

BAE Systems Properties Limited

Annual Report and Financial Statements

31 December 2023

Registered number: 02863702



**BAE Systems Properties Limited
Annual Report and Financial Statements
31 December 2023**

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Strategic Report

for the year ended 31 December 2023

Review of business and principal activities

BAE Systems Properties Limited is a member of the BAE Systems plc Group ("BAE Systems Group" or "Group") of companies. The Company has made a profit during 2023 of £1,253k (2022: £574k), which is in line with expectations and has net liabilities of £36,838k (2022: £36,205k). The profit has increased in 2023 largely due to the Pension income of £400k.

During 2023 the Company continued to manage its ongoing businesses of Disposals, Programmes, Real Estate Management and Facility Management Services. These services enabled the Company to maintain key operational sites on behalf of BAE Systems plc and other BAE Systems Group companies managing surplus property, site remediation, waste, water and power on behalf of the Group. The Company is working with energy suppliers to identify opportunities to help reduce energy consumption and carbon footprint.

Key performance indicators (KPIs)

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 the BAE Systems plc 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's principal risks are identified below, along with their potential impact on the Company and how these are currently being managed:

Health & Safety

Description: The Company is subject to all applicable health and safety regulations required in order to operate.

Impact: There could be significant impacts if the Company fails to meet the necessary standards to adequately mitigate against health and safety risks. The Company may face criminal and civil prosecution in connection with health and safety incidents, which could result in substantial penalties and fines. Any of these factors could have a material adverse effect on the Company's business, results of operations, financial condition, prospects and reputation.

Mitigation: Those managing health, safety and the environment ("SHE") risks have the appropriate level of SHE competence, training and experience. A SHE governance structure and SHE resource is in place to support all areas of the business and the Company has a number of formal processes in place to identify and manage its legal and statutory obligations. Effectiveness of control measures are continually assessed through a programme of 1st, 2nd & 3rd party assurance audits and assessments; the Company is covered by the BAE Systems Shared Services ISO45001 certification.

Environmental warranties

Description: The Company is subject to all applicable environmental laws and regulations.

Impact: Environmental factors, including those relating to climate change, have the potential to materially impact the Company's business and operations. Increasing changes in environmental laws and regulations can expose the Company to increasing unplanned capital and operating costs associated with compliance, remediation and protection of the environment. Breaches of these laws and regulations can result in substantial costs, including fines, penalties or other sanctions, investigations and clean-up costs, and third-party claims for property damage or personal injury as well as the termination of permits. In addition, failure to comply with laws and regulations can also result in breach of contract, and has the potential to materially impact the Company's business and operations.

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

Mitigation: The Company maintains insurance to cover any Environmental Warranties issued to support land remediation contracts. Warranted land remediation work is carried out to agreed contractual and regulatory requirements & standards, including conditions imposed by Grants of Planning Permission. The Company employs persons with the appropriate skills, knowledge & expertise and its ISO9001 and ISO14001 certification covers the planning and delivery of land remediation, supported by a programme of internal and external auditing.

Property Dilapidations

Description: As the portfolio of property ages, increased maintenance charges are likely.

Impact: The cost of carrying out the repairs and maintenance could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

Mitigation: The Directors of the Company follow a five-year maintenance plan to mitigate this risk.

Valuation of investments

Description: There is a risk of possible impairment of the value of its investments in BAE Systems Group subsidiary companies.

Impact: An impairment could reduce the value of the investment held in the balance sheet thereby reducing net assets, which could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

Mitigation: The Group has established policies in place to manage the performance of subsidiaries, and identify potential impairments.

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 (the "Operational Framework") sets out the principles of good governance to which Group subsidiaries are required to adhere, together with 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. Decision making is also informed by requirements of ISO standard certifications held by the Company covering quality, environmental and health and safety management, as well as the regulatory frameworks applicable to the Company's operations.

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

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

Employees

The safety, wellbeing, skills, capabilities and commitment of the Company's people are critical to ensuring the long-term sustainability of the Company's business and delivering the innovation needed to solve the Company's customers' complex challenges.

Effective engagement enables our employees to contribute to improving business performance and helps the Company to create an environment in which everyone is safe, valued and can fulfil their potential.

The Company used a range of channels to engage with employees throughout the year, as well as keeping employees informed about the performance, developments and prospects of the business and the BAE Systems Group. This included surveys and insight sessions; in-person and virtual meetings, briefings, conferences, events and listening forums at all levels; regular leadership updates through videos and events throughout the year (including in relation to financial and business performance); and engagement through the BAE Systems Group's Employee App, intranet, email and TV systems.

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).

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

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

Fostering business relationships with suppliers, customers and others

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

The Company's business is focused on meeting the property needs of the BAE Systems Group companies. Strong and collaborative relationships with BAE Systems Group companies help to identify customer requirements and to help position the Company as a trusted provider. The relevant Directors are in regular contact with the customers of the Company and carry out customer surveys to ensure the Company delivers as a trusted partner.

