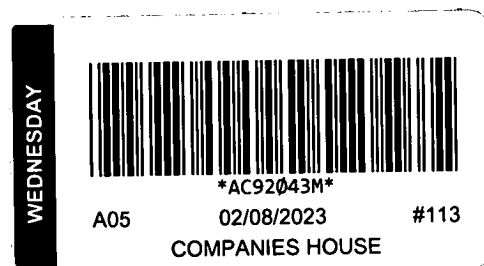


BAE Systems (Defence Systems) Limited

Annual Report and Financial Statements

31 December 2022

Registered number: 00236538



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Strategic Report
for the year ended 31 December 2022

Review of business and principal activities

BAE Systems (Defence Systems) Limited (the "Company") is a member of the BAE Systems plc Group ("BAE Systems Group" or "Group") of companies, and is engaged in the design, development and support of the Falcon mobile battlefield communication system for the UK Army and RAF alongside an additional UK Official-Sensitive Ministry of Defence "MOD" contract.

Key performance indicators

Key financial performance indicators are shown below:

	2022	2021
	£000	£000
Order intake	9,101	4,035
Revenue	10,739	12,452
Profit before tax	13,290	10,049
Return on sales	124%	81%

Order intake represents the value of funded orders received from customers in the year. It is a measure of in year performance and supports future years' sales performance. This has increased due to the new contract referenced above.

Revenue represents the amounts derived from the provision of goods and services. It has increased as the new MOD contract has been trading for a full year.

Profit before tax is used for internal performance analysis as a measure of operating profitability that is comparable over time.

Return on sales this shows the percentage of profit as a function of sales. The increase is driven by the new MOD contract trading for a full year and also due to the result of selling stock to a fellow BAE Systems Group company.

Strategic Report (continued)
for the year ended 31 December 2022

Principal risks and uncertainties

The Company's principal risks are identified below:

The Company's sole customer is the UK Government. The Company is dependent on defence spending and terms of trade

The Company's core business is defence-related and its sole customer is the UK government. Defence spending by governments can fluctuate depending on change of government policy, other political considerations, budgetary constraints, specific threats and movements in the international oil price. There have been constraints on government expenditure in the UK.

The Company has long-standing relationships and security arrangements with the government of the UK and its agencies. It is important that these relationships and arrangements are maintained.

Impact: The occurrence of any such events could have a material adverse effect on the Company's future results and financial condition.

Mitigation: The Company's contracts are often long-term in nature and consequently, it may be able to mitigate these risks over the term of those contracts.

Contract risk, execution and supply chain

Description: It is important that the Company maintains a culture in which it delivers on its projects within tight tolerances of quality, time and cost performance in a reliable, predictable and repeatable manner. Actual costs may exceed the projected costs, including assumptions on future rates of inflation.

Impact: The inability of the Company to deliver on its contractual commitments, the loss, expiration, suspension, cancellation or termination of any of its contracts or its failure to anticipate technical problems or estimate accurately and control costs could have a material adverse effect on the Company's future results and financial condition.

Mitigation: Contract-related risks and uncertainties are managed under the BAE Systems Group's mandated Lifecycle Management process.

Supply chain

Description: The Company is dependent upon the delivery of materials by suppliers and the assembly of components and subsystems by subcontractors used in its products in a timely and satisfactory manner, on satisfactory commercial terms and in full compliance with applicable terms and conditions. The external supply chain environment is very dynamic at this time, with both lead-time and availability issues, but also pricing pressures, including from inflationary increases in labour, energy and other key materials.

Impact: Some of the Company's suppliers or subcontractors may be impacted by the economic environment (including inflationary pressures) which could impair their ability to meet their obligations to the Company and to supply on satisfactory commercial terms. In some instances, the Company is dependent on one or a limited number of suppliers. If any of these suppliers or subcontractors fail to meet the Company's needs, the Company may not, in the short term, have readily available alternatives, thereby impacting its ability to complete its customer obligations satisfactorily and in a timely manner. The above events could have a negative impact on the Company's future results of operations and financial condition.

Strategic Report (continued)

for the year ended 31 December 2022

Mitigation: The BAE Systems Group's procurement function is responsible for establishing and managing end-to-end integrated supplier arrangements. In many cases, the Company benefits from long-term programme positions and incumbencies with more stable forward visibility for long-lead items, allowing the Company to continue to actively manage supplier lead times against demand requirements. The Company seeks to manage the inflation risk through its contracting arrangements on its programmes, effective cost management and improved efficiency of the Company's own operations and through its long-term supplier agreements.

