
Order intake	**£8.7bn**	£10.1bn	£(1.4)bn
Order backlog	**£23.2bn**	£21.3bn	£(1.9)bn

Financial performance measures derived from IFRS

	2024	2023	Variance[3]
Revenue	**£6,002m**	£5,391m	+11%
Operating profit	**£465m**	£423m	+10%
Return on revenue	**7.7%**	7.8%	-10bps
Cash flow from operating activities	**£734m**	£629m	£105m
Order book	**£22.3bn**	£20.4bn	£1.9bn

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. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

Operational performance

Our major Maritime platform programmes continue to progress. We have delivered five of the seven Astute Class submarines to the Royal Navy and continue construction on the first three Dreadnought Class submarines.

Construction of the first five UK Type 26 frigates and first Australian Hunter Class frigate is also underway, while we continue to deliver on customer requirements in both Munitions and Maritime Services. Ongoing investments in our facilities and our people support our delivery and, with the future potential of the AUKUS trilateral programme, the sector is well positioned for growth.

Key operational points for the year

- We launched the sixth Astute Class submarine, Agamemnon, marking the start of its in-water phase, while we continue construction on the final vessel in the class.
- We continued to make progress on the four Dreadnought Class submarines, with advancing levels of construction underway on the first three submarines in the class, at our site in Barrow-in-Furness, UK.
- On the Type 26 frigate programme of eight ships, investment continues both internally and within the supply chain to support delivery, with the transition from design to production remaining a key area of focus. HMS Glasgow is progressing from final outfit through to the key stages in her test and commissioning phase in advance of first of class sea trials. The second of class, HMS Cardiff, entered the water in August, before transitioning to our Scotstoun shipyard for further outfit in advance of testing and commissioning. Unit construction continues on HMS Belfast and HMS Birmingham at our Govan shipyard. Cut steel on the fifth ship, HMS Sheffield, took place in November.
- In October, there was a fire in our Devonshire Dock Hall facility in Barrow-in-Furness, UK, the impact of which is currently being assessed.
- In Australia, we successfully completed the Hunter Class Frigate Programme Production Readiness Review and entered the construction phase, officially cutting steel on the first ship in June.
- Alongside this, the upgrade and sustainment of the Anzac Class frigates continues to progress with the penultimate ship, HMAS Ballarat, being returned to water. The final ship, HMAS Parramatta, is expected to be returned in 2025.
- We made good progress on the installation of Radar 1 as part of the Jindalee Operational Radar Network Phase 6 upgrade with successful completion of half-radar trials enabling our team to start the full upgrade.
- Investment activity across our Munitions business continues at pace. This includes an additional manufacturing line in Washington, UK, and an explosives filling facility in Monmouthshire, UK.

- In RBSL, the Challenger 3 programme has delivered four prototype series vehicles, with two of those vehicles completing the initial phase of trials. A further four prototype series vehicles will be completed in 2025, two of which are nearing completion, ahead of entering the next phase of trials in 2025.

Strategic and order highlights

- In Australia, the release of the Surface Combatant Review confirmed the Government's 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 Class frigate upgrade programme, we are working with the Commonwealth to determine the appropriate use of our Henderson facility in Western Australia.
- We secured an order of £958m for the continuation of funding for Dreadnought Boats 2 to 4.
- In March, as part of the AUKUS trilateral security pact, the Australian Government announced its selection of BAE Systems and ASC Pty Ltd (ASC) to build Australia's SSN-AUKUS submarines. In December, we were awarded the first Tasking Statement under the mobilisation arrangements, following successful government-to-government engagement to initiate Australia's SSN-AUKUS build programme.
- The Ministry of Defence awarded our Combat Systems team within our Naval Ships business a £285m contract to support the Royal Navy's Shared Infrastructure, Combat Management Systems and warship networks.
- The build of our new Ship Build Assembly Hall in Govan, UK, is maturing to schedule and we expect it to be fully operational in 2025. Our Applied Shipbuilding Academy in Glasgow, UK, opened in July, and is already proving to be a key training facility for our Naval Ships current and future workforce.

Looking forward

- Our Submarines business is executing across three long-term programmes: Astute, Dreadnought and SSN-AUKUS. Our focus remains on strengthening our workforce, supply chain and infrastructure to provide the capability, capacity and resilience required to deliver these long-term programmes.
- We will work with ASC to deliver initial mobilisation activities to support Australia's SSN-AUKUS submarine build programme.
- We submitted design and production outputs for the Canadian River Class destroyer to enable our partner, Irving Shipbuilding Inc., to manufacture the production test module in Canada.
- 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 10,900[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 defined by Group[2]

	2024	2023	Variance[3]
Sales	**£2,411m**	£2,321m	+6%
Underlying EBIT	**£199m**	£199m	+2%
Return on sales	**8.3%**	8.6%	-30bps
Operating business cash flow	**£139m**	£204m	£(65)m
Order intake	**£2.4bn**	£2.5bn	£(0.1)bn
Order backlog	**£1.8bn**	£2.0bn	£(0.2)bn

Financial performance measures derived from IFRS

	2024	2023	Variance[3]
Revenue	**£2,411m**	£2,321m	+4%
Operating profit	**£182m**	£179m	+2%
Return on revenue	**7.5%**	7.7%	-20bps
Cash flow from operating activities	**£194m**	£261m	£(67)m
Order book	**£1.3bn**	£1.4bn	£(0.1)bn

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. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

Operational performance

Our Intelligence & Security business performed well, delivering innovative solutions to government customers within the US Department of Defense, federal agencies and civilian organisations. We continue to focus on maintaining a robust pipeline of qualified business opportunities to provide ongoing mission-critical integration capabilities that address evolving customer and national security requirements.

Our Digital Intelligence business saw continued demand in the security market and rigorous cost control helped to compensate for constrained customer budgets in other areas.

Key operational points for the year

- As part of the Ball Aerospace acquisition in February, we acquired Topaz Intelligence, which expands our modelling and simulation portfolio to provide data intelligence-as-a-service to drive agile decision-making for customers.
- Through our Bohemia Interactive Simulations business, we secured a follow-on development and production order from the US Army PEO-STRI for VBS4, Mantle and BlueIG product licences in support of the Training Simulation Software and Training Management Tools programme to address advanced US Army-wide training solutions.
- Our Air and Space Force Solutions business continues to expand its presence under the Instrumentation Radar Support Program providing support to 33 ranges around the world for the US Army, US Navy, US Air Force, US Space Force, Department of Energy, NASA and various international ranges. During 2024, we were awarded 250+ task orders valued at $198m (£155m). Under this contract, we will provide six mobile mechanical and multiple object radar tracking systems, systems engineering and range support activities.
- In our Digital Intelligence business investment in our product portfolio continues, with good progress made on developing cross-domain products for the US and other international markets, low Earth orbit satellites and multi-domain network solutions for the defence market.

Strategic and order highlights

- Our Intelligence Solutions business secured over $300m (£235m) in task orders on an IDIQ contract from an agency. Task orders include delivery of analytics support for critical and core mission functions to the agency and its mission partners.
- We were notified, in June 2024, that the Government Accountability Office had sustained our protest on the Integration Support Contract (ISC) 2.0 procurement and recommended the US Air Force take additional corrective action. The Air Force subsequently cancelled the solicitation. In January 2025, we were awarded an extension to our current ISC services contract with options through to July 2027, with an increased programme ceiling value of nearly $1.2bn (£0.9bn).
- Our Integrated Defense Solutions business was awarded a cost-plus-fixed-fee contract worth $122m (£95m) for systems engineering and integration services and expert studies in support of the US Trident II Strategic Weapons Systems Program and D5LE2 Life Extension 2 Strategic System Programs Alteration.
- We also secured a $251m (£196m) contract from the US Navy for on-site technical expertise and system engineering to validate total AEGIS ship combat system design in support of the US Navy, Missile Defense Agency and foreign militaries.
- Our Integrated Defense Solutions business was also awarded multiple re-compete contracts in the year with a combined total potential lifecycle value of over $500m (£391m).
- Our acquisition of Kirintec in Digital Intelligence further expands our product offering. Kirintec specialises in: cyber and electromagnetic activities; counter-improvised explosive devices; and counter-uncrewed aerial vehicle products for military customers. Our Digital Intelligence team will look to leverage this capability to accelerate growth in the defence market in the UK and internationally.

