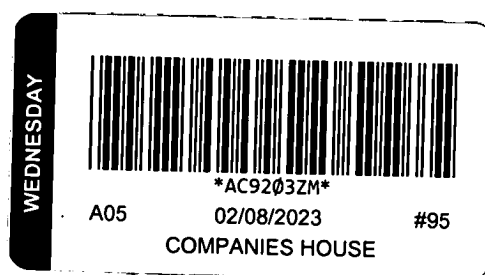


BAE Systems (Overseas Holdings) Limited

Annual Report and Financial Statements

31 December 2022

Registered Number: 02775320



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Strategic Report

Review of business and principal activities

The principal activity of the Company is to act as a holding company for BAE Systems plc Group entities.

There has been no significant change in the nature or level of this activity during the period and the directors do not expect this to change significantly throughout the next financial period.

Key performance indicators

The Company is part of the BAE Systems Group ("Group") and the key performance indicators used to monitor and review the business are set by the Group and discussed in more detail in the Annual Report of the Group (available at: www.baesystems.com/investors). The directors do not consider it necessary to provide additional key performance indicators at a company level for an understanding of the development, performance or position of the business.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. Specific principal risks and uncertainties facing the Company concern the possible impairment of the value of its investments.

The Company is part of the BAE Systems Group and the principal risks and uncertainties affecting the Group are discussed in more detail in the Annual Report of the Group (available at: www.baesystems.com/investors).

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 or she 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 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. In making such decisions 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 but is the parent of a group of companies with more than 250 employees. Through the implementation by the Company's Group of the BAE Systems Group-wide employee processes and policies referred to below, the Directors of the Company are satisfied that employee engagement is a primary focus for management of the Company's Group and that regard is had to the interests of employees – connecting employees to the strategy and purpose of the Company's Group and the BAE Systems Group and empowering them to contribute to improving performance and creating an environment in which everyone can fulfil their potential.

The Company's Group used a range of channels to engage with its 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 the Group's line managers who played a key role in keeping their teams connected and engaged. This includes continuing to focus on two-way communications, ensuring there are channels through which employees can express their views, feedback and any concerns, helping the Company's Group understand employee sentiment on an ongoing basis and respond appropriately.

These engagement activities form part of the implementation by the Company's Group 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).

Strategic Report (continued)

Fostering Business Relationships with Suppliers, Customers and Others

The Company is a holding company and thus has no suppliers and customers itself. The Directors recognise that fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the success of the Company's Group and are satisfied that the Company's Group has close relationships with its customers, suppliers and industry partners which help create best-in-class, cost-effective products, services and solutions.

The Company's Group's largest customers are government bodies and commercial businesses. Strong and collaborative relationships and regular contact by management with principal government and commercial customers help the Company's Group to identify its customers' requirements and help position it as a trusted provider. The Company's Group, 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. These supplier relationships are often long-term due to the length of the product life-cycles and management 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 Directors are satisfied that the Company's Group implements the requirements of the Group's Community Investment Policy, which looks to ensure the building and nurturing of mutually beneficial relationships between the Company's Group's business, its 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 the Company's Group and its employees, allowing them to make a positive difference and have an impact where it counts. The Directors recognise that the Company's Group's operations have an impact on the environment – from the energy and resources used, to the products supplied and the waste generated. As an organisation, the Group is committed to reducing the environmental impact of our operations and products, minimising our environmental footprint and, in turn, decreasing our operational costs. Through the Operational Framework the Directors are satisfied that the Company's Group implements the requirements of the BAE Systems Group's Environmental Policy, which details BAE Systems' commitment to high standards of environmental management. In particular, the Company's Group 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.

These activities form part of the Company's Group'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 in the Environment and Social sections (pages 47-53 and pages 64-66 respectively) 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. The Company's directors and all employees of the Company's Group are expected to act in accordance with the requirements of BAE Systems Group 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's Group 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) and in particular the Governance and business conduct section on pages 75-77.