The Company's real estate and work place services teams work with suppliers and their supply chains to provide services that meet customer requirements. The Company's property transactions tend to be long term due to the length of the product life cycles of Group companies' customers and the Directors meet with key suppliers to develop deep long-term relationships.

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 implements the requirements of the BAE Systems Group's Community Investment Policy, which is mandated through the Operational Framework and looks to ensure that we build and nurture mutually beneficial relationships between our business, our people and local stakeholders. The Company is supporting the Group's target of achieving net zero greenhouse emissions across the Group's operations (scope 1 and 2) by 2030 and its target of working towards a net zero value chain by 2050.

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

The community and the environment continued

Our employees regularly support fundraising events organised by BAE Systems businesses in line with the Group's Community Investment Policy.

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).

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.annualreport.baesystems.com/2023).

Approved by the Board and signed on its behalf by:



M H McGovern
Director

Date: 30 September 2024

Directors' Report

Company registration

BAE Systems Properties Limited is a private company, limited by shares and registered in England and Wales with the registered number 02863702.

Results and dividends

The Company's profit for the financial year is £1,253k (2022: £574k). The Directors do not propose to declare a dividend for 2023 (2022: £nil).

Looking forward

The Company seeks to develop its Work Place Services infrastructure support offering, to provide operational facilities management to internal Group customers and manage vacant space. It also plans to continue its programmes business providing remediation and infrastructure services to internal Group customers.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £675,463k. 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.

Credit risk and liquidity

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flow risks are discussed in detail within the BAE Systems plc Group accounts.

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.annualreport.baesystems.com/2023).

Engagement with suppliers, customers and others

Engagement with suppliers, customers and others has been considered within the Strategic Report on page 3.

Directors' Report (continued)

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:

C J S McComb
A-L Holding
D S Parkes (resigned 31 May 2024)
D A Green (resigned 02 October 2023)
M H McGovern (appointed 29 September 2023)

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.

Post balance sheet events

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

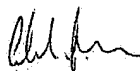
Disclosure of information to auditor

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

Auditor

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

Approved by the Board and signed on its behalf by:



M H McGovern
Director

Date: 30 September 2024

Registered office:
BAE Systems Properties 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 Properties Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 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 22.

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 Properties 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 UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

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

Independent Auditor's Report to the Members of BAE Systems Properties 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 and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities.

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

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of BAE Systems Properties 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.



Mark Love ACA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

Date: 30 September 2024

BAE Systems Properties Limited
Annual Report and Financial Statements
31 December 2023

Income Statement
for the year ended 31 December 2023

	Note	2023 £000	As restated 2022 £000
Revenue	3	63,804	44,419
Operating costs	4	(68,033)	(47,725)
Other income	5	5,095	3,889
Operating profit		866	583
Financial expense	6	(13)	(9)
Financial income	7	400	-
Profit before tax		1,253	574
Tax	10	-	-
Profit for the financial year		1,253	574

Statement of Comprehensive Income
for the year ended 31 December 2023

	2023 £000	2022 £000
Profit for the financial year	1,253	574
Other comprehensive income:		
Items that will not be classified to the Income Statement :		
Remeasurements on retirement benefit schemes	18 (2,000)	5,800
Total comprehensive (expense)/income for the year	(747)	6,374

Prior year balances have been restated please see note 21.

The notes on pages 16 to 52 form part of these financial statements.

The results for 2023 and 2022 arise from continuing activities.

BAE Systems Properties Limited
Annual Report and Financial Statements
31 December 2023

Balance Sheet
as at 31 December 2023

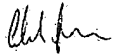
	Note	2023 £000	2022 £000
Non-current assets			
Property, plant and equipment	11	119	96
Right-of-use assets	12	244	413
Investment property	13	50	55
Investments	14	-	-
Other receivables	15	634,770	645,223
Retirement benefit surplus	18	3,600	4,900
		<u>638,783</u>	<u>650,687</u>
Current assets			
Inventories	16	41	43
Trade, contract and other receivables	15	67,943	49,185
		<u>67,984</u>	<u>49,228</u>
Total assets		<u>706,767</u>	<u>699,915</u>
Non-current liabilities			
Lease liabilities	12	(141)	(192)
Provisions	19	(17)	(20)
		<u>(158)</u>	<u>(212)</u>
Current liabilities			
Lease liabilities	12	(96)	(210)
Trade, contract and other payables	17	(743,351)	(735,509)
Provisions	19	-	(189)
		<u>(743,447)</u>	<u>(735,908)</u>
Total liabilities		<u>(743,605)</u>	<u>(736,120)</u>
Net liabilities		<u>(36,838)</u>	<u>(36,205)</u>

BAE Systems Properties Limited
Annual Report and Financial Statements
31 December 2023

