

BAE Systems (Overseas Holdings) Limited

Annual Report and Financial Statements

31 December 2023

Registered number: 02775320

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BAE Systems (Overseas Holdings) Limited
Annual Report and Financial Statements
31 December 2023

Contents

| | Page |
|---|---------|
| Strategic Report | 1 - 3 |
| Directors' Report | 4 - 5 |
| Directors' Responsibilities Statement | 6 |
| Independent Auditor's Report to the Members of BAE Systems (Overseas Holdings) Limited | 7 - 10 |
| Income Statement | 11 |
| Statement of Comprehensive Income | 12 |
| Balance Sheet | 13 |
| Statement of Changes in Equity | 14 |
| Notes to the Financial Statements | 15 - 25 |

Strategic Report
for the year ended 31 December 2023

Review of business and principal activities

BAE Systems (Overseas Holdings) Limited (the "Company") is an investment holding company and a member of the BAE Systems plc Group ("BAE Systems Group" or "Group") of companies.

The Company's profit has increased due to dividends received from investments.

Key performance indicators

The Company is part of the BAE Systems Group and the key performance indicators used to monitor and review the business are set by the Group and discussed in more detail in BAE Systems plc's 2023 Annual Report (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 Company is part of the BAE Systems Group and the principal risks and uncertainties affecting the Group are discussed in more detail in the BAE Systems plc's 2023 Annual Report (available at: www.baesystems.com/investors).

Specific principal risks and uncertainties facing the Company, as a holding company, concern the possible impairment of the value of its subsidiary company investments ("Company's Group") arising from the risks and uncertainties set out in BAE Systems plc's 2023 Annual Report.

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's "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.

Strategic Report (continued)
for the year ended 31 December 2023

Section 172(1) statement (continued)

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 employees of the Company's Group are kept informed about what is happening across the BAE Systems Group (including the Company's Group) through the Group's intranet and through email, podcasts, newsletters, and leadership blogs and briefings.

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 24 and 56 of BAE Systems plc's 2023 Annual Report (available at: www.baesystems.com/investors).

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 equipment, goods, services and solutions.

The Company's Group's largest customers are governments. Strong and collaborative relationships and regular contact by management with principal government customers help the Company's Group to identify its customers' requirements and help position it as a trusted provider.

The Company's Group works with its suppliers and their supply chains to provide equipment, goods and services that meet its customers' requirements through its supply chain functions. The Group's supply chain 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. The Company's Group implements the requirements of the BAE Systems Group's Community Investment Policy, which is mandated under the Operational Framework, and 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'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 we use, to 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 directors are satisfied that the Company's Group 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'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.

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 59 to 60 and pages 48 to 55, respectively, of BAE Systems plc's 2023 Annual Report (available at: www.baesystems.com/investors).

Strategic Report (continued)
for the year ended 31 December 2023

Section 172(1) statement (continued)

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 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 is described on pages 62 to 65 in BAE Systems plc's 2023 Annual Report (available at: www.baesystems.com/investors).

Approved by the Board and signed on its behalf by:



A-L Holding
Director

Date: 26 July 2024

Directors' Report

Company registration

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

Results and dividends

The Company's profit for the financial year is £173,406k (2022: £57,428k profit). The directors propose a dividend of £77,013,000 (2022: £33,436,000).

The dividend proposed per share is £0.44 (2022: £0.19).

The Company's profit has increased due to dividends received from investments.

Looking forward

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

Credit and liquidity 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 £27,272k. 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. The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

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 48 to 55 and pages 232 to 235 of BAE Systems plc's 2023 Annual Report (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, unless otherwise stated, were as follows:

| | |
|-------------|--------------------------|
| A-L Holding | |
| D S Parkes | (resigned 31 May 2024) |
| A Clarke | (appointed 01 June 2024) |

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.