Looking forward

- Our Intelligence & Security business maintains a strong pipeline of qualified business opportunities. While there have been some delays in procurement decisions from the US Department of Defense, we are seeing an increase in demand driven by persistent global security challenges.
- The US defence services market remains fiercely competitive and can change quickly based on US government priorities. Our Intelligence Solutions business has identified cyber security as a key focus area for business growth and we continue to pursue opportunities in the Intelligence Community, federal/civilian agencies and the US Department of Defense.
- We are actively broadening our wargaming capabilities across new markets and customers, both in the US and internationally. This strategy enhances our growth potential and diversification in the modelling, simulation and synthetic training environment in support of a positive outlook for this market area.
- In Digital Intelligence, we will continue to progress the transformation roadmap to ensure the business is well placed to take advantage of favourable market conditions over the medium and long term, whilst also driving operational efficiencies, through system integration and a simplified organisational structure.

Consolidated income statement

for the year ended 31 December

	Note	2024 £m	2024 Total £m	2023 £m	2023 Total £m
Continuing operations					
Revenue	2		**26,312**		23,078
Operating costs			**(24,106)**		(20,917)
Other income			**266**		204
Share of results of equity accounted investments			**213**		208
Operating profit	2		**2,685**		2,573
Finance income		**135**		172	
Finance costs		**(488)**		(419)	
Net finance costs	3		**(353)**		(247)
Profit before tax			**2,332**		2,326
Tax expense	4		**(291)**		(386)
Profit for the year			**2,041**		1,940
Attributable to:					
Equity shareholders			**1,956**		1,857
Non-controlling interests			**85**		83
			2,041		1,940
Earnings per share	5				
Basic earnings per share			**64.9p**		61.3p
Diluted earnings per share			**64.1p**		60.4p

Consolidated statement of comprehensive income

for the year ended 31 December

	2024			2023		
	Other reserves £m	**Retained earnings £m**	**Total £m**	Other reserves £m	Retained earnings £m	Total £m
Profit for the year	**–**	**2,041**	**2,041**	–	1,940	1,940
Other comprehensive income						
Items that will not be reclassified to the income statement:						
Consolidated:						
Remeasurements on post-employment benefit schemes	**–**	**414**	**414**	–	(658)	(658)
Remeasurements on other investments	**–**	**–**	**–**	–	(11)	(11)
Tax on items that will not be reclassified to the income statement	**–**	**(25)**	**(25)**	–	4	4
Share of the other comprehensive income/(expense) of associates and joint ventures accounted for using the equity method (net of tax)	**–**	**15**	**15**	–	(25)	(25)
Items that may be reclassified to the income statement:						
Consolidated:						
Currency translation on foreign currency net investments	**4**	**–**	**4**	(510)	–	(510)
Reclassification of cumulative currency translation reserve on divestment of interest in equity accounted investments and other business disposals	**3**	**–**	**3**	–	–	–
Fair value loss arising on hedging instruments during the year	**(36)**	**–**	**(36)**	(4)	–	(4)
Cumulative fair value loss/(gain) on hedging instruments reclassified to the income statement	**69**	**–**	**69**	(19)	–	(19)
Tax on items that may be reclassified to the income statement	**(7)**	**–**	**(7)**	3	–	3
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (net of tax)	**4**	**–**	**4**	11	–	11
Total other comprehensive income/(expense) for the year (net of tax)	**37**	**404**	**441**	(519)	(690)	(1,209)
Total comprehensive income/(expense) for the year	**37**	**2,445**	**2,482**	(519)	1,250	731
Attributable to:						
Equity shareholders	**38**	**2,357**	**2,395**	(511)	1,175	664
Non-controlling interests	**(1)**	**88**	**87**	(8)	75	67
	37	**2,445**	**2,482**	(519)	1,250	731

Consolidated statement of changes in equity

for the year ended 31 December

	Attributable to equity holders of BAE Systems plc						
	Issued share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2023	82	1,252	6,951	2,930	11,215	185	11,400
Profit for the year	–	–	–	1,857	1,857	83	1,940
Total other comprehensive expense for the year	–	–	(511)	(682)	(1,193)	(16)	(1,209)
Total comprehensive (expense)/income for the year	–	–	(511)	1,175	664	67	731
Share-based payments (inclusive of tax)	–	–	–	132	132	–	132
Cumulative fair value gain on hedging instruments transferred to the balance sheet (net of tax)	–	–	(38)	–	(38)	–	(38)
Ordinary share dividends	–	–	–	(857)	(857)	(88)	(945)
Purchase of own shares	(1)	–	1	(558)	(558)	–	(558)
Proceeds from unclaimed asset programme	–	1	–	–	1	–	1
At 31 December 2023	81	1,253	6,403	2,822	10,559	164	10,723
Profit for the year	**–**	**–**	**–**	**1,956**	**1,956**	**85**	**2,041**
Total other comprehensive income for the year	**–**	**–**	**38**	**401**	**439**	**2**	**441**
Total comprehensive income for the year	**–**	**–**	**38**	**2,357**	**2,395**	**87**	**2,482**
Share-based payments (inclusive of tax)	**–**	**–**	**–**	**145**	**145**	**–**	**145**
Cumulative fair value loss on hedging instruments transferred to the balance sheet (net of tax)	**–**	**–**	**5**	**–**	**5**	**–**	**5**
Ordinary share dividends	**–**	**–**	**–**	**(937)**	**(937)**	**(90)**	**(1,027)**
Purchase of own shares	**(1)**	**–**	**1**	**(551)**	**(551)**	**–**	**(551)**
At 31 December 2024	**80**	**1,253**	**6,447**	**3,836**	**11,616**	**161**	**11,777**

Consolidated balance sheet

as at 31 December

	Note	2024 £m	2023 £m
Non-current assets			
Goodwill		**13,297**	11,386
Other intangible assets		**2,965**	713
Property, plant and equipment		**4,843**	3,635
Right-of-use assets		**1,755**	1,311
Investment property		**38**	57
Equity accounted investments		**823**	832
Other investments		**83**	84
Contract and other receivables		**734**	633
Post-employment benefit surpluses	6	**1,271**	804
Other financial assets		**265**	227
Deferred tax assets		**315**	609
		26,389	20,291
Current assets			
Inventories		**1,324**	1,156
Trade, contract and other receivables		**6,663**	6,185
Current tax		**176**	160
Other financial assets		**212**	205
Cash and cash equivalents		**3,378**	4,067
		11,753	11,773
Total assets		**38,142**	32,064
Non-current liabilities			
Loans		**(7,713)**	(4,432)
Lease liabilities		**(1,658)**	(1,273)
Contract liabilities		**(1,720)**	(1,955)
Other payables		**(1,859)**	(1,594)
Post-employment benefit obligations	6	**(503)**	(575)
Other financial liabilities		**(193)**	(227)
Deferred tax liabilities		**(14)**	(10)
Provisions		**(363)**	(332)
		(14,023)	(10,398)
Current liabilities			
Loans		**(699)**	(679)
Lease liabilities		**(183)**	(147)
Contract liabilities		**(4,504)**	(3,865)
Trade and other payables		**(6,383)**	(5,436)
Other financial liabilities		**(264)**	(295)
Current tax		**(55)**	(285)
Provisions		**(254)**	(236)
		(12,342)	(10,943)
Total liabilities		**(26,365)**	(21,341)
Net assets		**11,777**	10,723
Capital and reserves			
Issued share capital		**80**	81
Share premium		**1,253**	1,253
Other reserves		**6,447**	6,403
Retained earnings		**3,836**	2,822
Total equity attributable to equity holders of BAE Systems plc		**11,616**	10,559
Non-controlling interests		**161**	164
Total equity		**11,777**	10,723

Approved by the Board of directors of BAE Systems plc on 18 February 2025 and signed on its behalf by:

C N Woodburn
Chief Executive

B M Greve
Chief Financial Officer

Consolidated cash flow statement

for the year ended 31 December

	Note	2024 £m	2023 £m
Profit for the year		**2,041**	1,940
Tax expense	4	**291**	386
Adjustment in respect of research and development expenditure credits		**(45)**	(53)
Share of results of equity accounted investments		**(213)**	(208)
Net finance costs	3	**353**	247
Depreciation, amortisation and impairment		**1,097**	787
Net loss/(gain) on disposal of property, plant and equipment, and investment property		**6**	(10)
Gain in respect of divestment of interests in equity accounted investments and other business disposals	11	**(94)**	–
Cost of equity-settled employee share schemes		**144**	110
Movement in provisions		**24**	–
Difference between pension funding contributions paid and the pension charge		**(249)**	(169)
(Increase)/decrease in working capital:			
Inventories		**(144)**	(223)
Trade, contract and other receivables		**(121)**	(287)
Trade and other payables, and contract liabilities		**1,010**	1,635
Tax paid net of research and development expenditure credits received		**(175)**	(395)
Net cash flow from operating activities		**3,925**	3,760
Dividends received from equity accounted investments		**158**	134
Interest received		**130**	126
Principal element of finance lease receipts		**12**	10
Purchase of property, plant and equipment, and investment property		**(990)**	(826)
Purchase of intangible assets		**(173)**	(131)
Proceeds from funding related to assets		**153**	149
Proceeds from sale of property, plant and equipment, investment property and intangible assets		**23**	19
Purchase of subsidiary undertakings, net of cash and cash equivalents acquired	10	**(4,776)**	(14)
Cash flow in respect of divestment of interests in equity accounted investments and other business disposals	11	**194**	(8)
Net cash flow from investing activities		**(5,269)**	(541)
Interest paid		**(543)**	(356)
Equity dividends paid	7	**(937)**	(857)
Purchase of own shares		**(555)**	(561)
Dividends paid to non-controlling interests		**(89)**	(88)
Principal element of lease payments		**(190)**	(292)
Cash inflow from derivative financial instruments (excluding cash flow hedges)		**136**	193
Cash outflow from derivative financial instruments (excluding cash flow hedges)		**(266)**	(389)
Cash inflow from bond finance/private placement		**3,753**	162
Cash outflow from repayment of bond finance		**(626)**	–
Cash inflow from draw-down of bridge loan facility		**3,180**	–
Cash outflow from repayment of bridge loan facility		**(3,168)**	–
Net cash flow from financing activities		**695**	(2,188)
Net (decrease)/increase in cash and cash equivalents		**(649)**	1,031
Cash and cash equivalents at 1 January		**4,067**	3,107
Effect of foreign exchange rate changes on cash and cash equivalents		**(40)**	(71)
Cash and cash equivalents at 31 December		**3,378**	4,067

Notes to the accounts

1. Preparation of the Consolidated financial statements

Basis of preparation and statement of compliance

The Consolidated financial statements of BAE Systems plc for the year ended 31 December 2024, which were approved by the Board of directors on 18 February 2025, have been prepared on a going concern basis and in accordance with UK-adopted international accounting standards and the Companies Act 2006 applicable to companies reporting under IFRS.

These condensed consolidated financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006 but have been derived from the statutory accounts for the year ended 31 December 2024. These statutory accounts have been audited and will be delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006 in due course.

The comparative figures for the year ended 31 December 2023 are not the Group's statutory accounts for that financial year. Those statutory accounts have been reported upon by the Group's auditor and delivered to the Registrar of Companies. The reports of the auditor in relation to the statutory accounts for the years ended 31 December 2024 and 31 December 2023 are unmodified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without modifying its report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The Consolidated financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest million. They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments).

Changes in accounting policies

The following standards, interpretations and amendments to existing standards became effective on 1 January 2024 and have not had a material impact on the Group:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current;
- Amendments to IAS 1: Non-current Liabilities with Covenants;
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements; and
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2024. These either have been, or are expected to be, endorsed by the UK Endorsement Board and are not expected to have a material impact on the Group:

- Amendments to IAS 21: Lack of Exchangeability, effective from 1 January 2025;
- Amendments to IFRS 9 and IFRS 7: Amendments to the Classification and Measurement of Financial Instruments, effective from 1 January 2026;
- Amendments to IFRS 9 and IFRS 7: Contracts Referencing Nature-dependent Electricity, effective from 1 January 2026;
- Annual Improvements to IFRS Accounting Standards – Volume 11, effective from 1 January 2026;
- IFRS 19 Subsidiaries without Public Accountability: Disclosures, effective from 1 January 2027; and
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or joint venture.

The following new standard is expected to change the presentation of the Consolidated financial statements:

- IFRS 18 Presentation and Disclosure in Financial Statements, effective from 1 January 2027.

Key sources of estimation uncertainty

The application of the Group's accounting policies requires the use of estimates. In response to the potential impact of risks and uncertainties, the Group undertakes risk assessments and scenario planning in order to be able to respond to potential rapid changes in circumstances. The Group considers a range of estimates and assumptions in the application of its accounting policies and management's assessment of the carrying value of assets and liabilities. In the event that these estimates or assumptions prove to be inaccurate, there may be an adjustment to the carrying values of assets and liabilities within the next year. Areas of the Group's financial statements which could be materially impacted may include, but are not limited to:

Revenue and profit recognition

The Group accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Group's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired.

The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks which are reliant on the knowledge and experience of the Group's project managers, engineers, and finance and commercial professionals. Material changes in these estimates could affect the profitability of individual contracts. Revenue and cost estimates are reviewed and updated at least quarterly, or more frequently as determined by events or circumstances.

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

Revenue and profit is recognised only to the extent that it is highly probable that there will not be a reversal of revenue in the future. Therefore, in any given reporting year, the Group would expect to recognise an amount of revenue that did not meet the highly probable threshold at the end of the previous reporting year, but subsequently became highly probable in the current reporting year. Accordingly, the Group has recognised £0.2bn (2023 £0.3bn) of revenue in respect of performance obligations satisfied or partially satisfied in previous years. This continues to provide an approximation of the potential revenue sensitivity arising as a result of management's estimates and assumptions for variable consideration, future costs, and technical and other risks; however, it may not reflect the full potential impact on the contract receivables and contract liabilities balances.

Post-employment benefit obligations

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

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

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

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

Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgement is then required to determine the presentation of any tax payable in recovering a surplus. Note 6 provides information on the key assumptions and analysis of their sensitivities.

Critical judgements made in applying accounting policies

In the course of preparing the Consolidated financial statements and when applying its accounting policies, the Group has been required to make judgements with regard to the actions required to enable the business to continue to meet customers' requirements in an operating environment still dominated by global economic uncertainties. No critical judgements have been made in the process of applying the Group's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the Consolidated financial statements.

Impact of climate on the Consolidated financial statements

In preparing the Consolidated financial statements, management has considered the potential impact of climate change. As a responsible defence business, sustainability is embedded in our strategic framework, with one of the Group's long-term objectives to advance and integrate our ESG agenda. The products and services we provide are complex, diverse and developed over extended periods of time. Sustainability and the impact of our operations is considered in the planning and ongoing production of our products and services, including incorporation of the impact of the Group's decarbonisation ambitions and activities. These are embedded in our financial reporting, forecasting and governance processes.

Estimates and judgement are required in determining how the Group will pursue its decarbonisation ambitions. These, as well as mitigating actions required from the detailed review of climate risks and opportunities, have been factored into the current and future plans of the Group through the Integrated Business Plan (IBP). The IBP is the Group's annual long-term strategy review and five-year plan for each segment, including the investment case to decarbonise.

There are a number of core practices and processes that support the business to remain resilient and adapt to the impacts of climate change, whilst controlling the financial impacts to the Group. These include:

– *Maintenance and investment in our infrastructure* – our products are designed and built to remain in service for decades to come, and require development and construction over a significant period of time. In order to deliver complex engineering and technologically advanced products, we continuously invest in the maintenance and upkeep of our global sites and facilities. The Group regularly invests in its facilities to ensure they are maintained and adapted to enable our operations. Regular maintenance and investing in Group infrastructure is embedded in our strategy, and the expected associated costs are reflected in our IBP. Insurance also provides underlying cover for more immediate and unexpected impacts of climate change.

– *Investment in renewable energy* – during the year, the Group has continued to contract for Power Purchase Agreements (PPAs) to invest in renewable energy, providing long-term security of energy and pricing.

– *Proactive estate management* – a large part of our business is based on sites that are leased to the Group, as reflected in our right-of-use assets in the Consolidated financial statements. Although some facilities, such as shipyards, are required to be in certain locations, many of our operations are not tied to a particular location. Given the long-term outlook of our business, future physical impacts of climate change could be mitigated through movement of activities on these sites to facilities that will be less impacted by climate change. As and when sites are identified that would benefit from relocation, the associated costs are reflected within the IBP. We have not currently identified any sites which require relocation due to climate change. We also use opportunities to build new infrastructure and refurbish existing buildings to upgrade energy efficiency.

The more immediate financial impacts of climate-related risks, and the actions being taken to address them, are reflected in the financial results of the Group for the year. These are not considered to have had a material impact. Areas impacted by climate-related risks and opportunities include:

– *Goodwill and other intangible assets* – the annual impairment review uses cash flow projections from the IBP, which incorporates any financial impact of climate-related risks and opportunities identified. This includes product repair and adaptation, as well as investment in facilities to progress the Group's decarbonisation ambitions. All Cash-Generating Units showed sufficient headroom after incorporation of climate-related costs and opportunities.

– *Property, plant and equipment* – the useful economic life of existing capitalised assets across the Group has been reviewed in light of any repairs, upgrades to existing infrastructure, or future investment in facilities that will be required as a result of the climate-related risks and opportunities identified across our sites. No significant impairment of assets has been identified from this review.