Balance Sheet (continued)
as at 31 December 2023

	Note	2023 £000	2022 £000
Capital and reserves			
Issued share capital	20	50,000	50,000
Retained deficit		(86,838)	(86,205)
Total equity		<u>(36,838)</u>	<u>(36,205)</u>

Approved by the Board on 30 September 2024 and signed on its behalf by:



M H McGovern
Director

Registered number: 02863702

BAE Systems Properties Limited
Annual Report and Financial Statements
31 December 2023

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

	Issued share capital £000	Retained deficit £000	Total equity £000
At 1 January 2022	50,000	(92,694)	(42,694)
Profit for the year	-	574	574
Other comprehensive income	-	5,800	5,800
Share-based payments (note 8)	-	115	115
At 31 December 2022	<u>50,000</u>	<u>(86,205)</u>	<u>(36,205)</u>
Profit for the year	-	1,253	1,253
Other comprehensive expense	-	(2,000)	(2,000)
Shared-based payments (note 8)	-	114	114
At 31 December 2023	<u>50,000</u>	<u>(86,838)</u>	<u>(36,838)</u>

The notes on pages 16 to 52 form part of these financial statements.

Notes to the Financial Statements

1. General information

BAE Systems Properties 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 22. The address of the Company's registered office is shown on page 6.

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

2. Accounting policies

2.1 Basis of preparation

These financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework". The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments), and in accordance with the Companies Act 2006. Advantage has been taken of the FRS 101 disclosure exemptions as set out below:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
 - paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- 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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

These financial statements have been prepared using the going concern basis of accounting, as discussed in the Director's Report (page 5).

Key sources of estimation uncertainty

The application of the Company's accounting policies requires the use of estimates. In the event that these estimates or assumptions prove to be incorrect, there may be an adjustment to the carrying values of assets and liabilities within the next year. Potential areas of the Company's financial statements which could be materially impacted may include, but are not limited to:

Accounting policy	Description
Valuation of retirement benefit obligations	A number of actuarial assumptions are made in assessing the value of post-employment benefit obligations, including discount rate, inflation rate, and mortality assumptions. For each of the actuarial assumptions used there is a wide range of possible values and management estimates a point within that range that most appropriately reflects the Company's circumstances. If estimates relating to these actuarial assumptions are no longer valid or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly. Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macro-economic issues. The impact of estimates made with regard to mortality projections may also change. Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions including the impact of climate change on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months. Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgment is then required to determine the presentation of any tax payable in recovering the surplus. Note 18 provides information on the key assumptions and analysis of their sensitivities.

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Critical accounting judgements

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

Changes in accounting policies

The following standards, interpretations and amendments to existing standards became effective on 1 January 2023 and have not had a material impact on the Company:

- 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; and
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback, effective from 1 January 2024.

Material accounting policies

The material 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 Leases

The Company as a lessee

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

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

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

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

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

The Company as a lessor

Leases in which the Company is lessor are classified as finance leases or operating leases. If the lease transfers substantially all of the risks and rewards of ownership to the lessee, the lease is classified as a finance lease. All other leases are classified as operating leases.

Lease income under operating leases is recognised in the income statement on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as a receivable discounted at the interest rate implicit in the lease. Finance lease income is recognised in the income statement over the lease term to produce a constant periodic rate of interest on the receivable.

Notes to the Financial Statements

2. Accounting policies (continued)

2.3 Revenue and profit recognition

Revenue represents income derived from the provision of property leasing and management services by the Company. Revenue is measured at the fair value of the consideration received or receivable, net of returns, rebates and other similar allowances. Revenue and profits on intercompany trading are determined on an arm's length basis.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. Services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative standalone selling prices. Whilst payment terms vary from contract to contract, on many of the Company's contracts, an element of the transaction price is received in advance of delivery. The Company therefore has contract liabilities. The Company's contracts are not considered to include significant financing components.

Revenue and profit recognition

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

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

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.3 Revenue and profit recognition (continued)

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

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

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

Contract modifications

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

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

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

Costs to obtain a contract

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

Costs to fulfil a contract

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

2.4 Interest income and borrowing costs

Interest income and borrowing costs are recognised in the Income Statement in the period in which they are incurred.

Notes to the Financial Statements

2. Accounting policies (continued)

2.5 Property, plant and equipment

Cost

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

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

Depreciation

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

Plant and machinery/Fixtures and fittings:

Computer equipment and motor vehicles	- 4 to 5 years
Other equipment	- 10 to 20 years, or the project life if shorter

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

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

2.6 Investment property

Cost

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

Depreciation

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

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

Impairment

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

2.7 Investments

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.8 Impairment

The carrying amounts of the Company's investments, 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 pre-tax discount rate. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the Income Statement.

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

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

2.9 Inventories

Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value.

2.10 Trade, contract and other receivables

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

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

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

2.11 Trade, contract and other payables

Trade and other payables are stated at amortised cost.