Auditors

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:



A-L Holding
Director

Date: 26 July 2024

Registered office:
BAE Systems (Overseas Holdings) Limited
Victory Point
Lyon Way
Frimley
Camberley
Surrey
GU16 7EX
England
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 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 (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 31/12/23 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 12.

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.

Independent Auditor's Report to the Members of BAE Systems (Overseas Holdings) 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 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. These include 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.

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

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 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 (Overseas Holdings) 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.



Peter McDermott (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor
London, United Kingdom

26 July 2024

BAE Systems (Overseas Holdings) Limited
Annual Report and Financial Statements
31 December 2023

Income Statement
for the year ended 31 December 2023

| | Note | 2023 £000 | 2022 £000 |
|--------------------------------------|-------------|----------------------------|----------------------------|
| Operating income | 3 | 97,075 | 24,129 |
| Operating profit | | 97,075 | 24,129 |
| Dividends from investments | 5 | 77,013 | 33,436 |
| Profit before tax | | 174,088 | 57,565 |
| Tax | 6 | (682) | (137) |
| Profit for the financial year | | 173,406 | 57,428 |

The results for 2023 and 2022 arise from continuing activities.

The notes on pages 15 to 25 form part of these financial statements.

BAE Systems (Overseas Holdings) Limited
Annual Report and Financial Statements
31 December 2023

Statement of Comprehensive Income
for the year ended 31 December 2023

| | Note | 2023 £000 | 2022 £000 |
|---|-------------|----------------------------|----------------------------|
| Profit for the financial year | | <u>173,406</u> | <u>57,428</u> |
| Other comprehensive income: | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Fair value (loss)/gain on other investments | 7 | <u>(12,455)</u> | <u>19,496</u> |
| Total comprehensive income for the year | | <u><u>160,951</u></u> | <u><u>76,924</u></u> |

The notes on pages 15 to 25 form part of these financial statements.

BAE Systems (Overseas Holdings) Limited
Annual Report and Financial Statements
31 December 2023

Balance Sheet
as at 31 December 2023

| | Note | 2023 £000 | 2022 £000 |
|-----------------------------|------|------------------|------------------|
| Non-current assets | | | |
| Investments | 7 | 524,121 | 431,892 |
| Current assets | | | |
| Trade and other receivables | 8 | 316,255 | 279,607 |
| Total assets | | <u>840,376</u> | <u>711,499</u> |
| Current liabilities | | | |
| Trade and other payables | 9 | (342,708) | (342,707) |
| Current tax | | (819) | (137) |
| Total liabilities | | <u>(343,527)</u> | <u>(342,844)</u> |
| Net assets | | <u>496,849</u> | <u>368,655</u> |
| Capital and reserves | | | |
| Issued share capital | 11 | 175,953 | 175,953 |
| Share premium | 11 | 54 | 54 |
| Retained earnings | | 320,842 | 192,648 |
| Total equity | | <u>496,849</u> | <u>368,655</u> |

Approved by the Board on 26 July 2024 and signed on its behalf by:



A-L Holding
Director

Registered number: 02775320

The notes on pages 15 to 25 form part of these financial statements.

BAE Systems (Overseas Holdings) Limited
Annual Report and Financial Statements
31 December 2023

Statement of Changes in Equity
for the year ended 31 December 2023

| | Issued share capital | Share premium | Retained earnings | Total equity |
|----------------------------|---------------------------------|--------------------------|------------------------------|-----------------------|
| | £000 | £000 | £000 | £000 |
| At 1 January 2022 | 175,953 | 54 | 136,845 | 312,852 |
| Profit for the year | - | - | 57,428 | 57,428 |
| Other comprehensive income | - | - | 19,496 | 19,496 |
| Dividends (note 10) | - | - | (21,808) | (21,808) |
| Capital contribution | - | - | 687 | 687 |
| At 31 December 2022 | <u>175,953</u> | <u>54</u> | <u>192,648</u> | <u>368,655</u> |
| Profit for the year | - | - | 173,406 | 173,406 |
| Other comprehensive loss | - | - | (12,455) | (12,455) |
| Dividends (note 10) | - | - | (33,436) | (33,436) |
| Capital contribution | - | - | 679 | 679 |
| At 31 December 2023 | <u>175,953</u> | <u>54</u> | <u>320,842</u> | <u>496,849</u> |

The notes on pages 15 to 25 form part of these financial statements.