Approved by the Board and signed on its behalf by:



D S Parkes
Director

26 June 2023

Directors' Report

Company registration

BAE Systems (Overseas Holdings) Limited (the Company) is a private company, limited by shares and registered in England and Wales with the registered number 02775320.

Review of business and principal activities

The Company is an investment holding company of principally overseas subsidiaries and equity investees and is itself wholly owned by BAE Systems (Holdings) Limited. Disclosures required under the Directors' Report have been made in the Strategic Report.

During the year the Company made investments which are detailed in note 7.

Results and dividends

The Company's profit for the financial year is £57,428,000 (2021: profit £73,342,000). The reduced value of fair value movements on equity investments is the primary driver for the difference in profit during the year. The directors propose a dividend of £33,436,000 for 2022 (2021: £21,808,000). The dividend proposed per share is £0.19 (2021: £0.12).

Looking forward

The company will continue to operate as a holding company for the foreseeable future.

The Company and its ultimate parent entity BAE Systems plc continue to conduct ongoing risk assessments in relation to their business operations and liquidity.

Financial Risk

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).

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £342,707k, which the directors believe to be appropriate for the following reasons. The Company is partly dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. BAE Systems plc has indicated in writing 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. The company has intercompany receivables of £279,607k, recallable on demand, and investments in profitable companies that provide regular dividend streams. Thus the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

Energy and Carbon Reporting exemption

The Company has taken advantage of the exemption granted under The Companies Act (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the annual report of its ultimate parent, BAE Systems plc on pages 47-53.

Directors and their interests

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

D S Parkes
A-L Holding

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.

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.

Directors' Report *(continued)*

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:



D S Parkes
Director

26 June 2023

Registered office:
BAE Systems (Overseas Holdings) Limited
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire, GU14 6YU
United Kingdom

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 (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 or result 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 (Overseas Holdings) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems (Overseas Holdings) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31st 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;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 11.

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 report, 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.

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.

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

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 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, which included the UK Companies Act, pension legislation and taxation 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, including in respect of export controls, defence contracting and anti-bribery and corruption legislation.

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.

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 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.

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

Matters on which we are required to report by exception

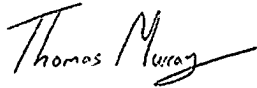
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

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.



Thomas Murray BSc ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Reading, UK

26 June 2023

Income Statement

for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Operating income	2	24,129	52,166
Operating profit		24,129	52,166
Income from subsidiary undertakings and participating interests	3	33,436	21,808
Profit before finance costs and tax		57,565	73,974
Financial expense	4	-	(632)
Profit before tax		57,565	73,342
Tax expense	6	(137)	-
Profit for the year		57,428	73,342

Statement of Comprehensive Income

for the year ended 31 December 2022

	2022 £000's	2021 £000's
Profit for the year	57,428	73,342
Other comprehensive income		
Items that will not be reclassified to the income statement:		
Fair value gain on other investments	19,496	-
Total other comprehensive income for the year (net of tax)	19,496	-
Total comprehensive income for the year	76,924	73,342

The notes on pages 12 to 18 form part of the financial statements.

The results for 2022 and 2021 arise from continuing activities.

Balance Sheet
as at 31 December 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Investments	7	431,892	377,206
Trade and other receivables	8	279,607	278,295
		711,499	655,501
Total assets			
		711,499	655,501
Current liabilities			
Trade and other payables	9	(342,707)	(342,649)
Current tax		(137)	-
		(342,844)	(342,649)
Total liabilities			
		(342,844)	(342,649)
Net assets			
		368,655	312,852
Capital and reserves			
Issued share capital	10	175,953	175,953
Share premium	10	54	54
Retained earnings		192,648	136,845
Total equity			
		368,655	312,852

Approved by the Board on 26 June 2023 and signed on its behalf by:



D S Parkes
Director

Registered number: 02775320

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

	Issued share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 1 January 2021	175,953	54	63,316	239,323
Profit for the year	-	-	73,342	73,342
Capital contribution	-	-	187	187
At 31 December 2021	175,953	54	136,845	312,852
Profit for the year	-	-	57,428	57,428
Other comprehensive income	-	-	19,496	19,496
Capital contribution	-	-	687	687
Ordinary share dividends	-	-	(21,808)	(21,808)
At 31 December 2022	175,953	54	192,648	368,655

Retained earnings includes a non-distributable amount of £4,432,000 (2021 £3,745,000).

Capital contribution relates to the cost of share-based payments issued by the Company's ultimate parent company BAE Systems plc to employees of the Company's operating subsidiary companies.

Notes to the Financial Statements

1 Accounting policies

BAE Systems (Overseas Holdings) Limited (the Company) is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is BAE Systems plc. The address of the Company's registered office is shown on page 5. The principal activity of the Company is that of an investment holding company.

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.

Basis of preparation

These financial statements have been prepared in accordance with FRS 101 Reduced Disclosure Framework. The Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS), 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 paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of International Accounting Standard (IAS) 1 Presentation of Financial Statements, to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1; 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 paragraphs 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
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 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 going concern basis has been applied in these financial statements as discussed in the Directors' Report on page 4.

Changes in accounting policies

Several standards, interpretations and amendments to existing standards became effective on 1 January 2022, none of which had a material impact on the Company.

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 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;
- Amendments 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
- Amendment to IAS 12: Income Taxes, effective from 1 January 2023.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Share-based payments

The Company recognises an increase in its investment in subsidiary undertakings representing the cost of share-based payments issued by the Company's ultimate parent company, BAE Systems plc, to employees of the Company's operating subsidiary companies, with a corresponding entry to equity. The Company's operating subsidiaries will continue to recognise a charge in respect of share-based payments issued by BAE Systems plc, to their employees.

Dividends

Dividends received and receivable are credited to the Company's Income Statement. Equity dividends paid on ordinary share capital are recognised as a liability in the period in which they are declared.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the Balance Sheet date. These exchange differences are recognised in the Income Statement.

Investments

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

The carrying amounts of the Company's 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.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in the Income Statement.

An impairment loss is only 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.

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

Equity investments in non-Group companies over which the company does not have control or significant influence are measured at fair value through other comprehensive income.

Trade and other 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 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.

Trade and other payables

Trade and other payables are stated at amortised cost.

Tax

Tax expense comprises current tax. Current 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. It 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.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made in applying accounting policies

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.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Key sources of estimation uncertainty

The application of the Company's accounting policies requires the use of estimates. In the event these estimates prove to be incorrect, there may be an adjustment to the carrying amounts of assets and liabilities within the next financial year. The key risk of a material adjustment to the carrying amounts of assets and liabilities relates 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. Note 7 provides information on the key assumptions adopted by the Company in performing these calculations.

2 Operating Income

	2022 £'000	2021 £'000
Impairment of investments	(132)	(1,285)
Reversal of impairments	195	-
Fair value movements on equity investments	24,068	53,652
Profit on disposal of investments	11	-
Other costs	(13)	(201)
Operating (costs)/income	24,129	52,166

The remuneration of the auditor for the year ended 31 December 2022 for auditing of the financial statements was £9,600 (2021 £8,085) and £nil (2021 £nil) in respect of non-audit work. This has been borne by BAE Systems plc, the ultimate parent company.

Details regarding the impairments and fair value gains are contained within note 7.