Notes to the Financial Statements

2. Accounting policies (continued)

2.12 Provisions

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

Legal, contractual and environmental

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

2.13 Tax

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

Current tax

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

Deferred tax

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

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

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

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

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.14 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 straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will actually vest.

2.15 Retirement benefit obligations

Defined contribution pension schemes

A defined contribution pension scheme is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions are recognised as an expense in the Income Statement as incurred.

Defined benefit pension schemes

The cost of providing benefits is determined periodically by independent actuaries and charged to the Income Statement in the period in which those benefits are earned by the employees. Remeasurements, including actuarial gains and losses, are recognised in the Statement of Comprehensive Income in the period in which they occur. Past service costs resulting from a plan amendment or curtailment are recognised immediately in the Income Statement.

The retirement benefit surpluses and obligations recognised in the Company's Balance Sheet represents the fair value of scheme assets, less the present value of the defined benefit obligations calculated using a number of actuarial assumptions as set out on page 43. The bid values of scheme assets are not intended to be realised in the short term and may be subject to significant change before they are realised. The present values of scheme liabilities are derived from cash flow projections over long periods and are, therefore, inherently uncertain.

IAS 19 Employee Benefits limits the measurement of a defined benefit surplus to the lower of the surplus in the defined benefit scheme and the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme. IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, issued in 2007, provides an interpretation of the requirements of IAS 19, clarifying that a refund is available if the entity has an unconditional right to a refund in certain circumstances. The Company has applied IFRIC 14 and has determined that there is no limit on the recognition of the surpluses in its defined benefit pension schemes as at 31 December 2023. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Company, which is assumed to be via a refund. These have been recognised after deducting a 35% withholding tax which would be levied prior to the future refunding of any surplus and have been presented on a net basis as this is not deemed to be an income tax of the Company.

Notes to the Financial Statements

2. Accounting policies (continued)

2.15 Retirement benefit obligations (continued)

Defined benefit pension schemes (continued)

The Company participates in a number of group and multi-employer schemes administered by its ultimate parent company, BAE Systems plc. A share of the IAS 19 Employee Benefits pension deficit has been allocated to all participating employers. This allocation is based on the relative payroll contributions of active members, which is consistent with prior years. Whilst this methodology is intended to reflect a reasonable estimate of the share of the deficit, it may not accurately reflect the obligations of the participating employers. Gains and losses resulting from changes to the relative payroll contributions of active members year on year are included within actual return on assets and actuarial gains and losses for the disclosures in respect of changes in the fair value of scheme assets and changes in the present value of defined benefit obligations, respectively.

In the event that an employer who participates in BAE Systems plc's pension schemes fails or cannot be compelled to fulfil its obligations as a participating employer, the remaining participating employers are obliged to collectively take on its obligations. The Company considers the likelihood of this event arising as remote.

3. Revenue

Revenue by reporting segment:

	2023	As restated 2022
	£000	£000
Programmes	29,789	21,621
Facilities Management	34,015	22,798
	63,804	44,419

Revenue by customer location:

	2023	As restated 2022
	£000	£000
United Kingdom	63,804	44,419
	63,804	44,419

Performance obligations

The Company's order book (representing the transaction price allocated to unsatisfied and partially unsatisfied performance obligations as defined by IFRS 15) as at 31 December 2023 was £9.8m (2022: £3.8m).

Notes to the Financial Statements

4. Operating costs

	2023	As restated 2022
	£000	£000
Inventory recognised as an expense	24,246	14,595
Staff costs (note 8)	8,430	6,709
Depreciation of fixed assets (note 11 and 13)	38	110
Depreciation of right-of-use assets (note 12)	179	184
Other operating charges	35,140	26,127
	68,033	47,725
	68,033	47,725

The remuneration of the auditor for the year ended 31 December 2023 for auditing of the financial statements was £88,200 (2022: £83,200) and £nil (2022: £nil) in respect of non-audit work.

5. Other income

	2023	2022
	£000	£000
Rental income from operating leases (note 12)	4	7
Management recharges	5,091	3,882
	5,095	3,889
	5,095	3,889

6. Financial expense

	2023	2022
	£000	£000
Interest expense on lease liabilities (note 12)	13	9
	13	9

7. Financial income

	2023	2022
	£000	£000
Net interest income on retirement benefit obligations (note 18)	400	-
	400	-

Notes to the Financial Statements

8. Employees

The aggregate staff costs and employee numbers include employees who are contracted with other BAE Systems Group companies but are considered to undertake qualifying work for the Company.

The average monthly number of employees during the year was as follows:

	2023	2022
	No.	No.
Business support	12	7
Commercial	5	3
Engineering	22	21
Facilities	16	2
Finance	-	4
Operations	11	12
Procurement	1	1
Project management	28	31
Quality	2	3
Security	4	3
SHE	12	8
	<u>113</u>	<u>95</u>

The aggregate staff costs of Company employees were as follows:

	2023	2022
	£000	£000
Wages and salaries	6,784	4,917
Social security costs	886	661
Cost of defined benefit pension scheme (note 18)	409	800
Cost of defined contribution pension scheme (note 18)	237	216
Share-based payments	114	115
	<u>8,430</u>	<u>6,709</u>

Notes to the Financial Statements

9. Directors' remuneration

The directors who served during the year were employed by either BAE Systems plc or another Group company and provide their services primarily to those companies. A proportion of their remuneration, reflecting the qualifying services to the Company, is disclosed below. These amounts will not be recharged.