– *Right-of-use assets, lease liabilities, and financial assets and liabilities* – the Group has continued to contract for PPAs during the year to provide more sustainable energy from renewable sources. Once the projects are completed, and where the accounting for these agreements falls within the scope of IFRS 16 Leases, the relevant right-of-use assets and corresponding liabilities will be recognised in the Consolidated financial statements. The associated costs of the arrangement will be recognised in line with the term of the agreement. The Group has also considered whether any embedded derivatives have arisen, within the scope of IFRS 9 Financial Instruments, as a result of the PPAs entered into during the year. None are considered to exist at the balance sheet date; however, this will continue to be monitored as the associated contractual arrangements are refined and the construction of the facilities approaches completion.

– *Pension plans* – in assessing the value of pension assets for the UK schemes, the Group has considered the impact of climate change which is incorporated into the cash flow projections used in valuing infrastructure investment assets and pooled investment vehicle cash flows upon which the Group bases its assessment. There is also alignment between the UK Main Scheme and the Group's climate change objectives with consistent long-term decarbonisation ambitions. This has not materially impacted the Group's net pension position during the year.

– *Deferred tax assets* – the recoverability of deferred tax assets is dependent on the future availability of profits, which in turn could be impacted by climate-related matters. The recoverability of deferred tax assets has been reviewed against the Group's future forecasts resulting from the IBP process, which incorporate identified climate-related risks and opportunities. No material risk to the recoverability of deferred tax assets has been identified.

– *Share-based payments* – the award of Performance Shares within the 2023 Director's Long-Term Incentive framework has a 10% weighting based on the reduction of Group GHG emissions (Scope 1 and 2) aligned to a science-based pathway. The ability to meet this target will impact the amount and timing of any share-based payments over the term of the policy. The introduction of this condition has not materially impacted the financial results of the Group for the current year.

2. Segmental analysis and revenue recognition

The Group has five sectors which, together with HQ, make its six reporting segments as defined by IFRS 8 Operating Segments. The SMS business, which was acquired in February 2024, has been reported within the pre-existing Electronic Systems reporting segment. SMS has been combined with the existing Electronic Systems business due to the similarities in services and products offered, being the provision of advanced defence electronic solutions such as tactical missile and munition subsystems, C4ISR, and civil and military space electronics.

Revenue and sales[1] by reporting segment

	Revenue		Deduct: Sales to equity accounted investments		Add: Share of sales by equity accounted investments		Sales[1]	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Electronic Systems	**7,186**	5,456	**(258)**	(253)	**261**	255	**7,189**	5,458
Platforms & Services	**4,344**	3,842	**–**	–	**46**	80	**4,390**	3,922
Air	**6,880**	6,517	**(1,413)**	(1,405)	**3,052**	2,946	**8,519**	8,058
Maritime	**6,002**	5,391	**(6)**	(5)	**191**	150	**6,187**	5,536
Cyber & Intelligence	**2,411**	2,321	**–**	–	**–**	–	**2,411**	2,321
HQ	**24**	10	**–**	–	**179**	461	**203**	471
	26,847	23,537	**(1,677)**	(1,663)	**3,729**	3,892	**28,899**	25,766
Intra-group revenue/sales	**(535)**	(459)	**(29)**	(23)	**–**	–	**(564)**	(482)
	26,312	23,078	**(1,706)**	(1,686)	**3,729**	3,892	**28,335**	25,284

	Revenue from external customers		Intra-group revenue	
	2024 £m	2023 £m	**2024 £m**	2023 £m
Electronic Systems	**6,988**	5,299	**198**	157
Platforms & Services	**4,288**	3,796	**56**	46
Air	**6,840**	6,484	**40**	33
Maritime	**5,915**	5,305	**87**	86
Cyber & Intelligence	**2,271**	2,194	**140**	127
HQ	**10**	–	**14**	10
	26,312	23,078	**535**	459

Revenue and sales[1] by customer location

	Revenue		Sales[1]	
	2024 £m	2023 £m	**2024 £m**	2023 £m
UK	**7,039**	6,102	**7,439**	6,629
Europe (excluding UK)	**1,733**	1,533	**2,842**	2,706
US	**12,559**	10,700	**12,536**	10,672
Canada	**189**	177	**189**	177
Kingdom of Saudi Arabia	**2,892**	2,687	**2,962**	2,688
Qatar	**259**	450	**468**	711
Australia	**1,158**	943	**1,170**	949
Asia and Pacific (excluding Australia)	**354**	264	**455**	421
Other	**129**	222	**274**	331
	26,312	23,078	**28,335**	25,284

Operating profit/(loss) by reporting segment

	Operating profit/(loss)		Finance and tax expense/(income) of equity accounted investments		Amortisation of programme, customer-related and other intangible assets, and impairment of equity accounted investments and intangible assets		Adjusting Items		Underlying EBIT[2]	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Electronic Systems	**708**	806	**–**	–	**307**	93	**56**	(21)	**1,071**	878
Platforms & Services	**456**	373	**9**	2	**–**	–	**(17)**	(21)	**448**	354
Air	**1,009**	948	**(14)**	1	**10**	–	**2**	–	**1,007**	949
Maritime	**465**	423	**4**	2	**5**	–	**–**	–	**474**	425
Cyber & Intelligence	**182**	179	**–**	–	**22**	20	**(5)**	–	**199**	199
HQ	**(135)**	(156)	**10**	28	**–**	3	**(59)**	2	**(184)**	(123)
Operating profit	**2,685**	2,573	**9**	33	**344**	116	**(23)**	(40)	**3,015**	2,682
Net finance costs	**(353)**	(247)								
Profit before tax	**2,332**	2,326								
Tax expense	**(291)**	(386)								
Profit for the year	**2,041**	1,940								

1. Sales is an alternative performance measure defined in the Alternative performance measures section on page 46. Sales includes both revenue from the Group's own subsidiaries as well as recognising the strategic importance in its industry of its equity accounted investments. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.
2. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 46. It provides a measure of operating profitability, excluding one-off events or adjusting items that are not considered to be part of the ongoing operational transactions of the business, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.

3. Net finance costs

	2024 £m	2023 £m
Interest income on cash and other financial instruments	**116**	130
Interest income on finance lease receivables	**1**	1
Net interest income on post-employment benefit obligations	**18**	41
Finance income	**135**	172
Interest expense on loans and other financial instruments	**(482)**	(286)
Facility fees	**(4)**	(14)
Interest expense on lease liabilities	**(73)**	(53)
Net present value expenses on provisions and other payables	**(13)**	(9)
Loss on remeasurement of financial instruments at fair value through profit or loss[1,2]	**(6)**	(267)
Foreign exchange gains[2,3]	**90**	210
Finance costs	**(488)**	(419)
Net finance costs	**(353)**	(247)

1. Comprises gains and losses on derivative financial instruments, principally held to manage the Group's exposure to interest rate fluctuations on current and anticipated external borrowings and exchange rate fluctuations on balances with the Group's subsidiaries and equity accounted investments.
2. The net gain or loss on remeasurement of financial instruments at fair value through profit or loss and the net gain or loss on foreign exchange are presented within finance costs as the gains and losses relate to the same underlying transactions.
3. Foreign exchange gains reflects exchange rate movements on US dollar-denominated borrowings and balances with the Group's subsidiaries and equity accounted investments.

4. Tax expense

The following table reconciles the theoretical income tax expense, using the UK corporation tax rate, to the reported tax expense. The UK corporation tax rate increased from 19% to 25% with effect from 1 April 2023. A blended rate of 23.5% is used in the prior year comparative column below to reflect this change. 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.

	2024 £m	2023 £m
Profit before tax	**2,332**	2,326
UK corporation tax rate	**25.0%**	23.5%
Expected income tax expense	**(583)**	(547)
Effect of tax rates in foreign jurisdictions, including US state taxes	**3**	(7)
Expenses not tax effected	**(12)**	(19)
Income not subject to tax	**162**	125
Research and development tax credits	**38**	22
Adjustments in respect of prior years	**72**	(24)
Adjustments in respect of equity accounted investments	**55**	48
Tax rate adjustment	**–**	1
Other	**(26)**	15
Tax expense	**(291)**	(386)

5. Earnings per share

Movement in shares for the purpose of calculating earnings per share	Ordinary shares millions	Treasury shares millions	Contingently returnable shares held in trust millions	Outstanding shares for purpose of earnings per share millions	Weighted average share movement in the year millions
At 1 January 2023	3,297	(220)	(22)	3,055	
Ordinary shares repurchased in the year	(58)	–	–	(58)	(38)
Net shares issued in the year	–	16	2	18	14
At 31 December 2023	3,239	(204)	(20)	3,015	
Ordinary shares repurchased in the year	(44)	–	–	(44)	(20)
Net shares issued in the year	–	20	5	25	18
At 31 December 2024	**3,195**	**(184)**	**(15)**	**2,996**	

	2024 Number of shares millions	2023 Number of shares millions
Outstanding shares for purpose of earnings per share at 1 January	**3,015**	3,055
Average ordinary shares repurchased in the year	**(20)**	(38)
Average ordinary shares issued in the year (net)	**18**	14
Weighted average shares for the purpose of calculating basic earnings per share at 31 December	**3,013**	3,031
Incremental ordinary shares in respect of employee share schemes	**40**	41
Weighted average shares for the purpose of calculating diluted earnings per share at 31 December	**3,053**	3,072

	2024	2023
Profit for the year attributable to equity shareholders (£m)	**1,956**	1,857
Basic earnings per share (pence)	**64.9**	61.3
Diluted earnings per share (pence)	**64.1**	60.4

6. Post-employment benefits

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.