Section 172(1) statement

This statement contains an overview of how the directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the UK's Companies Act 2006. That section requires a director of a company to act in the way he considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to:

- a) the likely consequences of any decision in the long term,
- b) the interests of the Company's employees,
- c) the need to foster the Company's business relationships with suppliers, customers and others,
- d) the impact of the Company's operations on the community and the environment,
- e) the desirability of the Company maintaining a reputation for high standards of business conduct, and
- f) the need to act fairly as between members of the Company.

Decision making

The BAE Systems Group Operational Framework sets out the principles of good governance to which BAE Systems Group subsidiaries are required to adhere, together with BAE Systems Group's values, policies and processes. Decisions affecting a subsidiary are required to be taken in line with the Operational Framework, including in accordance with applicable delegations of authority.

Pursuant to the Operational Framework, BAE Systems' businesses each produce a strategic plan, a financial forecast for the current year and financial projections for the next five years. The directors of the Company contribute towards this process for the respective businesses of the Company for which they are responsible and are also responsible for identifying and managing principal and emerging risks in such businesses. In so doing the directors have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long term and the long-term reputation of the Company and its businesses.

Employees

The Company itself has no employees and uses resource from the BAE Systems Group to carry out its business activities. Employee engagement is a primary focus for the directors of the Company – connecting employees to the Company's and the BAE Systems Group's strategy and purpose, empowering them to contribute to improving business performance and creating an environment in which everyone can fulfil their potential.

A range of channels was used to engage with employees throughout the year, as well as keeping employees informed about the performance, developments and prospects of the business and the BAE Systems Group. This included in-person and virtual meetings, engagement through the Group intranet, employee app, email, videos, podcasts, newsletters, leadership communications, virtual discussions, and briefings, and through Group line managers who play a key role in keeping their teams connected and engaged. The Company recognises the importance of two-way communications, ensuring there are channels through which employees can express their views, feedback and any concerns, helping the Company understand employee sentiment on an ongoing basis and respond appropriately.

Strategic Report (continued)
for the year ended 31 December 2022

These engagement activities form part of the Company's implementation of the BAE Systems Group-wide employee engagement processes and policies which are described on pages 32, 35 and 72 of BAE Systems plc's Annual Report 2022 (available at: www.baesystems.com/investors).

Pursuant to the Group's People Policy, Directors and employees are required to contribute to creating an engaged and inclusive work environment, where individuals are respected and where the value of a diverse workforce is recognised. Also, pursuant to the Policy, employees are to be provided with the means to give their views and feedback.

Through the implementation by the Company of these processes and policies, the Directors have regard to the interests of the Company's employees.

Fostering business relationships with suppliers, customers and others

The directors recognise that fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the Company's success. The Company has close relationships with its customers, suppliers and industry partners which help us to create best-in-class, cost-effective equipment, goods, services and solutions.

Our sole customer is the UK government. Strong and collaborative relationships with our principal government customer help us to identify customer requirements and to help position the Company as a trusted provider. The Directors are in regular contact with the principal customer of the Company.

The Company, together with its procurement and supply chain function, works with its suppliers and their supply chains to provide equipment, goods and services that meet its customers' requirements. The Company's supplier relationships are often long-term due to the length of the product life-cycles and the Directors meet with key suppliers and work with the BAE Systems Group's procurement function to develop deeper relationships with business in the supply chain and develop strategic relationships with key suppliers. The Group's procurement function continues to actively manage supply lead times against demand requirements.

The community and the environment

The directors recognise the importance of leading a company that not only generates value for shareholders but also contributes to wider society. Through the Operational Framework the Company implements the requirements of the BAE Systems Group's Community Investment Policy, which looks to ensure that we build and nurture mutually beneficial relationships between our business, our people and local stakeholders. Giving back to the communities in which we operate, and to charities that have meaning to our business, is vitally important to our Company and our employees, allowing us to make a positive difference and have an impact where it counts.

We recognise that our operations have an impact on the environment – from the energy and resources we use, to the products we manufacture and the waste that we generate. As an organisation, the BAE Systems Group is committed to reducing the environmental impact of its operations and products, minimising its environmental footprint and, in turn, decreasing its operational costs.

As a manufacturer, we recognise that our operations have an impact on the environment – from the energy and resources we use, to the products we manufacture and the waste that we generate. As an organisation, the BAE Systems Group is committed to reducing the environmental impact of its operations and products, minimising its environmental footprint and, in turn, decreasing its operational costs.