3 Income from subsidiary undertakings and participating interests

	2022 £'000	2021 £'000
Dividend received from MBDA Holdings SAS	26,523	13,609
Dividend received from BAE Systems (Operations) Singapore Pte Limited	1,962	1,453
Dividend received from BAE Systems Electronics Limited	1,334	3,669
Dividend received from BAE Systems (Operations) Limited	3,126	3,077
Dividend received from BAE Systems India (Services) Private Limited	491	-
Income from subsidiary undertakings and participating interests	33,436	21,808

4 Financial expense

	2022 £'000	2021 £'000
Foreign exchange costs	-	(27)
Corporation tax interest	-	(605)
Financial expense	-	(632)

5 Employees

The average number of Company employees was nil (2021 nil). None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by BAE Systems plc and were remunerated through that company. The directors did not provide any material qualifying services to the Company (2021: same).

Notes to the Financial Statements (continued)

6 Tax expense

	2022	2021
	£'000	£'000
UK:		
Current tax	137	-
Current tax expense	137	-

Provision for current UK tax has been provided on apportioned profits taxable under the controlled foreign companies legislation. The Company has surrendered its UK tax losses to fellow group companies free of charge.

Reconciliation of tax expense

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

	2022	2021
	£'000	£'000
Profit before tax	57,565	73,342
UK corporation tax rate	19.00%	19.00%
Expected tax (expense)/income on result	(10,937)	(13,935)
Income not subject to tax	6,353	4,138
Expenses not tax effected	(1)	(38)
Imputed interest expense	132	187
Losses surrendered to fellow group companies	(132)	(302)
Attributable profits from Controlled Foreign Companies	137	-
Investments impairment/(reversal)	12	(244)
Investment fair value adjustment	4,573	10,194
Tax result	137	-

In 2021, the Government announced that the UK corporation tax rate would increase to 25% with effect from 1 April 2023.

Notes to the Financial Statements (continued)

7 Investments

	Subsidiary companies £'000	Other investments at cost less impairment £'000	Other investments at fair value £'000	Total £'000
Cost or fair value				
At 1 January 2022	235,304	69,103	249,489	553,896
Fair value gain through profit	-	-	24,068	24,068
Fair value gain through OCI	-	-	19,496	19,496
Additions	2,915	-	8,144	11,059
Disposals	(257)	(3,582)	-	(3,839)
At 31 December 2022	237,962	65,521	301,197	604,680
Provision for impairment				
At 1 January 2022	(172,913)	(3,777)	-	(176,690)
Impairments	(132)	-	-	(132)
Impairment reversals	-	195	-	195
Disposals	257	3,582	-	3,839
At 31 December 2022	(172,788)	-	-	(172,788)
Net book value				
At 31 December 2022	65,174	65,521	301,197	431,892
At 31 December 2021	62,391	65,326	249,489	377,206

Subsidiary and other investments at cost less impairment

At the Balance Sheet date, the carrying amount of the Company's investments was compared to their recoverable amounts. As a result of this review, an impairment charge has been recognised where the carrying values of a number of investments were not supported by their recoverable amount.

Other investments at fair value

Additions during the year included an investment of £7,946,831 in Eve Holdings Inc., £2,393,756 in BAE Systems Applied Intelligence (Spain) S.A. and £32,441 in BAE Systems Japan GK.

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 £14,642,111 in respect of BAE Systems Electronics Limited and £9,426,779 in respect of BAE Systems (Operations) Limited were recognised through profit and £18,789,471 in respect of Eve Holdings Inc. and £707,070 in respect of ICEYE Oy were recognised through other comprehensive income.

The recoverable amount of each investment in fellow Group companies is based on value in use estimated using either the net assets of the Company, or 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.

The recoverable amount of each investment in non-Group companies is measured at fair value based on market value.

The value of listed investments at 31 December 2022 is £26,736,302.

Notes to the Financial Statements (continued)

7 Investments (continued)

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 indirectly by the Company and, unless otherwise stated, have a financial year end of 31 December.