The non-distributable portion of retained earnings is £5,111,000 (2022: £4,432,000).

Capital contribution relates to the cost of share options issues 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. General information

BAE Systems (Overseas Holdings) 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 12. The address of the Company's registered office is shown on page 5.

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 (the Company's functional currency) and, unless otherwise stated, rounded to the nearest thousand.

Foreign operations are included in accordance with the policies set out in note 2.2.

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 paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- 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;
- 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; and
- 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.

These financial statements have been prepared using the going concern basis of accounting. As discussed in the Director's Report (page 4).

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Key sources of estimation uncertainty

There were no significant accounting policies that are considered by the directors to contain key sources of estimation uncertainty except for 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 (which also impacts on both fair value through profit and loss and fair value through other comprehensive income). 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 the projections.

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

Amendment to FRS 101 reduced disclosure framework, effective from 1 January 2023 (not yet endorsed by the UK).

- IFRS 17: Insurance Contracts, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to 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; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2023. 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:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current, effective from 1 January 2024;
- Amendments to IAS 1: Non-Current Liabilities with Covenants, effective from 1 January 2024;
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements, effective from 1 January 2024.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback, effective from 1 January 2024; and
- IFRS 18: Presentation and Disclosure in Financial Statements, effective from 1 January 2027.

Material 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 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.

2.3 Dividends

Qualifying 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.

2.4 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 except where an irrevocable decision was made at initial recognition to recognise subsequent fair value movement through other comprehensive income.

The carrying amounts of the Company's intangible assets, property, plant and equipment and right-of-use assets, 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 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 pretax 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 intangible assets, property, plant and equipment 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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.5 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 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.

2.6 Trade and other payables

Trade and other payables are stated at amortised cost.

2.7 Taxation

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 the prior years.

2.8 Share-based payments

BAE Systems plc, the Company's ultimate parent company, issues equity settled share options to employees of the Company. In accordance with the requirements of IFRS 2 Share-based Payment, the Company has recognised a charge for the equity settled share options issued to its employees.

Equity-settled share options and long-term incentive plan arrangements are measured at fair value at the date of grant using an option pricing model.

The fair value is expensed on a straightline-basis over the vesting period, based on the Company's estimate of the number of shares that will actually vest.

Notes to the Financial Statements

3. Operating (costs)/income

| | 2023 | 2022 |
|--|---------------------------|---------------------------|
| | £000 | £000 |
| Impairment of investments | (559) | (132) |
| Fair value movements on equity investments | 97,608 | 24,068 |
| Other costs | (52) | (13) |
| Profit on disposal of investments | 16 | 11 |
| Reversal of impairments | 62 | 195 |
| | <hr/> 97,075 <hr/> | <hr/> 24,129 <hr/> |

The remuneration of the auditor for the year ended 31 December 2023 for auditing of the financial statements was £10,200 (2022: £9,600) and £nil (2022: £nil) in respect of non-audit work and was borne by fellow group undertaking, BAE Systems plc.

4. Employees

The Company has no employees (2022: 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 or another Group company and were remunerated through those companies. The directors did not provide any material qualifying services to the Company.