Through the Operational Framework the Company implements the requirements of the BAE Systems Group's Environmental Policy, which details our commitment to high standards of environmental management. In particular, the Company is supporting the Group's target of achieving net zero greenhouse gas emissions across the Group's operations (scope 1 and 2) by 2030 and its target of working towards a net zero value chain by 2050.

Strategic Report (continued)
for the year ended 31 December 2022


All the above activities form part of the Company's implementation of the BAE Systems Group-wide community and environment processes and policies and the BAE Systems Group's impacts thereon which are described on pages 40-53 and pages 64-67 of BAE Systems plc's Annual Report 2022 (available at: www.baesystems.com/investors).

Maintaining a reputation for high standards of business conduct

The BAE Systems Group aims to be a recognised leader in business conduct which helps us to earn and maintain stakeholder trust and sustain business success. The directors consider it fundamental to maintain a culture focused on embedding responsible business behaviours. All employees of the Company are expected to act in accordance with the requirements of BAE Systems Group's policies, including the Code of Conduct, at all times. As well as being the right thing to do, this reduces the risk of compliance failure and supports the Company in attracting and retaining high-calibre employees.

Detailed information on the BAE Systems Group-wide business conduct processes and policies are described in BAE Systems plc's Annual Report 2022 (available at: www.baesystems.com/investors) on pages 75-77.

Approved by the Board and signed on its behalf by:



J E Fothergill
Director

Date: 3 July 2023

Directors' Report

Company registration

BAE Systems (Defence Systems) Limited is a private company, limited by shares and registered in England and Wales with the registered number 00236538.

Results and dividends

The Company's profit for the financial year is £13,355k (2021: £10,093k profit). The directors do not propose a dividend for 2022 (2021: £nil).

Looking forward

The Company will continue with its UK Ministry of Defence Contract which started in 2021, this will continue for three more years. Contract closure is imminent for the design, development and support of the Falcon mobile battlefield communication system for the UK Army and RAF.

Events after the reporting period

There have been no significant events affecting the Company since the year end.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £20,669k, which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. BAE Systems plc has indicated that, for at least 12 months from the date of approval of these financial statements, it will continue to make available funds as are needed by the Company to meet its liabilities as they fall due and in particular will not seek repayment of amounts currently made available.

Energy and carbon reporting exemption

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed on pages 40-53 in the 2022 Annual Report of its ultimate parent, BAE Systems plc (available at www.baesystems.com/investors).

Credit risk and liquidity

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flow risks are discussed in detail within the BAE Systems plc Group accounts (available at: www.baesystems.com/investors).

Directors and their interests

The directors who served throughout the year and up to the date of this Directors' Report, were as follows:

R Checkley
J E Fothergill

The Board is not aware of any contract of significance in relation to the Company in which any director has, or has had, a material interest.

Directors' Report (continued)

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

The auditor, Deloitte LLP, has indicated its willingness to continue in office and, in accordance with Section 487(2) of the Companies Act 2006, has been re-appointed.

Approved by the Board and signed on its behalf by:



J E Fothergill
Director

Date: 3 July 2023

Registered office:
BAE Systems (Defence Systems) Limited
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 ("FRS 101") Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of BAE Systems (Defence Systems) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems (Defence Systems) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement and Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report¹, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the Members of BAE Systems (Defence Systems) Limited (continued)

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

Independent Auditor's Report to the Members of BAE Systems (Defence Systems) Limited (continued)

As a result of performing the above, we identified the area with the greatest potential for fraud to be in relation to revenue and margin recognition on long term contracts. The specific procedures we performed to respond to this risk included:

- examining external evidence to support contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence; and
- analysing historical contract performance and testing the underlying calculations used in contract assessments for accuracy and completeness.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities.

Report on other legal and regulatory requirements**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

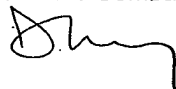
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of BAE Systems (Defence Systems) Limited (continued)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Douglas King FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor
Manchester, United Kingdom

3 July 2023

Income Statement and Statement of Comprehensive Income
for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Revenue	3	10,739	12,452
Operating costs	4	(9,981)	(14,073)
Other income	5	7,327	3,216
Operating profit		8,085	1,595
Dividends received		461	1,267
Fair value gain on equity investments at fair value through profit and loss	12	5,057	7,530
Financial expense	6	(313)	(343)
Profit before tax		13,290	10,049
Tax	9	65	44
Profit for the year		13,355	10,093
Total comprehensive income for the year		13,355	10,093

The results for 2022 and 2021 arise from continuing activities.