	2023	2022
	£000	£000
Directors' remuneration	158	238
Company contributions to defined contribution pension schemes	-	40
Company contributions to defined benefit pension schemes	1	95
	159	373

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

	2023	2022
	Number of	Number of
	Directors	Directors
Defined contribution schemes	1	1
Defined benefit schemes	1	1

	2023	2022
	Number of	Number of
	Directors	Directors
Number of directors who exercised share options	1	2
Number of directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	1	2

Amounts paid in respect of the highest paid director were as follows:

	2023	2022
	£000	£000
Remuneration and amounts receivable under long-term incentive schemes	-	120

In the previous year, The highest paid director's defined benefit accrued pension and accrued lump sum at 31 December 2022 were £119,466 and £nil respectively, no disclosure is required for 2023.

Notes to the Financial Statements

10. Tax

Reconciliation of tax expense

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

	2023 £000	2022 £000
Profit before tax	1,253	574
UK corporation tax rate	23.52%	19%
Expected tax (expense) on profit	(295)	(109)
Expenses not tax effected	(321)	(162)
Property, plant and equipment	21	4
Provisions and accruals	(33)	8
Retirement benefit schemes	348	129
Imputed interest expense	424	113
Losses received from/(surrendered to) fellow group companies	(144)	17
Tax result	-	-

Notes to the Financial Statements

10. Tax (continued)

The deferred tax asset which has not been recognised in the accounts is made up as follows:

	2023	2022
	£000	£000
Property, plant and equipment	76	98
Provisions and accruals	27	24
Retirement benefit schemes: additional contributions	-	183
Deferred tax asset	<u>103</u>	<u>305</u>

The deferred tax asset has not been recognised because there is insufficient evidence of future taxable profits to support its recoverability.

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 below to reflect this change (2022: 19.0%). The deferred tax asset at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse. The resulting tax rate adjustments have been recorded partly in the Income Statement and partly in the Statement of Other Comprehensive Income and Statement of Changes in Equity.

On 20 June 2023, Finance (No. 2) Act 2023 was substantively enacted in the UK, including legislation to implement the OECD 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

11. Property, plant and equipment

	Plant and machinery £000
Cost or valuation	
At 1 January 2023	1,142
Additions	56
Disposals	(65)
At 31 December 2023	<u>1,133</u>
Depreciation	
At 1 January 2023	1,046
Depreciation charge for the year	33
Disposals	(65)
At 31 December 2023	<u>1,014</u>
Net book value	
At 31 December 2023	<u>119</u>
At 31 December 2022	<u>96</u>

Capital commitments

Capital expenditure contracted for but not provided for in full in the financial statements is £nil (2022: £nil).

Notes to the Financial Statements

12. Leases

Right-of-use assets

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

	2023		
	Land and buildings £000	Plant and machinery £000	Total £000
Net book value as at 01 January	147	266	413
Additions during the year	-	10	10
Disposals during the year	(223)	(238)	(461)
Depreciation expense for the year	(61)	(118)	(179)
Depreciation eliminated on disposal	223	238	461
Net book value as 31 December	86	158	244
	2022		
	Land and buildings £000	Plant and machinery £000	Total £000
Net book value as at 01 January	94	312	406
Additions during the year	114	77	191
Disposals during the year	-	(85)	(85)
Transfer adjustment	10	(10)	-
Depreciation expense for the year	(71)	(113)	(184)
Depreciation eliminated on disposal	-	85	85
Net book value as 31 December	147	266	413

Notes to the Financial Statements

12. Leases (continued)

Lease liabilities

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

	2023	2022
	£000	£000
Payments due:		
Within one year	108	222
Between one and five years	150	204
Impact of discounting	(21)	(24)
Total discounted lease liability	237	402

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2023, amounted to £206k (2022:£246k).

Amounts recognised in the Income Statement

	2023	2022
	£000	£000
Included in operating costs:		
Depreciation on right-of-use assets	179	184
Included in other income:		
Operating lease income from subleasing right-of-use assets	4	7
Included in net finance costs:		
Interest expense on lease liabilities	13	9

Notes to the Financial Statements

13. Investment property

	£000
Cost	
At 1 January 2023	119
At 31 December 2023	<u>119</u>
Depreciation and impairment	
At 1 January 2023	64
Depreciation charge for the year	5
At 31 December 2023	<u>69</u>
Net book value	
At 31 December 2023	<u>50</u>
At 31 December 2022	<u>55</u>
Fair Value	
At 31 December 2023	<u>125</u>
At 31 December 2022	<u>125</u>

The fair values above are based on and reflect current market values as prepared by in-house professionals who have the appropriate professional qualifications and recent experience of valuing properties in the location and of the type being valued.