Notes to the Financial Statements

5. Dividends from investments

| | 2023 | 2022 |
|---|---------------|---------------|
| | £000 | £000 |
| BAE Systems (Operation) Singapore Pte Limited | 1,980 | 1,962 |
| BAE Systems (Operations) Limited | 5,260 | 3,126 |
| MBDA Holdings SAS | 35,755 | 26,523 |
| BAE Systems India (Services) Private Limited | - | 491 |
| BAE Systems Electronics Limited | 2,001 | 1,334 |
| BAE Systems Oman LLC | 200 | - |
| Detica BV | 34 | - |
| BAE Systems Applied Intelligence A/S | 31,783 | - |
| | 77,013 | 33,436 |
| | 77,013 | 33,436 |

6. Tax

| | 2023 | 2022 |
|---------------------------------------|--------------|--------------|
| | £000 | £000 |
| Current tax | | |
| UK: | | |
| Current tax (charge) | (811) | (137) |
| Adjustments in respect of prior years | 129 | - |
| | (682) | (137) |
| Tax result | (682) | (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.

Notes to the Financial Statements

6. Tax (continued)

Reconciliation of tax result

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

| | 2023 | 2022 |
|--|-----------------|-----------------|
| | £000 | £000 |
| Profit before tax | 174,088 | 57,565 |
| UK corporation tax rate | 23.52% | 19.00% |
| Expected tax (expense) on profit | (40,945) | (10,937) |
| Expenses not tax effected | (12) | (1) |
| Income not subject to tax | 18,117 | 6,353 |
| Imputed interest expense | 271 | 132 |
| Losses surrendered to fellow group companies | (271) | (132) |
| Attributable profits from controlled foreign companies | (811) | (137) |
| Investments (impairment)/reversal | (117) | 12 |
| Investment fair value adjustment | 22,957 | 4,573 |
| Adjustments in respect of prior years ¹ | 129 | - |
| Tax result | (682) | (137) |

The UK corporation tax rate increased from 19% to 25% with effect from 1 April 2023. A blended rate of 23.5% is used in the reconciliation above to reflect this change (2022: 19.0%).

On 20 June 2023, Finance (No. 2) Act 2023 was substantively enacted in the UK, including legislation to implement the Organisation for Economic Co-operation and Development's Pillar Two income taxes rules. The Company, as part of the wider BAE Group is within the scope of the rules and the first period for which a Pillar Two tax return will be required for the BAE Group is the accounting period ending on 31 December 2024.

Notes to the Financial Statements

7. Investments

| | Subsidiary companies £000 | Other investments at cost less impairment £000 | Fair value investments £000 | Total £000 |
|---------------------------------|---------------------------------|--|-----------------------------------|----------------|
| Cost/Fair value | | | | |
| At 1 January 2023 | 237,962 | 65,521 | 301,197 | 604,680 |
| Additions | 8,808 | - | 226 | 9,034 |
| Disposals | (1,461) | - | - | (1,461) |
| Fair value gain through profit | - | - | 97,608 | 97,608 |
| Fair value loss through OCI | - | - | (12,455) | (12,455) |
| At 31 December 2023 | 245,309 | 65,521 | 386,576 | 697,406 |
| Provision for impairment | | | | |
| At 1 January 2023 | 172,788 | - | - | 172,788 |
| Impairment | 559 | - | - | 559 |
| Reversal of impairment losses | (62) | - | - | (62) |
| At 31 December 2023 | 173,285 | - | - | 173,285 |
| Net book value | | | | |
| At 31 December 2023 | 72,024 | 65,521 | 386,576 | 524,121 |
| At 31 December 2022 | 65,174 | 65,521 | 301,197 | 431,892 |

During the year, there was a partial disposal of BAE Systems Holdings (South Africa) Pty, a subsidiary which is in the process of liquidation. £1,461k (ZAR 35,000k) was received from BAE Systems Holdings (South Africa) Pty as a capital distribution.

Impairment testing

During the year, management conducted an impairment review of the investments held by the Company.

The recoverable amount of the investments held by the Company has been calculated with reference to their value in use. The value in use calculations use risk-adjusted future cash flow projections based on the five-year Integrated Business Plan (IBP) and include a terminal value based on the projections for the final year of that plan, with growth rate assumptions in the range 0% to 2% applied. The IBP process includes the use of historic experience, available government spending data and the BAE Systems plc group's order backlog. Pre-tax discount rates, derived from the group's post-tax weighted average cost of capital of 8.0% (2022: 8.0%) (adjusted for risks specific to the market in which the cash-generating unit operates), have been used in discounting these projected risk-adjusted cash flows.