The notes on pages 17 to 38 form part of these financial statements.

BAE Systems (Defence Systems) Limited
Annual Report and Financial Statements
31 December 2022

Balance Sheet
as at 31 December 2022

	Note	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	11	1,848	2,042
Investments	12	37,029	31,972
Investment property	13	10,945	12,294
Deferred tax assets	14	357	292
Other receivables	15	90,361	90,011
		<u>140,540</u>	<u>136,611</u>
Current assets			
Trade, other and contract receivables	15	7,359	2,779
		<u>147,899</u>	<u>139,390</u>
Non-current liabilities			
Lease liabilities	10	(12,396)	(13,358)
Provisions	17	(259)	(233)
		<u>(12,655)</u>	<u>(13,591)</u>
Current liabilities			
Lease liabilities	10	(1,338)	(1,688)
Trade and other payables	16	(25,190)	(28,741)
Provisions	17	(1,500)	(1,509)
		<u>(28,028)</u>	<u>(31,938)</u>
Total liabilities		<u>(40,683)</u>	<u>(45,529)</u>
Net assets		<u>107,216</u>	<u>93,861</u>
Capital and reserves			
Issued share capital	18	1,009	1,009
Other reserves		81,035	81,035
Retained earnings		25,172	11,817
Total equity		<u>107,216</u>	<u>93,861</u>

Balance Sheet (continued)
as at 31 December 2022

Approved by the Board on 3 July 2023 and signed on its behalf by:



J E Fothergill
Director

Registered number: 00236538

The notes on pages 17 to 38 form part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2022

	Issued share capital	Other reserves	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 January 2021	1,009	81,035	1,724	83,768
Profit for the year	-	-	10,093	10,093
At 31 December 2021	<u>1,009</u>	<u>81,035</u>	<u>11,817</u>	<u>93,861</u>
Profit for the year	-	-	13,355	13,355
At 31 December 2022	<u><u>1,009</u></u>	<u><u>81,035</u></u>	<u><u>25,172</u></u>	<u><u>107,216</u></u>

The notes on pages 17 to 38 form part of these financial statements.

Other reserves is defined in note 18.

Notes to the Financial Statements

1. General information

BAE Systems (Defence Systems) Limited is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is disclosed in note 20. The address of the Company's registered office is shown on page 7.

The principal activity of the Company is set out in the Strategic Report on page 1. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless otherwise stated, rounded to the nearest thousand.

2. Accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with FRS 101. The Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS"), but makes amendments where necessary in order to comply with the Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets; and
 - paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, BAE Systems plc, a company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual undertaking and not as a group.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments).

These financial statements have been prepared using the going concern basis of accounting.

Key sources of estimation uncertainty

Certain of the Company's significant accounting policies are considered by the directors to be critical because of the level of complexity, judgement or estimation involved in their application and their impact on the financial statements. The critical accounting policies are listed below:

Accounting policy	Description
Revenue and profit recognition	The Company accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Company'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 Company's project managers, engineers, and finance and commercial professionals. The Company's estimates and assumptions relating to revenue could be impacted by issues such as reduced productivity as a result of altered working practices to comply with health and safety, production delays and increased costs as a result of disruption to the supply chain or where there is uncertainty as to the recovery from customers of programme costs incurred. Material changes in these estimates could affect the profitability of individual contracts.
Valuation of investments	There is a risk of a material adjustment to the carrying amounts of assets and liabilities related to the determination of the fair value of the Company's investments. The fair value calculation requires an assessment of future cash flows expected to be generated by the investment, as well as the appropriate discount rate to apply to these projections.

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Critical accounting judgments

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the financial statements.

Changes in accounting policies

The following standards, interpretations and amendments to existing standards became effective on 1 January 2022 and have not had a material impact on the Company:

- Amendments to IFRS 3 Business Combinations, effective from 1 January 2022;
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use effective from 1 January 2022;
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract effective from 1 January 2022; and
- Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle effective from 1 January 2022.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2022. These either have been, or are expected to be endorsed by the UK Endorsement Board and are not expected to have a material impact on the Company:

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendment to FRS 101 reduced disclosure framework, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023;
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1 January 2023;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023.

Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Company's financial performance and position.