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 38. The purpose of the funding valuations is to design funding plans which ensure that the schemes have sufficient funds available to meet future benefit payments.

UK valuations

Funding valuations of the Group's UK defined benefit pension schemes are performed at least every three years. The most recent triennial funding valuation for the Main Scheme was carried out as at 31 March 2024. This valuation was concluded and signed off on 6 February 2025.

The results of the most recent triennial valuation for the Main Scheme are shown below. This valuation was agreed with the Trustees and certified by the Scheme Actuary after consultation with the Pensions Regulator in the UK.

	Main Scheme as at 31 March 2024 £bn
Market value of assets	19.2
Present value of liabilities	(18.4)
Funding surplus	0.8
Percentage of accrued benefits covered by the assets at the valuation date	104%

The other UK schemes were also in surplus at their most recent triennial valuations.

The valuations were determined using the following mortality assumptions:

Life expectancy of a male currently aged 65 (years)	86 – 89
Life expectancy of a female currently aged 65 (years)	88 – 90
Life expectancy of a male at age 65, currently aged 45 (years)	88 – 91
Life expectancy of a female at age 65, currently aged 45 (years)	90 – 93

As part of the process of the Main Scheme's 2021 valuation, the Trustees and the Group agreed to update the methodology to use a cash flow matching strategy, such that assets are invested with the aim of the expected income directly matching the expected benefit payments of the Main Scheme. The most recent triennial valuation at 31 March 2024 has been carried out using the same principles. The cash flow matching strategy aims to manage risk through a defined amount of risk buffer assets, which equate to the agreed prudence margin in the valuation. The risk buffer assets are measured over time to ensure the Main Scheme is sufficiently funded. The asset portfolio is currently invested in a selection of bonds designed to match the pension payments for current pensioners, as well as a mix of growth-seeking assets aimed to generate returns for the pension payments for future pensioners. Over time, assets from the return-seeking portfolio will be realised to purchase additional, lower-risk assets to match the increasing current pensioner payments.

The valuations for the other schemes use a different method in that discount rates were directly based on prudent levels of expected returns for the assets held by the schemes, reflecting the planned investment strategies and maturity profiles of each scheme. The discount rates are curves which provide a different rate for each year into the future. Under IAS 19, the discount rate for accounting purposes is based on third-party AA corporate bond yields. The inflation assumptions for each of the valuations were derived based on the difference between the yields on index-linked and fixed-interest long-term government bonds.

The inflation assumption is a curve which provides a different rate for each year into the future.

There have been no changes to the contributions or benefits, as set out in the rules of the schemes, for pension scheme members as a result of the new funding valuation.

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 2024. The actuarial present value of accumulated plan benefits is determined by an independent actuary and uses actuarial assumptions to adjust the accumulated plan benefits earned by participants to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment.

Contributions

Under the terms of the trust deeds of the UK schemes, the Group is required to have a funding plan determined at the conclusion of the triennial funding valuations.

Equity accounted investments make regular contributions to the schemes in which they participate in line with the schedule of contributions and are allocated a share of funding contributions.

In 2024, total employer contributions to the Group's pension schemes were £407m (2023 £274m), including amounts funded by equity accounted investments of £22m (2023 £30m), and included approximately £48m (2023 £68m) of payments associated with the share buyback programme in respect of the Main Scheme and £156m (2023 £9m) of contributions to the US schemes, the significant majority of which were to improve the funding position of the US schemes.

Contributions in 2025 to the Group's pension schemes are expected to be at a lower level than 2024, primarily reflecting the impact of updated market conditions on the cost of benefit accrual and the one-off nature of the majority of the US contributions made in 2024.

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		
	2024	2023	2022	**2024**	2023	2022
Financial assumptions						
Discount rate – past service (%)	**5.5**	4.5	4.8	**5.5**	4.8	5.0
Discount rate – future service (%)	**5.6**	4.6	4.8	**5.5**	4.8	5.0
Retail Prices Index (RPI) inflation (%)	**2.9**	2.8	3.0	**n/a**	n/a	n/a
Rate of increase in salaries (%)	**2.9**	2.8	3.0	**2.8**	n/a	n/a
Rate of increase in deferred pensions (CPI/RPI) (%)	**2.3/2.9**	2.1/2.8	2.3/3.0	**n/a**	n/a	n/a
Rate of increase in pensions in payment (%)	**1.7 – 3.6**	1.6 – 3.6	1.7 – 3.6	**n/a**	n/a	n/a
Demographic assumptions						
Life expectancy of a male currently aged 65 (years)	**85 – 88**	85 – 89	86 – 89	**88**	88	87
Life expectancy of a female currently aged 65 (years)	**88 – 91**	88 – 89	88 – 90	**89**	89	89
Life expectancy of a male currently aged 45 (years)	**86 – 89**	86 – 89	87 – 90	**87**	87	87
Life expectancy of a female currently aged 45 (years)	**89 – 92**	89 – 90	89 – 91	**89**	89	89

Life expectancy

For its UK pension schemes, the Group has used the Self-Administered Pension Schemes S3 mortality tables based on year of birth (as published by the Institute and Faculties of Actuaries) for both pensioner and non-pensioner members, in conjunction with the results of an investigation into the actual mortality experience of scheme members and information on the demographic profile of the scheme's membership.

In addition, to allow for future improvements in longevity, the Continuous Mortality Investigation 2023 tables (published by the Institute of Actuaries) have been used (in 2023, the Continuous Mortality Investigation 2022 tables were used), with an assumed long-term rate of mortality improvements of 1.0% per annum (2023 1.0%), an initial rate adjustment parameter ('A') of 0.2% (2023 0.2%), a smoothing parameter ('Sk') of 7 (2023 7) and the following weighting ('W') parameters: W2023 35%, W2022 35% (2023 35%), W2021 0% (2023 0%), W2020 0% (2023 0%).

For the majority of the US schemes, the mortality tables used at 31 December 2024 are a blend of the fully generational PRI-2012 White Collar table and the PRI-2012 Blue Collar table, both projected using November 2024 Aon Endemic Projection Scale MP-2021.

Summary of movements in post-employment benefit obligations

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Surplus/(deficit) at 1 January 2024	649	(307)	55	(168)	229
Actual return on assets excluding amounts included in net finance costs	(1,628)	(94)	(4)	–	(1,726)
Decrease in liabilities due to changes in financial assumptions	1,745	179	4	14	1,942
Decrease/(increase) in liabilities due to changes in demographic assumptions	46	(19)	12	1	40
Experience gains/(losses)	95	46	2	(5)	138
Contributions in excess of/(below) service cost	138	114	(2)	(11)	239
Settlements	–	13	–	–	13
Business acquisitions	–	(147)	–	–	(147)
Net interest income/(expense)	58	(18)	4	(8)	36
Foreign exchange adjustments	–	3	–	(1)	2
Movement in withholding tax on surpluses[1]	2	–	–	–	2
Surplus/(deficit) at 31 December 2024	**1,105**	**(230)**	**71**	**(178)**	**768**

1. This includes £113m from the increase in the surplus offset by £115m from the change in withholding tax rate from 35% to 25%.

Virgin Media case

As noted in the Annual Report 2023, the Group is aware of the 'Virgin Media v NTL Pension Trustees Ltd and others' case and continues to monitor developments in this area of the law with the help of its advisors. Following the Court of Appeal's decision to uphold the ruling of the High Court against Virgin Media, the Group has been considering the extent to which the defined benefit schemes are exposed to the outcomes of this case and any resulting change in pension obligations, if any, is not anticipated to be material to the Company. The Group is therefore satisfied that it remains appropriate to make no adjustment to the financial statements on this basis but will keep the matter under review.