Subsidiaries – wholly-owned

4219 Lafayette, LLC⁷
4219 Lafayette Center Drive, Chantilly VA
20151, United States
BAE Systems (Gripen Overseas)
Limited¹
Warwick House, PO Box 87, Farnborough
Aerospace Centre, Farnborough, Hampshire,
GU14 6YU, England
BAE Systems (Malaysia) Sdn Bhd¹
Level 25 Menara Hong Leong, No. 6 Jalan
Damanlela, Bukit Damansara, 50490 Kuala
Lumpur, Malaysia
BAE Systems (Operations) Singapore
Pte Limited¹
One Marina Boulevard #28-00, Singapore
018989, Singapore
BAE Systems (Poland) Sp. z o.o.¹
ul. Abp. A. Baraniaka 88, 61-131 Poznan,
Poland
BAE Systems AIR (Japan) KK^{1,3,8}
Minami Azabu T&F Building 8th Floor,
4-11-22 Minami Azabu, Minato-ku, Tokyo,
Japan
BAE Systems Applied Intelligence (Asia
Pacific) Pte Limited
101 Thomson Road, United Square #25-03/04,
307591, Singapore
BAE Systems Applied Intelligence A/S¹
c/o Kromann Reumert, Sundkrogsgade 5,
Copenhagen East, 2100, Denmark
BAE Systems Applied Intelligence
(Connect) A/S
c/o Kromann Reumert, Sundkrogsgade 5,
Copenhagen East, 2100, Denmark
BAE Systems Applied Intelligence GCS
Inc.³
CSC 100 Shockoe Slip, 2nd Floor, Richmond,
VA 23219, United States
BAE Systems Applied Intelligence
(GCS) Limited
Surrey Research Park, Guildford, Surrey GU2
7RQ, United Kingdom
BAE Systems Applied Intelligence
(Spain) S.A
PASEO CASTELLANA (CUZCO IV) 141
28046, MADRID Spain
BAE Systems Communications
Solutions LLC⁷
Knowledge Oasis, Building 4, Second Floor,
0402-Z427, Knowledge Oasis Muscat, PO Box
16, Postal Code 135, Muscat, Oman
BAE Systems do Brasil Ltda¹
SCN Quadra 5 Bloco A, Ed. Brasilia Shopping,
Torre Norte, Sala 426, Brasilia, DF CEP:70715-
900, Brazil
BAE Systems Finance B.V.

c/o IQ-EQ, Hoogoorddreef 15,
1101 BA Amsterdam, Netherlands
BAE Systems Holdings (South Africa)
(Pty) Limited¹
Central Office Park No. 5, 257 Jean Avenue,
Centurion, Gauteng, 0157, South Africa
BAE Systems Holdings B.V.¹
c/o IQ-EQ, Hoogoorddreef 15,
1101 BA Amsterdam, Netherlands
BAE Systems Holding GmbH¹
Hauptstrasse 48, 82433 Bad Kohlgub,
Germany
BAE Systems India (Homeland Security)
Private Limited^{1,8}
#201, 2nd Floor, World Mark 2, Aerocity, NH-8,
New Delhi – 110037, India
BAE Systems India (Services) Private
Limited^{1,8}
#201, 2nd Floor, World Mark 2, Aerocity, NH-8,
New Delhi – 110037, India
BAE Systems India (Technology) Private
Limited^{1,8}
#201, 2nd Floor, World Mark 2, Aerocity, NH-8,
New Delhi – 110037, India
BAE Systems India (Ventures) Private
Limited^{1,8}
#201, 2nd Floor, World Mark 2, Aerocity, NH-8,
New Delhi – 110037, India
BAE Systems Insurance (Isle of Man)
Limited¹
Tower House, Loch Promenade, Douglas, IM1
2LZ, Isle of Man, United Kingdom
BAE Systems Japan GK
BAE Systems MAI Turkey Hava
Sistemleri A.Ş.¹
Üniversiteler Mahallesi, Beytepe Lütfülm Köy
Yolu Cad. No:5/348 Çankaya, Ankara, Turkey
BAE Systems Oman LLC¹
PO Box 74, Postal Code 111, Seeb, Oman
BAE Systems Regional Aircraft
Colombia SAS^{1,5}
c/o Brigard & Urrutia, Calle 70 A No. 4-41,
Bogota, Colombia
BAE Systems Saudi Limited¹
PO Box 1732, Riyadh 11441, Saudi Arabia
BAE Systems Zephyr Corporation^{1,2}
c/o The Corporation Trust Company,
Corporation Trust Center, 1209 Orange Street,
City of Wilmington, County of New Castle, DE
19801, United States
BAE Systems Zephyr Second
Corporation^{1,2}
c/o The Corporation Trust Company,
Corporation Trust Center, 1209 Orange Street,
City of Wilmington, County of New Castle, DE
19801, United States