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Revenue and profit recognition

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Company to customers in exchange for consideration in the ordinary course of the Company's activities.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract. The Company provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Company's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are typically no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Company's pricing principles. Whilst payment terms vary from contract to contract, on many of the Company's contracts, an element of the transaction price is received in advance of delivery. The Company therefore has significant contract liabilities. The Company's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price either as a result of UK Ministry of Defence contracting rules which prohibit the inclusion of financing in the sales price or negotiations on competitive international export contracts which do not make allowance for the cash payment profile.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer. For each performance obligation within a contract, the Company determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs;
- Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date.

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Revenue and profit recognition (continued)

The Company has determined that most of its contracts satisfy the over-time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs (typically services or support contracts) or the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date (typically development or production contracts).

For each performance obligation to be recognised over time, the Company recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Company has determined that this method faithfully depicts the Company's performance in transferring control of the goods and services to the customer.

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Outstanding commitments

The Company regularly reviews outstanding commitment for purchases in its supply chain in order to inform revenue recognition under IFRS15 trading principles. Where the Company has received notification that the supplier has completed the manufacture of goods, but has not yet delivered and invoiced for them and the ultimate customer controls the asset, i.e. neither the subcontractor or the Company have an alternative use for the asset, the Company will accrue for these costs and recognise revenue in line with overtime trading principles under IFRS15.

Contract modifications

The Company's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Company's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

1. prospectively, as an additional, separate contract; or
2. prospectively, as a termination of the existing contract and creation of a new contract; or
3. as part of the original contract using a cumulative catch-up.

The majority of the Company's contract modifications are treated under either 1 (for example, the requirement for additional distinct goods or services) or 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

Costs to obtain a contract

The Company expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Company does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Revenue and profit recognition (continued)

Costs to fulfil a contract

Contract fulfilment costs in respect of over-time contracts are expensed as incurred. Contract fulfilment costs in respect of point-in-time contracts are accounted for under IAS 2 Inventories.

2.3 Leases

The Company as lessee

All leases in which the Company is lessee (except as noted below) are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between repayment of the lease liability and finance cost. The finance cost is charged to the Income Statement over the lease term to produce a constant periodic rate of interest on the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease. Where this rate is not determinable, the Company's incremental borrowing rate is used, which is the interest rate the Company would have to pay to borrow the amount necessary to obtain an asset of similar value, in a similar economic environment with similar terms and conditions.

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs.

If a right-of-use asset meets the definition of investment property, the Company applies the requirements of IAS 40.

The carrying amounts of the Company's right-of-use assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

Payments in respect of short-term leases, low-value leases and leases of intangible assets are charged to the Income Statement on a straight-line basis over the lease term.

Notes to the Financial Statements

2. Accounting policies (continued)

2.4 Property, plant and equipment

Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, testing costs and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided, normally on a straight-line basis, to write off the cost of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Buildings	- up to 50 years, or the lease term if shorter
Plant and machinery and Fixtures & fittings	- 10 years,

No depreciation is provided on freehold land and assets in the course of construction.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each Balance Sheet date.

Impairment

The carrying amounts of the Company's property, plant and equipment are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

2.5 Investments

Fixed asset investments in shares in subsidiary undertakings and in shares in participating interests are stated at cost less provision for impairment.

Equity investments in companies over which the Company does not have control or significant influence are measured at fair value through profit and loss.

Notes to the Financial Statements

2. Accounting policies (continued)

2.6 Impairment

The carrying amounts of the Company's intangible assets (excluding goodwill), property, plant and equipment, right-of-use assets, investment property and equity accounted investments are reviewed at each Balance Sheet date to determine whether there is any indication of impairment as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, impairment testing is performed annually.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the Income Statement.

An impairment loss in respect of goodwill is not reversed. An impairment loss in respect of other intangible assets, property, plant and equipment, investment property and right-of-use assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.7 Investment property

Cost

Land and buildings that are leased to BAE Systems plc Group or non-BAE Systems plc Group entities are classified as investment property. The Company measures investment property at its cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided, on a straight-line basis, to write off the cost of investment property over its estimated useful life of up to 50 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Balance Sheet date.

Notes to the Financial Statements

2. Accounting policies (continued)

2.7 Investment property (continued)

Impairment

The carrying amounts of the Company's investment property are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

2.8 Trade, other and contract receivables

Trade and other receivables are stated at amortised cost including a provision for expected credit losses. The Company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Company writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

Contract receivables represent amounts for which the Company has an unconditional right to consideration in respect of unbilled revenue recognised at the Balance Sheet date and comprise costs incurred plus attributable margin.