SMS business

In February 2024, the Group completed the acquisition of the US-based Ball Aerospace business from Ball corporation and formed our new SMS business. This transaction included a funded defined benefit pension scheme, now referred to as the SMS Plan, which resulted in the recognition of a net defined benefit obligation on acquisition of £147m.

Settlement gain

In June 2024, $145m (£113m) of the US defined benefit obligation liabilities were settled via payment of a lump sum to participants. The premium of $128m (£100m) created a one-off accounting gain of $17m (£13m). This gain has been recognised in the Consolidated income statement, and as an adjusting item.

Surplus recognition

A number of schemes are in an accounting surplus position. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. The surplus has been recognised net of withholding tax of 25% at 31 December 2024 (2023 35%) based on the enacted legislation at that date. This tax would be levied prior to the future refunding of any surplus and therefore the surplus has been presented on a net basis as this is not deemed to be an income tax of the Group.

Sensitivity analysis

The sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 December 2024 and keeping all other assumptions as set out above.

Financial assumptions

The estimated impact of changes in the discount rate and inflation assumptions on the defined benefit pension obligation, together with the estimated impact on scheme assets, is shown in the table below. The sensitivity analysis on the defined benefit obligation is measured on an IAS 19 accounting basis.

	Decrease/(increase) in pension obligation[1] £bn	(Decrease)/increase in scheme assets[1] £bn
Discount rate:		
0.5 percentage point increase/decrease	1.0/(1.1)	(1.0)/1.1
1.0 percentage point increase/decrease	1.9/(2.3)	(2.0)/2.3
2.0 percentage point increase/decrease	3.5/(5.2)	(3.6)/5.0

	(Increase)/decrease in pension obligation[1] £bn	Increase/(decrease) in scheme assets[1] £bn
Inflation:		
0.1 percentage point increase/decrease	(0.1)/0.1	0.1/(0.1)
0.5 percentage point increase/decrease	(0.5)/0.5	0.6/(0.5)
1.0 percentage point increase/decrease	(1.0)/1.0	1.2/(1.0)

Demographic assumptions

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

	(Decrease)/increase in net surplus[1] £bn
Life expectancy:	
One-year increase/decrease	(0.6)/0.6

1. Before deduction of withholding tax.

7. Capital distributions

Equity dividends

	2024 £m	2023 £m
Final 18.5p dividend per ordinary share paid in the year (2023 16.6p)	**562**	508
Interim 12.4p dividend per ordinary share paid in the year (2023 11.5p)	**375**	349
	937	857

After the balance sheet date, the directors proposed a final dividend of 20.6p per ordinary share. The dividend proposed amounts to approximately £622m, although the final payment is likely to be lower as a result of the impact of share repurchases. Subject to shareholder approval, the dividend will be paid on 2 June 2025 to shareholders registered on 22 April 2025. The provisional ex-dividend date is 17 April 2025. The payment of this dividend will not have any tax expense consequences for the Group.

Purchase of own shares

In July 2022, the directors approved a share buyback programme of up to £1.5bn (the 2022 share buyback programme). The 2022 share buyback programme was completed on 24 July 2024. In total, 163,907,003 ordinary shares were repurchased under the 2022 share buyback programme for a total cost (including transaction costs) of £1,508m.

In August 2023, the directors approved a further share buyback programme of up to £1.5bn (the 2023 share buyback programme). The 2023 share buyback programme commenced on 25 July 2024. The 2023 share buyback programme is expected to complete within three years of its commencement.

In the year ended 31 December 2023, 58,689,756 ordinary shares were repurchased under the 2022 share buyback programme for a total cost (including transaction costs) of £558m. In the year ended 31 December 2024, 22,220,182 ordinary shares were repurchased under the 2022 share buyback programme at a total cost (including transaction costs) of £287m. A further 20,901,154 ordinary shares were repurchased under the 2023 share buyback programme at a total cost (including transaction costs) of £264m.

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

As part of the 2022 and 2023 buyback programmes, it was agreed that should a better alternative use for the Company's cash reserves be identified, the share buyback programmes would be ceased and the money instead used for the alternative purpose. Therefore, when the Company issued a mandate to the brokers to purchase shares on its behalf, the mandate was structured such that it could be revoked at any point. As such, no financial liability has been recognised for shares not yet purchased under the programmes at 31 December.

8. Fair value measurement

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

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

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

– the fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate balance sheet rates;
– the fair values of both interest rate and cross-currency swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate balance sheet rates; and
– the fair values of money market funds are calculated by multiplying the net asset value per share by the investment held at the balance sheet date.

The derivative fair values are based on reputable third party forecast data and then adjusted for credit risk, including the Group's own credit risk and market risk. Due to the variability of the valuation factors, the fair values presented at 31 December may not be indicative of the amounts the Group will realise in the future.

Fair value hierarchy
The fair value measurement hierarchy is as follows:

– Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
– Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
– Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Carrying amounts and fair values of certain financial instruments

	2024		2023	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial instruments measured at fair value:				
Non-current				
Other investments at fair value through other comprehensive income	**83**	**83**	84	84
Other financial assets	**265**	**265**	227	227
Contingent consideration arising from business combinations	**(65)**	**(65)**	–	–
Other financial liabilities	**(193)**	**(193)**	(227)	(227)
Current				
Other financial assets	**212**	**212**	205	205
Money market funds	**1,227**	**1,227**	1,375	1,375
Contingent consideration arising from business combinations	**(6)**	**(6)**	–	–
Other financial liabilities	**(264)**	**(264)**	(295)	(295)
Financial instruments not measured at fair value:				
Non-current				
Loans	**(7,713)**	**(7,261)**	(4,432)	(4,045)
Current				
Loans	**(699)**	**(695)**	(679)	(672)

All of the financial assets and liabilities measured at fair value are classified as level 2 using the fair value hierarchy, except for money market funds, which are classified as level 1; other investments, which are at a combination of level 1 and level 3; and the contingent consideration liability which is measured at level 3. The fair value of the contingent consideration has been valued based on the discounted expected cash flows. The total value of investments classified as level 3 is immaterial. There were no transfers between levels during the period. Alternative valuation techniques would not materially change the valuations presented.

Financial assets and liabilities in the Group's Consolidated balance sheet are either held at fair value or at amortised cost. With the exception of loans, the carrying value of financial instruments measured at amortised cost approximates their fair value. For the bonds included within loans the fair value of loans presented in the table above is derived from market prices as of 31 December, classified as level 1 using the fair value hierarchy. The fair value of the private placement included within loans has been valued based on the interest yield on an equivalent observable bond, applied to the private placement cash flows, and has been classified as level 2 using the fair value hierarchy.

9. Related party transactions

The Group has a related party relationship with its equity accounted investments and pension schemes. Transactions with related parties occur in the normal course of business, are priced on an arm's-length basis and settled on normal trade terms. The more significant transactions are disclosed below:

	Year ended 31 December 2024 £m	Year ended 31 December 2023 £m
Sales to related parties	**1,706**	1,686
Purchases from related parties	**512**	658
Management recharges	**3**	8

	31 December 2024 £m	31 December 2023 £m
Amounts owed by related parties	**54**	79
Amounts owed to related parties[1]	**2,192**	1,746

1. At 31 December 2024, £1,975m (2023 £1,509m) was owed by BAE Systems plc and £217m (2023 £237m) by other Group subsidiaries.

10. Acquisitions

Businesses acquired during 2024

Ball Aerospace

On 16 February 2024, the Group acquired 100% of the share capital of the Ball Aerospace division (now BAE Systems Space & Mission Systems) for consideration of $5.5bn (£4.4bn), of which c.$0.8bn is expected to be recoverable under a tax benefit associated with the acquisition. Upon completion, the Group drew down $4.0bn (£3.2bn) under a bridge loan facility and paid $1.5bn (£1.2bn) in cash from the Group's existing cash resources, in settlement of the transaction. In March 2024, the Group raised $4.8bn (£3.8bn) by way of bond issuance and subsequently repaid the bridge loan facility.

Space & Mission Systems is a leading provider of spacecraft, mission payloads, optical systems and antenna systems. Headquartered in Colorado, with more than 5,200 employees, it has existing customer relationships among the Intelligence Community, US Department of Defense and civilian space agencies. It is well positioned across several markets: military and civil space, C4ISR, and missile and munitions. The space market exposure extends across positions in defence, intelligence and scientific missions. The Tactical Solutions business is well positioned to capture expected increases in demand for missiles and munitions.

The acquisition enhances our portfolio of advanced defence electronic solutions and is reported as part of our Electronic Systems segment.