Notes to the Financial Statements

14. Investments

	£000
Cost	
At 1 January 2022	44,341
Dissolved subsidiaries	(44,341)
At 31 December 2023	-
Impairment	
At 1 January 2022	44,341
Dissolved subsidiaries	(44,341)
At 31 December 2023	-
Net book value	
At 31 December 2023	-
At 31 December 2022	-

Subsidiary undertakings and participating interests at 31 December 2023

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 directly by the Company and unless otherwise stated, have a financial year end of 31 December and a registered office address of Victory Point, Lyon Way, Frimley, Camberley, Surrey, England, GU16 7EX, United Kingdom.

Company name	Class of shares held	Proportion of class (%)
Newcombe Properties Limited	Ordinary shares	100
Winner Developments Limited	Ordinary shares	33.33

Lemacrown Limited was dissolved on the 08 August 2023.

Notes to the Financial Statements

15. Trade, contract and other receivables

	2023	2022
	£000	£000
Non-current		
Amounts owed by BAE Systems plc	544,346	586,237
Amounts owed by BAE Systems plc subsidiaries	90,424	58,986
	634,770	645,223
Current		
Contract receivables	1,247	2,948
Trade receivables	834	352
Amount owed by BAE Systems plc	55,275	38,830
Amounts owed by BAE Systems plc subsidiaries	184	213
Amounts owed by BAE Systems plc equity accounted investments	1,142	262
Accrued income	7,419	505
Other receivables	291	4,598
Other taxes and social security	1,510	1,219
Prepayments	41	258
	67,943	49,185

Contract receivables as at 1 January 2022 were £3,801k.

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

The impact of discounting non-current amounts owed by BAE Systems plc and its subsidiaries is not material given that the amounts are repayable on demand and therefore the contractual period over which these loans could be recalled is one day after the end of the reporting period, so has not been applied.

16. Inventories

	2023	2022
	£000	£000
Work in progress	41	43

Notes to the Financial Statements

17. Trade, contract and other payables

	2023 £000	2022 £000
Current		
Trade payables	3,381	903
Amounts owed to BAE Systems plc	6,998	6,802
Amounts owed to BAE Systems plc subsidiaries	725,006	721,462
Accruals	6,330	4,283
Contract payables	1,373	1,446
Other payables	263	613
	743,351	735,509

Revenue recognised in the year includes £653k (2022: £943k) that was included in the opening contract liabilities balance

Contract payables as at 1 January 2022 were £2,595k

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

18. Retirement benefit obligations

Background

BAE Systems plc operates pension schemes for qualifying employees in the UK, US and other countries. The principal schemes in the UK are funded defined benefit schemes and the assets are held in separate trustee-administered funds. The allocation of each Company's share of the pension deficit is based on the relative payroll contributions of active members, as outlined on page 20-21.

At 31 December 2023, the weighted average durations of the UK defined benefit pension obligations were 13 years (2022 13 years).

The Company participates in the following BAE Systems plc schemes: BAE Systems Pension Scheme (Main Scheme), Royal Ordnance Pension Scheme (ROPS).

The split of the defined benefit pension liability on a funding basis between active, deferred and pensioner members for the most significant schemes (based on the size of the closing net deficit/surplus) is set out below:

	Active %	Deferred %	Pensioner %
Main Scheme (merged) ¹	28	21	51
Royal Ordnance Pension Scheme ²	12	16	72

¹Source: 31 March 2021 actuarial valuation reports.

²Source: Royal Ordnance Pension Scheme actuarial valuation 31 March 2022

Notes to the Financial Statements

18. Retirement benefit obligations (continued)

Regulatory framework

The funded UK schemes are registered and subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund as set out in the Pension Act 2004. These schemes were established under trust and the responsibility for their governance lies jointly with the trustees and BAE Systems plc.

Benefits

The UK defined benefit schemes provide benefits to members in the form of a set level of pension payable for life based on members' final salaries. The benefits attract inflation-related increases both in deferment and payment. All UK defined benefit schemes are closed to new entrants, with benefits for new employees being provided through a defined contribution scheme. The Normal Retirement Age for active members of the Main Scheme is 65. Specific benefits applicable to members differ between schemes. Further details on the benefits provided by each scheme are provided on the BAE Systems Pensions website: www.baesystems.com/en-pensions/home.

Funding

Introduction

Disclosures in respect of pension funding provided below reflect the pension schemes as a whole. Disclosures in respect of pension accounting under IAS 19 are provided on pages 43 - 49.

The majority of the UK defined benefit pension schemes are funded by BAE Systems plc's subsidiaries and equity accounted investments. The individual pension schemes' funding requirements are based on actuarial measurement frameworks set out in their funding policies.