2.9 Trade and other payables

Trade and other payables are stated at amortised cost.

2.10 Provisions

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate.

Legal, contractual and environmental

The Company holds provisions for expected legal, contractual and environmental costs that it expects to incur over an extended period. Management exercises judgement to determine the amount of these provisions. Provision is made for known issues based on past experience of similar items and other known factors. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount, being the single most likely amount in a range of possible outcomes.

Other

Other provisions include provisions for onerous contracts, which are recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Notes to the Financial Statements

2. Accounting policies (continued)

2.11 Tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences:

on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
related to investments in subsidiaries and equity accounted investments to the extent that it is probable that they will not reverse in the foreseeable future; and
arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to corporate income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Notes to the Financial Statements

3. Revenue

Revenue by reporting segment

	2022	2021
	£000	£000
Long term contracts	10,739	12,452
	10,739	12,452
	10,739	12,452

Revenue by customer location:

	2022	2021
	£000	£000
United Kingdom	10,739	12,452
	10,739	12,452
	10,739	12,452

4. Operating costs

	2022	2021
	£000	£000
Inventory recognised as an expense	8,263	8,684
Depreciation of fixed assets	212	132
Depreciation of right-of-use assets	1,345	1,450
Impairment of right-of-use assets	93	1,343
Other operating charges	68	2,464
	9,981	14,073
	9,981	14,073

Included in other operating charges are £68k (2021: £92k) of direct operating expenses arising from investment property.

The remuneration of the auditor for the year ended 31 December 2022 for auditing of the financial statements was £6k (2021: £5k) and £nil (2021: £nil) in respect of non-audit work and was borne by fellow group undertaking, BAE Systems (Operations) Limited and not recharged.

Notes to the Financial Statements

5. Other income

	2022	2021
	£000	£000
Operating lease income (note 10)	1,634	1,499
Project materials sold to fellow Group company	5,684	1,717
Release of liability provision	9	-
	7,327	3,216
	7,327	3,216

6. Financial expense

	2022	2021
	£000	£000
Net present value adjustments	6	4
Interest expense on lease liabilities (note 10)	307	339
	313	343
	313	343

7. Employees

The Company has no employees (2021: nil). All work is subcontracted.

8. Directors' remuneration

The disclosures below represent an allocation of the emoluments received by the directors to reflect their qualifying services to the Company.

	2022	2021
	£000	£000
Directors' remuneration	35	32
Amounts receivable under long-term incentive schemes	2	-
Company contributions to defined benefit pension schemes	7	7
	44	39
	44	39

Retirement benefits are accruing to the following number of directors under:

	2022	2021
	Number of directors	Number of directors
Defined benefit schemes	2	2
	2	2

Notes to the Financial Statements

9. Tax

The Company has not provided for current tax for the year as any taxable profits will be covered by the surrender of losses from fellow group companies, in respect of which no payment will be made.

	2022 £000	2021 £000
Deferred tax		
Origination and reversal of temporary differences	25	(9)
Tax rate adjustment ¹	27	53
Adjustments in respect of prior years	13	-
	65	44
Tax income	65	44

Reconciliation of tax result

The following reconciles the expected tax expense using the UK corporation tax rate, to the reported tax income:

	2022 £000	2021 £000
Profit before tax	13,290	10,049
	19.00%	19.00%
UK corporation tax rate		
Expected tax expense on profit	(2,525)	(1,909)
Expenses not tax effected	(2)	(23)
Income not subject to tax	88	241
Property, plant and equipment	(6)	-
Provisions and accruals	5	-
Imputed interest (income)	(184)	(216)
Investment fair value adjustment	961	1,431
Losses received from fellow group companies	1,687	466
Adjustments in respect of prior years	13	-
Tax rate adjustment ¹	27	53
Other	1	1
	65	44
Tax income	65	44

¹ The Government announced in 2021 that from 1 April 2023 the UK corporation tax rate would increase from 19% to 25%. The deferred tax asset at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse. The resulting tax rate adjustment has been recorded in the Income Statement.

Notes to the Financial Statements

10. Leases

The Company leases land, buildings, vehicles and equipment under non-cancelable lease arrangements. There are no terms that represent unusual arrangements or create material onerous or beneficial rights or obligations.