Kirintec

On 3 September 2024, the Group acquired 100% of the share capital of Kirintec Ltd for total consideration of £282m, including £30m of contingent consideration. Kirintec undertakes cyber and electromagnetic activities alongside the production of counter-improvised explosive devices and counter-unmanned aerial vehicle products for military customers. The acquisition of Kirintec enhances our electronic warfare capabilities and forms part of the Digital Intelligence business within the Cyber & Intelligence segment.

Other acquisitions

On 31 January 2024, the Group acquired 100% of the share capital of Malloy Aeronautics Ltd and, on 2 May 2024, the Group acquired 100% of the share capital of Callen-Lenz Associates Ltd. Both entities operate in the UAS technology market and form part of FalconWorks®, the research and development business within the Air segment.

Total consideration of £292m includes £61m of contingent consideration. The value of contingent consideration is dependent on a number of factors, including the financial and operational performance of the acquired businesses.

Acquisition consideration and provisional fair value of net assets acquired

	Ball Aerospace[1] £m	Kirintec[2] £m	Other[1] £m	Total £m
Intangible assets	2,270	127	104	2,501
Property, plant and equipment	690	3	1	694
Right-of-use assets	77	–	–	77
Receivables	310	5	13	328
Deferred tax assets	44	–	–	44
Inventories	17	10	4	31
Lease liabilities	(61)	–	–	(61)
Post-employment benefit obligations	(147)	–	–	(147)
Contract liabilities	(186)	–	(17)	(203)
Payables	(164)	(9)	(10)	(183)
Deferred tax liabilities	–	(17)	(26)	(43)
Provisions	(12)	–	–	(12)
Current tax	–	2	–	2
Cash and cash equivalents	7	40	39	86
Net identifiable assets acquired	2,845	161	108	3,114
Goodwill	1,507	121	184	1,812
Net assets acquired	**4,352**	**282**	**292**	**4,926**
Satisfied by:				
Cash consideration	4,352	252	231	4,835
Contingent consideration	–	30	61	91
Total consideration	**4,352**	**282**	**292**	**4,926**

1. Final fair values.
2. Provisional fair values being the best estimate currently available.

The net outflows of cash in respect of the acquisitions are as follows:

	Ball Aerospace £m	Kirintec £m	Other £m	Total £m
Cash consideration	4,352	252	231	4,835
Contingent consideration paid in the year in respect of acquisitions	–	–	27	27
Less: Cash and cash equivalents acquired	(7)	(40)	(39)	(86)
Net cash outflow in respect of acquisitions	**4,345**	**212**	**219**	**4,776**

The goodwill recognised is primarily attributable to expected synergies from the products and services being provided and the enhancement of capabilities in new and emerging areas of technology. Goodwill of £1,507m is expected to be deductible for tax purposes. No impairment losses have been recognised in respect of goodwill in the year ended 31 December 2024.

The acquisitions contributed £1,537m to the Group's revenue and £195m to the Group's underlying EBIT[1] between the date of acquisition and 31 December 2024. If the acquisitions had completed on 1 January 2024, the Group's revenue would have been £26,588m and the Group's underlying EBIT[1] would have been £3,050m for the year ended 31 December 2024.

Contractual cash flows on trade, other and contract receivables are recognised net of expected credit losses. The amount of gross receivables acquired was £340m. Management's best estimate at the acquisition date of contractual cash flows not expected to be collected was £1m in relation to trade receivables and £11m related to other receivables in relation to Ball Aerospace. The fair value of receivables at acquisition date is shown in the table above.

No contingent liabilities have been recognised or require disclosure in respect of these acquisitions.

Acquisition-related costs of £51m have been included as an adjusting item in operating costs in the consolidated income statement for the year ended 31 December 2024.

1. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 46. It is presented here as our internal measure of segmental performance, to provide additional information on performance to the user.

Businesses acquired during 2023

Eurostep acquisition

On 31 October 2023, the Group acquired 100% of the share capital of Eurostep, a secure data sharing company headquartered in Sweden, for consideration of £9m. The company forms part of the Cyber & Intelligence segment, within the Digital Intelligence business.

The results and financial position of the acquired businesses have been consolidated from the date of acquisition.

11. Disposals

Business disposals during 2024

On 31 October 2024, the Group completed the sale of BAE Systems Imaging Solutions Inc., previously reported within the Electronic Systems segment, and, on 31 December 2024, the Group completed the sale of its forge facilities and related services which formed the Anniston business within the Platforms & Services segment. Total net cash proceeds from the disposals were £8m and, after accounting for disposal costs and cumulative currency translation, the loss on the disposals before tax totalled £4m.

Disposal of interests in equity accounted investments in 2024

Air Astana

On 12 January 2024, Air Astana announced its intention to proceed with a joint initial public offering (IPO) on the London Stock Exchange, the Astana International Exchange in Kazakhstan, and the Kazakhstan Stock Exchange. On 9 February 2024, the IPO was launched. As a result of the IPO, the total shareholding held by BAE Systems in Air Astana reduced from 49% to 17%. The Group's 49% shareholding in Air Astana had a carrying value of £84m at 31 December 2023. The profit on disposal of the share of the Group's equity accounted investment is shown below. The Group has continued to equity account for the remaining investment within the HQ segment.

FNSS

On 10 December 2024, the Group sold its 49% shareholding in FNSS Savunma Sistemleri A.S. FNSS was included in the Platforms & Services segment. The profit recognised on disposal of the Group's equity accounted investment is shown below:

	Air Astana £m	FNSS £m	Total £m
Total cash proceeds on divestment of interest in equity accounted investment	166	20	186
Less: Carrying amount of share of equity accounted investment disposed	(56)	–	(56)
Profit on disposal before tax and reclassification of foreign currency translation reserve	110	20	130
Reclassification of foreign currency reserve	(35)	3	(32)
Profit on disposal before tax	**75**	**23**	**98**

Business disposals during 2023

There were no business disposals in 2023. The Group incurred cash outflows of £8m in 2023 relating to the 2022 disposal of the financial crime detection business from Digital Intelligence, which had been fully provided for in 2022.

12. Contingent liabilities

The Group believes that the likelihood of any significant liability arising in respect of its guarantees and performance bond arrangements, and legal actions and claims not already provided for, is remote.

13. Events after the reporting period

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

Alternative performance measures

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

The Group uses these APMs as a mechanism to support year-on-year business performance and cash generation comparisons, and to enhance management's planning and decision-making on the allocation of resources. The APMs are also used to provide information in line with the expectations of investors, and when setting guidance on expected future business performance. The Group presents these measures to the users to enhance their understanding of how the business has performed within the year, and does not consider them to be more important than, or superior to, their equivalent IFRS measures. As each APM is defined by the Group, they may not be directly comparable with equivalently-named measures in other companies.

Purpose, definitions, breakdowns and reconciliations to the relevant statutory measure, where appropriate, are included below.

Sales

Purpose
Enables management to monitor the revenue of both the Group's own subsidiaries as well as recognising the strategic importance in its industry of its equity accounted investments, to ensure programme performance is understood and in line with expectations.

Definition
Revenue plus the Group's share of revenue of equity accounted investments, excluding subsidiaries' revenue from equity accounted investments.

Reconciliation of sales to revenue	2024 £m	2023 £m
Sales	**28,335**	25,284
Deduct: Group's share of revenue of equity accounted investments	**(3,729)**	(3,892)
Add: Subsidiaries' revenue from equity accounted investments	**1,706**	1,686
Revenue	**26,312**	23,078

Underlying EBIT

Purpose
Provides a measure of operating profitability, excluding one-off events or adjusting items that are not considered to be part of the ongoing operational transactions of the business, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group.

Definition
Operating profit excluding amortisation of programme, customer-related and other intangible assets, impairment of equity accounted investments and intangible assets, net finance costs and tax expense of equity accounted investments (EBIT) and adjusting items. The exclusion of amortisation of acquisition-related intangible assets is to allow consistent comparability internally and externally between our businesses, regardless of whether they have been grown organically or via acquisition.

Reconciliation of underlying EBIT to operating profit	2024 £m	2023 £m
Underlying EBIT	**3,015**	2,682
Adjusting items	**23**	40
Amortisation of programme, customer-related and other intangible assets and impairment of equity accounted investments and intangible assets	**(344)**	(116)
Net finance income of equity accounted investments	**59**	14
Tax expense of equity accounted investments	**(68)**	(47)
Operating profit	**2,685**	2,573

Return on sales

Purpose
Provides a measure of operating profitability, excluding one-off events, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group.

Definition
Underlying EBIT as a percentage of sales. Also referred to as margin.

	2024 £m	2023 £m
Sales	**28,335**	25,284
Underlying EBIT	**3,015**	2,682
Return on sales	**10.6%**	10.6%

Underlying earnings per share (EPS)

Purpose
Provides a measure of the Group's underlying performance, which enables management to compare the profitability of the Group's recurring operations over time.