For funding valuation purposes, pension scheme assets are included at market value at the valuation date, whilst the liabilities are measured on an actuarial funding basis using the projected unit credit method and discounted to their present value based on prudent assumptions set by the trustees following consultation with scheme actuaries.

The funding valuations are performed by professional qualified independent actuaries and include assumptions which differ from the actuarial assumptions used for IAS 19 accounting purposes shown on page 43. The purpose of the funding valuations is to design funding plans which ensure that the schemes have sufficient funds available to meet future benefit payments.

Valuations

Funding valuations of the UK defined benefit schemes are performed every three years. Following the accelerated payment in 2021 of the remaining sponsor deficit reduction contributions under the previously agreed deficit recovery plan, BAE Systems plc and the Trustees agreed to carry out an early triennial funding valuation for the Main Scheme as at 31 March 2021, this valuation was concluded and signed off on 30 June 2022.

The results of the most recent triennial valuations are shown below. These valuations and, where necessary, deficit recovery plans were agreed with the trustees and certified by the scheme actuaries after consultation with The Pensions Regulator in the UK.

Notes to the Financial Statements

18. Retirement benefit obligations (continued)

	Main Scheme as at 31 March 2021 £bn
Market value of assets	22.9
Present value of liabilities	(22.9)
Funding surplus	-
Percentage of accrued benefits covered by the assets at the valuation date	100%

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

The valuations were determined using the following mortality assumptions:

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

As part of the process of the Main Scheme's 2021 valuation, the Trustees and BAE Systems plc agreed to update the methodology to use a cash flow matching strategy, such that assets are invested with the aim of the expected income directly matching the expected benefit payments of the Scheme. The cash flow matching strategy aims to manage risk through a defined amount of risk buffer assets, which equate to the agreed prudence margin in the valuation. The risk buffer assets are measured over time to assure the Scheme is sufficiently funded. The asset portfolio is currently invested in a selection of bonds designed to match the pension payments for current pensioners, as well as a mix of growth seeking assets aimed to generate returns for the pension payments for future pensioners. Over time, assets from the return seeking portfolio will be realised to purchase additional, lower risk assets to match the increasing current pensioner portfolio. The valuations for the other schemes use a different method in that discount rates were directly based on prudent levels of expected returns for the assets held by the schemes, reflecting the planned investment strategies and maturity profiles of each scheme. The discount rates are curves which provide a different rate for each year into the future.

The inflation assumptions for each of the valuations were derived using data from the Bank of England which is based on the difference between the yields on index-linked and fixed interest long-term government bonds. The inflation assumption is a curve which provides a different rate for each year into the future.

Under IAS 19, the discount rate for accounting purposes is based on third-party AA corporate bond yields whereas, for funding valuation purposes, the discount rate is based on a prudent level of expected returns from the broader and mixed types of investments reflected in the schemes' investment strategies.

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

The results of future triennial valuations and associated funding requirements will be impacted by a number of factors, including the future performance of investment markets and anticipated members' longevity.

Notes to the Financial Statements

18. Retirement benefit obligations (continued)

Contributions

Under the terms of the trust deeds of the UK schemes, BAE Systems plc is required to have a funding plan determined at the conclusion of the triennial funding valuations. Contributions in 2024 are expected to be at a similar level to 2023.

The total Company contributions made to the defined benefit schemes in the year ended 31 December 2023 were £0.9m (2022 £0.9m).

Risk management

The defined benefit pension schemes expose the Company to actuarial risks, including market (investment) risk, interest rate risk, inflation risk and longevity risk.

Notes to the Financial Statements

18. Retirement benefit obligations (continued)

Risk management (continued)