	2022	2021
	Investment Property £000	Investment Property £000
Opening NBV	12,294	12,969
Additions during the year	89	2,118
Depreciation expense for the year	(1,345)	(1,450)
Impairment charge for the year	(93)	(1,343)
Net book value	10,945	12,294

Lease liabilities

A maturity analysis of the future undiscounted lease payments in respect of the Company's lease liabilities is presented in the table below.

	2022	2021
	£000	£000
Payments due:		
Within one year	1,613	2,086
Between one and five years	6,451	7,392
Later than five years	6,887	7,366
	14,951	16,844
Reconciliation to Balance Sheet:		
Undiscounted lease liability	14,951	16,844
Impact of discounting	(1,217)	(1,798)
Total discounted lease liability	13,734	15,046

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2022, amounted to £1,613k (2021: £1,613k).

Notes to the Financial Statements

10. Leases (continued)

Amounts recognised in the Income Statement

	2022	2021
	£000	£000
Included in operating costs:		
Depreciation on right-of-use assets	1,345	1,450
Impairment charge for the year	93	1,343
	<u>1,438</u>	<u>2,793</u>
	<u><u>1,438</u></u>	<u><u>2,793</u></u>
Included in other income:		
Operating lease income from subleasing right-of-use assets	1,634	1,499
	<u>1,634</u>	<u>1,499</u>
	<u><u>1,634</u></u>	<u><u>1,499</u></u>
Included in net finance costs:		
Interest expense on lease liabilities	307	339
	<u>307</u>	<u>339</u>
	<u><u>307</u></u>	<u><u>339</u></u>

Notes to the Financial Statements

11. Property, plant and equipment

	Long term lease-hold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost or valuation				
At 1 January 2022	1,635	739	88	2,462
Additions	18	-	-	18
At 31 December 2022	1,653	739	88	2,480
Depreciation				
At 1 January 2022	113	254	53	420
Depreciation charge for the year	146	60	6	212
At 31 December 2022	259	314	59	632
Net book value				
At 31 December 2022	1,394	425	29	1,848
At 31 December 2021	1,522	485	35	2,042

Capital commitments

Capital expenditure contracted for but not provided for in full in the financial statements is £103k (2021 £130k).

Notes to the Financial Statements

12. Investments

Value	Investments in subsidiary companies £000
At 1 January 2022	31,972
Fair value movement	5,057
At 31 December 2022	37,029

At the reporting date, management estimated the fair value of the investments held at fair value by the Company. As a result a fair value gain of £5,057k (2021: £7,350k) in respect of BAE Systems Electronics Limited were recognised.

The fair value of the investment is based on value in use estimated using the risk-adjusted future cash flow projections from the five-year Integrated Business Plan (IBP) and a terminal value based on the projections for the final year of that plan, with growth rate assumptions of 2% applied for each significant investment. The IBP process includes the use of historical experience, available government spending data and the Group's order backlog, as well as the impact of evolving issues such as global economic uncertainty and climate change. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital and adjusted for factors specific to the market in which the companies operate, have been used in discounting these projected risk-adjusted cash flows.

Subsidiary undertakings and participating interests at 31 December 2022

In accordance with section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2022 is disclosed below. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned directly by the Company.

Company name	Class of shares held	Proportion of class (%)
British Aerospace (Malaysia) Sdn Bhd <i>Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3 Bangsar South, No 8, Jalan Kerinchi, 59200, Kuala Lumpur Malaysia</i>	Ordinary shares of RM1	100%
British Aerospace (Far East) Limited <i>Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong</i>	Ordinary shares of HKD1	100%
BAE Systems Electronics Limited <i>Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6YU, United Kingdom</i>	Ordinary shares of £0.50	2.3%

The above companies have the financial year end 31 December.

Notes to the Financial Statements

13. Investment property

	Investment property £000
Cost	
At 1 January 2022	19,406
Lease modifications	89
At 31 December 2022	19,495
 Depreciation and impairment	
At 1 January 2022	7,112
Depreciation charge for the year	1,345
Impairment charge	93
At 31 December 2022	8,550
 Net book value	
At 31 December 2022	10,945
At 31 December 2021	12,294
 Fair Value	
At 31 December 2022	12,839
At 31 December 2021	14,338

The fair values above are based on and reflect current market values as prepared by in-house professionals who have the appropriate professional qualifications and recent experience of valuing properties in the location and of the type being valued. The valuation was calculated using the present value of the expected cashflows (rental receipts minus any unrecoverable costs).