BAE Systems Zephyr Third
Corporation^{1,2}
c/o The Corporation Trust Company,
Corporation Trust Center, 1209 Orange Street,
City of Wilmington, County of New Castle, DE
19801, United States
BAE Systems Zephyr Fourth
Corporation^{1,2}
c/o The Corporation Trust Company,
Corporation Trust Center, 1209 Orange Street,
City of Wilmington, County of New Castle, DE
19801, United States
BAE Systems Zephyr Fifth Corporation^{1,2}
c/o The Corporation Trust Company,
Corporation Trust Center, 1209 Orange Street,
City of Wilmington, County of New Castle, DE
19801, United States
ETI Engineering, Inc.³
1676 International Drive, 10th Floor, Suite
1000, McLean VA 22102, United States
PT. BAE Systems Services^{1,3}
Wisma 46, Kota BNI, 34th Floor, Suite 34.01.A,
Jl. Jenderal Sudirman Kavling 71, Jakarta
10220, Indonesia
Sepia LLC^{1,7}
4219 Lafayette Center Drive, Chantilly VA
20151, United States

Equity accounted investments

BAE Systems Strategic Aerospace
Services WLL(49%)¹
Building 52, Floor 2, Area 23,
Qatari Bin Al Fajaa, Doha, Qatar
MBDA Holdings SAS (25%)¹
1 Avenue Réaumur, 92350 Le Plessis-
Robinson, France

Notes

1. Directly owned by BAE Systems (Overseas Holdings) Limited.
2. Ownership held in common stock.
3. Ownership held in common shares.
4. Ownership held in class of B shares.
5. In members' voluntary liquidation.
6. Year end 31 March.
7. Unincorporated entity for which the address given is the principal place of business.
8. In liquidation.

Notes to the Financial Statements (continued)

8 Trade and other receivables

	2022 £'000	2021 £'000
Non-current		
Amounts owed by ultimate parent company ¹	114,853	114,875
Amounts owed by BAE Systems plc subsidiaries ¹	164,754	163,420
	279,607	278,295

¹ Amounts owed by BAE Systems plc and its subsidiaries are payable on demand. No interest is applied to the amounts owed.

9 Trade and other payables

	2022 £'000	2021 £'000
Current		
Amounts owed to immediate parent company ¹	329,739	329,703
Amounts owed to BAE Systems plc subsidiaries ¹	12,968	12,946
	342,707	342,649

¹ Amounts owed to immediate parent company and BAE Systems plc subsidiaries are payable on demand and are unsecured. No interest is applied to the amounts owed.

10 Share capital and other reserves

Share capital

	Ordinary Shares of £1 each	Nominal value £'000
Issued and fully paid		
At 1 January and 31 December 2022	175,952,543	175,953

Equity dividends

The directors propose a dividend of £33,436,000 for 2022 (2021 £21,808,000). The dividend proposed per share is £0.19 (2021: £0.12).

Other reserves

	Share premium £'000	Total £'000
At 1 January 2021 & 31 December 2021	54	54
At 1 January 2022 & 31 December 2022	54	54

11 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