Notes to the Financial Statements

7. Investments (continued)

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2023 is disclosed below. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned indirectly by the Company, the holding is represented by ordinary shares, the year end is 31 December and the address of the registered office is Victory Point, Lyon Way, Frimley, Camberley, Surrey, England, GU16 7EX.

Subsidiaries – wholly-owned

| | | |
|---|--|---|
| <p>4219 Lafayette, LLC¹ 4219 Lafayette Center Drive, Chantilly VA 20151, United States BAE Systems (Gripen Overseas) Limited² Victory Point, Lyon Way, Frimley, Camberley, Surrey, England, GU16 7EX BAE Systems (Malaysia) Sdn Bhd² Level 25 Menara Hong Leong, No. 6 Jalan Damansara, Bukit Damansara, 50450 Kuala Lumpur, Malaysia BAE Systems (Operations) Singapore Pte Limited² One Marina Boulevard #28-00, Singapore 018985, Singapore BAE Systems (Poland) Sp. z o.o.² ul. Abp. A. Baraniake 88, 61-131 Poznan, Poland BAE Systems Air (Japan) KK^{2,3} 1-1 Katamachi, Shinjuku-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/S² c/o Intertrust (Denmark) ApS, Sundkrogsvej 21, 2100, Copenhagen O, Denmark BAE Systems Applied Intelligence (Connect) A/S c/o Intertrust (Denmark) ApS, Sundkrogsvej 21, 2100, Copenhagen O, Denmark BAE Systems Applied Intelligence GCS Inc.² 800 Towers Crescent Drive, 13th Floor, #1382, Vienna, VA 22182, United States BAE Systems Applied Intelligence (GCS) Limited (in members' voluntary liquidation) c/o Interpath Limited, 10 Fleet Place, London EC4M 3RB, United Kingdom BAE Systems Applied Intelligence (Spain) S.A.² Paseo Castellana, 141, Cuzco IV, 28048, Madrid, Spain BAE Systems Communications Solutions LLC¹ Knowledge Oasis, Building 4, Second Floor, 0402-Z427, Knowledge Oasis Muscat, PO Box 18, Postal Code 135, Muscat, Oman BAE Systems do Brasil Ltda² SCN Quadra 5 Bloco A Salas 426-428, Ed. Brasilia Shopping and Towers, Brasilia, DF 70715-910, Brazil</p> | <p>BAE Systems Holdings (South Africa) (Pty) Limited² Central Office Park No. 5, 257 Jean Avenue, Centurion, Gauteng, 0157, South Africa BAE Systems Holdings B.V.² c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands BAE Systems Holding GmbH² Hauptstrasse 48, 82433 Bad Kohlsgrub, Germany BAE Systems India (Homeland Security) Private Limited^{2,4} #201, 2nd Floor, World Mark 2, Aerocity, NH-8, New Delhi – 110037, India BAE Systems India (Services) Private Limited^{2,4} #201, 2nd Floor, World Mark 2, Aerocity, NH-8, New Delhi – 110037, India BAE Systems India (Technology) Private Limited^{2,4} #201, 2nd Floor, World Mark 2, Aerocity, NH-8, New Delhi – 110037, India BAE Systems India (Ventures) Private Limited^{2,4} #201, 2nd Floor, World Mark 2, Aerocity, NH-8, New Delhi – 110037, India BAE Systems Insurance (Isle of Man) Limited² Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man BAE Systems Japan GK² Ark Mori Building, 1-1-32 Akasaka, Minato-Ku, Tokyo, Japan BAE Systems Oman LLC^{1,2} PO Box 74, Postal Code 111, Soeb, Oman BAE Systems MAI Turkey Hava Sistemleri A.Ş.² Üniversiteler Mahallesi, Beytepe Lodumlu Köy Yolu Cad. No:5/248 Çankaya, Ankara, Turkey BAE Systems Netherlands B.V. c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands BAE Systems Regional Aircraft Colombia SAS^{2,5} c/o Bfgard & Urrutia, Calle 70 A No. 4-41, Bogotá, Colombia BAE Systems Saudi Limited² PO Box 1732, Riyadh 11441, Saudi Arabia BAE Systems Technology LLC² Office No. 458, Building No. 47, 99th North Street, Section 1, New Cairo, 5th Settlement, Cairo, Egypt</p> | <p>BAE Systems Zephyr Corporation^{2,4} United Agent Group, Inc., 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States BAE Systems Zephyr Second Corporation^{2,4} United Agent Group, Inc., 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States BAE Systems Zephyr Third Corporation² United Agent Group, Inc., 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States BAE Systems Zephyr Fourth Corporation^{2,4} United Agent Group, Inc., 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States BAE Systems Zephyr Fifth Corporation^{2,4} United Agent Group, Inc., 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States ETI Engineering, Inc.² 1676 International Drive, 10th Floor, Suite 1000, McLean VA 22102, United States Eurostep AB² Gustavslundvägen 137, SE-187 51 Bromma, Sweden Eurostep Limited Unit 16 Ffernd Richard Davies, St. Asaph Business Park, St. Asaph, Denbighshire LL17 0L J, Wales Eurostep Oy Metsäniemikujat 12, 02130 Espoo, Finland Eurostep S.à.r.l 8 rue Germain Soufflot, 78180 Montigny-le Bretonneux, France PT. BAE Systems Services^{2,3} Wisma 46, Kota BNI, 34th Floor, Suite 34.01.A, Jl. Jenderal Sudirman Kavling 71, Jakarta 10220, Indonesia Sepia LLC² 4219 Lafayette Center Drive, Chantilly VA 20151, United States</p> |
|---|--|---|