Definition
Profit for the year attributable to shareholders, excluding post-tax impact of amortisation of programme, customer-related and other intangible assets, impairment of equity accounted investments and intangible assets, non-cash finance movements on pensions and financial derivatives, and adjusting items attributable to shareholders, being underlying earnings, divided by number of shares as defined for Basic EPS in accordance with IAS 33 Earnings per Share.

Reconciliation of underlying earnings to profit attributable to equity shareholders	**2024 £m**	2023 £m
Underlying earnings for the year attributable to equity shareholders	**2,065**	1,916
Adjustments:		
Adjusting items	**23**	40
Amortisation of programme, customer-related and other intangible assets and impairment of equity accounted investments and intangible assets	**(344)**	(116)
Net interest income on post-employment benefit obligations	**20**	44
Fair value and foreign exchange adjustments on financial instruments and investments	**82**	(66)
Tax impact of adjustments	**110**	39
Profit for the year attributable to equity shareholders	**1,956**	1,857

Reconciliation of underlying EBIT to underlying earnings	**2024 £m**	2023 £m
Underlying EBIT	**3,015**	2,682
Group and equity accounted investments underlying net finance costs (see reconciliation on page 48)	**(396)**	(211)
Underlying tax expense (see reconciliation on page 49)	**(469)**	(472)
Underlying profit for the year	**2,150**	1,999
Deduct: Non-controlling interests	**(85)**	(83)
Underlying earnings for the year attributable to equity shareholders	**2,065**	1,916
Weighted average number of ordinary shares used in calculating basic EPS	**3,013**	3,031
Underlying EPS – basic	**68.5p**	63.2p
Weighted average number of ordinary shares used in calculating diluted EPS	**3,053**	3,072
Underlying EPS – diluted	**67.6p**	62.4p

Adjusting items

Purpose
To adjust items of financial performance from the reported underlying results which have been determined by management as being material by their size or incidence and not relevant to an understanding of the Group's underlying business performance.

Definition
Adjusting items include profit or loss on business transactions, the impact of substantively enacted tax rate changes, and costs incurred which are one-off in nature, for example, non-routine costs or income relating to post-retirement benefit schemes and other items which management has determined as not being relevant to an understanding of the Group's underlying business performance.

	2024 £m	2023 £m
Net profit on business disposals	**94**	–
Gain related to settlements on the pension schemes	**13**	60
Acquisition and integration-related costs	**(72)**	(20)
Other	**(12)**	–
Adjusting items	**23**	40

Underlying net finance costs

Purpose
Provides a measure of net finance costs associated with the operational borrowings of the Group that is comparable over time.

Definition
Net finance costs for the Group and its share of equity accounted investments, excluding net interest income/expense on post-employment benefit obligations and fair value and foreign exchange adjustments on financial instruments.

	2024 £m	2023 £m
Net finance costs – Group	**(353)**	(247)
(Deduct)/add back:		
Net interest income on post-employment benefit obligations	**(18)**	(41)
Fair value and foreign exchange adjustments on financial instruments	**(84)**	57
Underlying net finance costs – Group	**(455)**	(231)
Net finance income – equity accounted investments	**59**	14
(Deduct)/add back:		
Net interest income on post-employment benefit obligations	**(2)**	(3)
Fair value and foreign exchange adjustments on financial instruments	**2**	9
Underlying net finance income – equity accounted investments	**59**	20
Total of Group and equity accounted investments' underlying net finance costs	**(396)**	(211)

Underlying effective tax rate

Purpose
Provides a measure of tax expense for the Group, excluding one-off items, that is comparable over time.

Definition
Tax expense for the Group and its share of equity accounted investments, excluding any one-off tax benefit/expense related to adjusting items and other items excluded from underlying EBIT, as a percentage of underlying profit before tax.

Calculation of the underlying effective tax rate

	2024 £m	2023 £m
Underlying EBIT (see reconciliation on page 46)	**3,015**	2,682
Group and equity accounted investments' underlying net finance costs (see reconciliation on page 48)	**(396)**	(211)
Underlying profit before tax	**2,619**	2,471
Group tax expense	**(291)**	(386)
Tax expense of equity accounted investments	**(68)**	(47)
Exclude:		
Tax (expense)/income in respect of taxable adjusting items	**(33)**	11
Tax expense in respect of other items excluded from underlying profit	**(77)**	(49)
Tax rate adjustment	**–**	(1)
Underlying tax expense	**(469)**	(472)
Underlying effective tax rate	**18%**	19%

Free cash flow

Purpose
Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy.

Definition
Net cash flow from operating activities, including dividends received from equity accounted investments, interest paid, net of interest received, net capital expenditure and financial investments, and principal elements of lease payments and receipts.

Reconciliation from free cash flow to net cash flow from operating activities

	2024 £m	2023 £m
Free cash flow	**2,505**	2,593
Add back:		
Interest paid, net of interest received	**413**	230
Net capital expenditure and financial investment	**987**	789
Principal element of lease payments and receipts	**178**	282
Deduct:		
Dividends received from equity accounted investments	**(158)**	(134)
Net cash flow from operating activities	**3,925**	3,760

Operating business cash flow

Purpose
Provides a measure of cash generated by the Group's operations, which is comparable across the Group, to service debt and meet tax obligations, and in turn available for use in line with the Group's capital allocation policy.

Definition
Net cash flow from operating activities excluding tax paid net of research and development expenditure credits received and including net capital expenditure (net of proceeds from funding of assets) and lease principal amounts, financial investment and dividends from equity accounted investments.

Reconciliation from operating business cash flow to net cash flow from operating activities	**2024 £m**	2023 £m
Operating business cash flow	**3,093**	3,218
Add back:		
Net capital expenditure and financial investment	**987**	789
Principal element of lease payments and receipts	**178**	282
Deduct:		
Dividends received from equity accounted investments	**(158)**	(134)
Tax paid net of R&D expenditure credits received	**(175)**	(395)
Net cash flow from operating activities	**3,925**	3,760

Reconciliation of operating business cash flow to net cash flow from operating activities by reporting segment

	Operating business cash flow		Deduct: Dividends received from equity accounted investments		Add back: Net capital expenditure, lease principal amounts and financial investment		Net cash flow from operating activities	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Electronic Systems	**801**	811	**(11)**	(8)	**254**	158	**1,044**	961
Platforms & Services	**732**	426	**(1)**	–	**245**	198	**976**	624
Air	**1,243**	1,669	**(138)**	(112)	**254**	251	**1,359**	1,808
Maritime	**436**	291	**(8)**	(7)	**306**	345	**734**	629
Cyber & Intelligence	**139**	204	**–**	–	**55**	57	**194**	261
HQ	**(258)**	(183)	**–**	(7)	**51**	62	**(207)**	(128)
	3,093	3,218	**(158)**	(134)	**1,165**	1,071	**4,100**	4,155
Tax paid net of R&D expenditure credits received							**(175)**	(395)
Net cash flow from operating activities							**3,925**	3,760

Net debt (excluding lease liabilities)

Purpose
Allows management to monitor indebtedness of the Group, to ensure the Group's capital structure is appropriate and capital allocation policy decisions are suitably informed.

Definition
Cash and cash equivalents, less loans (including debt-related derivative financial instruments). Net debt does not include lease liabilities.

Components of net debt	2024 £m	2023 £m
Cash and cash equivalents	**3,378**	4,067
Debt-related derivative financial instruments (net)	**89**	22
Loans – non-current	**(7,713)**	(4,432)
Loans – current	**(699)**	(679)
Net debt (excluding lease liabilities)	**(4,945)**	(1,022)

Order intake

Purpose
Allows management to monitor the order intake of the Group together with its equity accounted investments, providing insight into future years' sales performance.

Definition
Funded orders received from customers including the Group's share of order intake of equity accounted investments.

	2024 £bn	2023 £bn
Order intake	**33.7**	37.7

Order backlog

Purpose
Supports future years' sales performance of the Group together with its equity accounted investments.

Definition
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.

Reconciliation of order backlog, as defined by the Group, to order book[1]	2024 £bn	2023 £bn
Order backlog, as defined by the Group	**77.8**	69.8
Deduct:		
Unfunded order backlog	**(5.3)**	(2.3)
Share of order backlog of equity accounted investments	**(16.6)**	(13.5)
Add back: Order backlog in respect of orders from equity accounted investments	**4.5**	4.0
Order book[1]	**60.4**	58.0

1. Order book represents the transaction price allocated to unsatisfied and partially satisfied performance obligations as defined by IFRS 15 Revenue from Contracts with Customers.