Notes to the Financial Statements

14. Deferred taxation

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2022	2021	2022	2021	2022	2021
	£000	£000	£000	£000	£000	£000
Property, plant and equipment	142	88	-	-	142	88
Provisions and accruals	375	377	-	-	375	377
Other items	-	-	(160)	(173)	(160)	(173)
	<u>517</u>	<u>465</u>	<u>(160)</u>	<u>(173)</u>	<u>357</u>	<u>292</u>
Deferred tax assets	517	465	(160)	(173)	357	292
Set off of tax	(160)	(173)	160	173	-	-
	<u>357</u>	<u>292</u>	<u>-</u>	<u>-</u>	<u>357</u>	<u>292</u>
Net deferred tax assets/(liabilities)	<u>357</u>	<u>292</u>	<u>-</u>	<u>-</u>	<u>357</u>	<u>292</u>

Movement in temporary differences during the year

	At 1 January	Recognised	At 31
	2022	in income	December
	£000	£000	2022
			£000
Property, plant and equipment	88	54	142
Provisions and accruals	377	(2)	375
Other	(173)	13	(160)
	<u>292</u>	<u>65</u>	<u>357</u>

	At 1 January	Recognised	At 31
	2021	in income	December
	£000	£000	2021
			£000
Property, plant and equipment	95	(7)	88
Provisions and accruals	304	73	377
Other	(151)	(22)	(173)
	<u>248</u>	<u>44</u>	<u>292</u>

Notes to the Financial Statements

15. Trade, other and contract receivables

	2022 £000	2021 £000
Non-current		
Amounts owed by BAE Systems subsidiaries	43,229	42,879
Amounts owed by BAE Systems plc	47,132	47,132
	90,361	90,011
Current		
Amounts owed by BAE Systems plc subsidiaries	7,204	910
Prepayments	-	235
Contract receivables	-	1,507
Other debtors	155	81
VAT debtor	-	46
	7,359	2,779

Amounts owed by BAE Systems plc and its subsidiaries are payable on demand. No interest is applied to amounts owed and they are secured.

16. Trade and other payables

	2022 £000	2021 £000
Current		
Payments received on account	965	129
Trade payables	38	23
Amounts owed to BAE Systems plc	16,218	20,551
Amounts owed to BAE Systems plc subsidiaries	7,205	7,150
Accruals	403	473
Deferred income	361	355
Other payables	-	60
	25,190	28,741

Amounts owed to BAE Systems plc and its subsidiaries are payable on demand and are unsecured. No interest is applied to amounts owed and they are secured.

Included in accruals are £255k of accruals with BAE Systems Properties Limited.

Notes to the Financial Statements

17. Provisions

	Legal, contractual and environmental £000	Other £000	Total £000
Non-current	233	-	233
Current	1,500	9	1,509
At 1 January 2022	1,733	9	1,742
Released	-	(9)	(9)
Created	26	-	26
At 31 December 2022	1,759	-	1,759
Represented by:			
Non-current	259	-	259
Current	1,500	-	1,500
	1,759	-	1,759

Legal, contractual and environmental

Reflecting the inherent uncertainty within many legal proceedings, the timing and amount of the outflows could differ significantly from the amount provided. The Company continues to hold a £1.5m provision in respect of the legal fees relating to overseas activities.

Other

There are no individually significant provisions included within other provisions.

18. Share capital and other reserves

Share capital

	£1 Ordinary shares	Nominal value £000
Authorised		
At 1 January 2021, 31 December 2021 and 31 December 2022	26,100,000	-
Issued and fully paid		
At 1 January 2021, 31 December 2021 and 31 December 2022	1,009,297	1,009

Notes to the Financial Statements

18. Share capital and other reserves (continued)

Other reserves

	Total £000
At 1 January 2021, 31 December 2021 and 31 December 2022	81,035
	<hr/> 81,035 <hr/>

Other

Other reserves relate to a combination of different reserves including unrealised gains arising on the sale of investments in prior years for the exchange of shares in group companies, cancellation of share premium account, historic capital contribution and impairment offset.

19. Events after the reporting period

There have been no significant events affecting the Company since the year end.

20. Controlling parties

The immediate parent company is BAE Systems (Holdings) Limited and the ultimate controlling party is BAE Systems plc, which is both the smallest and largest parent company preparing group financial statements. Both companies are incorporated in the United Kingdom and registered in England and Wales.

The consolidated financial statements of BAE Systems plc are available to the public and may be obtained from its registered address:

6 Carlton Gardens
London
SW1Y 5AD
Website: www.baesystems.com