Equity accounted investments

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

Notes

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

Notes to the Financial Statements

8. Trade and other receivables

| | 2023 | 2022 |
|--|----------------|----------------|
| | £000 | £000 |
| Non-current | | |
| Amounts owed by BAE Systems plc | 144,119 | 114,853 |
| Amounts owed by BAE Systems plc subsidiaries | 172,032 | 164,754 |
| Other receivables | 104 | - |
| | 316,255 | 279,607 |
| | 316,255 | 279,607 |

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

9. Trade and other payables

| | 2023 | 2022 |
|--|----------------|----------------|
| | £000 | £000 |
| Current | | |
| Amounts owed to BAE Systems plc subsidiaries | 12,969 | 12,968 |
| Amounts owed to immediate parent company | 329,739 | 329,739 |
| | 342,708 | 342,707 |
| | 342,708 | 342,707 |

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

10. Dividends

| | 2023 | 2022 |
|---|---------------|---------------|
| | £000 | £000 |
| Final dividend of £0.19 (2022: £0.12) per share paid in respect of the prior year | 33,436 | 21,808 |
| | 33,436 | 21,808 |
| | 33,436 | 21,808 |

The directors are proposing a final dividend of £0.44 (2022: £0.19) per share totalling £77,013,000 (2022: £33,436,000).

This dividend has not been accrued on the Balance Sheet.

Notes to the Financial Statements

11. Share capital and other reserves

Share capital

| | £1 Ordinary shares | Nominal value £000 |
|--|-----------------------------------|-----------------------------------|
| Issued and fully paid | | |
| At 1 January 2022, 31 December 2022 and 31 December 2023 | 175,952,543 | 175,953 |

Other reserves

| | | Share Premium £000 |
|--|--|-----------------------------------|
| At 1 January 2022, 31 December 2022 and 31 December 2023 | | 54 |
| | | 54 |

12. Controlling parties

The immediate parent company is BAE Systems (Holdings) Limited and the ultimate parent company and 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