Risk	Mitigation
<p>Market (investment) risk Asset returns may not move in line with the liabilities and may be subject to volatility.</p>	<p>The investment portfolios are highly diversified, investing in a wide range of assets, in order to reduce the exposure of the total portfolio to a materially adverse impact from a single security or type of security. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of index-linked bonds, gilts and swaps, designed to mirror movements in corresponding liabilities.</p> <p>Some 36% (2022 42%) of the UK pension scheme assets are held in equities and pooled investment vehicles due to the higher expected level of return over the long term.</p> <p>The UK Main Scheme reduced its allocation to equities significantly over the course of 2023, and closed out its equity option strategy to reflect its limited resultant exposure to equity markets.</p> <p>Environmental (including exposure to climate related risks), Social and Governance (ESG) factors are incorporated into the investment analysis and decision-making process carried out by the Trustees of the UK schemes. There is alignment between the UK Main Scheme and Company's climate change objectives with consistent long-term net zero ambitions.</p>
<p>Interest rate risk Liabilities are sensitive to movements in interest rates, with lower interest rates leading to an increase in the valuation of liabilities.</p>	<p>As part of the funding valuation finalised during 2022, the main UK Scheme has adopted a cash flow matching strategy, whereby contractual income from assets is designed to directly match benefits paid to members each year. A portfolio of assets with contractual income has been structured to match benefits already in payment, representing around half of the liabilities. This inherently hedges the associated interest rate risk. As members retire and become pensioners, additional matching assets will be purchased to keep pace. Interest rate risk associated with the remaining purchase of matching assets is mitigated via a hedging strategy involving mainly physical assets rather than derivatives and only modest levels of leverage. The overall level of interest rate hedging on the funding basis has increased compared to 2022.</p>
<p>Inflation risk Liabilities are sensitive to movements in inflation, with higher inflation leading to an increase in the valuation of liabilities.</p>	<p>The main UK Scheme's cash flow matching strategy includes aligning asset income to the inflation-linked members' benefit payments. Inflation risk is mitigated by the presence of caps on most inflation linked benefits and via a hedging strategy, executed with several banks to reduce counterparty risk. The overall level of inflation hedging on the funding basis has increased compared 2022.</p> <p>In 2014, the Main Scheme implemented a pension increase exchange to allow retired members to elect for a higher current pension in exchange for foregoing certain rights to future pension increases.</p>
<p>Longevity risk Liabilities are sensitive to life expectancy, with increases in life expectancies leading to an increase in the valuation of liabilities.</p>	<p>Longevity adjustment factors are used in the majority of the UK pension schemes in order to adjust the pension benefits payable so as to share the cost of people living longer with employees.</p> <p>In 2013, with the agreement of BAE Systems plc, the trustees of the 2000 Plan, Royal Ordnance Pension Scheme and Shipbuilding Industries Pension Scheme (SIPS) entered into arrangements with Legal & General to insure against longevity risk for the current pensioner population, covering a total of £4.4bn of pension scheme liabilities. These arrangements reduce the funding volatility relating to increasing life expectancy. This longevity risk cover with Legal & General remains in place following the merger of the 2000 Plan and SIPS into the Main Scheme.</p>

Notes to the Financial Statements

18. Retirement benefit obligations (continued)

Virgin Media case

The Company is aware of the ongoing 'Virgin Media v NTL Pension Trustees Ltd and others' case and that there is a potential for the outcome of the case to have an impact on the UK schemes. The case affects defined benefit schemes that provided contracted-out benefits before 6 April 2016 based on meeting the reference scheme test. Where scheme rules were amended, potentially impacting benefits accrued from 6 April 1997 to 6 April 2016, schemes needed the actuary to confirm that the reference scheme test was still being met by providing written confirmation under Section 37 of the Pension Schemes Act 1993. In the Virgin Media case the judge ruled that alterations to the scheme rules were void and ineffective because of the absence of written actuarial confirmation required under Section 37 of the Pension Schemes Act 1993. The case has been taken to The Court of Appeal, with the hearing set for June 2024. The potential impact on the UK schemes is not yet known but continues to be assessed.

IAS 19 Accounting

The disclosures below relate to pension schemes in the UK which are accounted for as defined benefit schemes in accordance with IAS 19.

Principal actuarial assumptions

The assumptions used are estimates chosen from a range of possible actuarial assumptions which, due to the long-term nature of the obligation covered, may not necessarily occur in practice.

	2023	2022	2021
Financial assumptions			
Discount rate – past service (%)	4.5	4.8	1.9
Discount rate – future service (%)	4.6	4.8	1.9
Retail Prices Index (RPI) inflation (%)	2.8	3.0	3.1
Rate of increase in salaries (%)	2.8	3.0	3.1
Rate of increase in deferred pensions (%)	2.1/2.8	2.3/3.0	2.4/3.1
Rate of increase in pensions in payment (%)	1.6 – 3.6	1.7 – 3.6	1.7 – 3.7
Demographic assumptions			
Life expectancy of a male currently aged 65 (years)	85 – 89	86 – 89	86 – 89
Life expectancy of a female currently aged 65 (years)	88 – 89	88 – 90	88 – 90
Life expectancy of a male currently aged 45 (years)	86 – 89	87 – 90	86 – 90
Life expectancy of a female currently aged 45 (years)	89 – 90	89 – 91	89 – 91

Discount rate

The discount rate assumptions are derived through discounting the projected benefit payments using a third-party AA corporate bond yield curve to produce a single equivalent discount rate. This inherently captures the maturity profile of the expected benefit payments. The discount rate used for future service differs from that used for past service as it only uses the cash flows relating to active members, which have a different duration. Further information on the duration of the schemes is detailed on page 38.

Retail Prices Index (RPI) and Consumer Prices Index (CPI) inflation

The inflation assumptions are derived by reference to the difference between the yields on index-linked and fixed-interest long-term government bonds. Index-linked government bonds contain a premium that investors are willing to pay to mitigate the risk that RPI inflation is higher than expected. To account for this, the RPI assumption includes an inflation risk premium deduction.

Notes to the Financial Statements

18. Retirement benefit obligations (continued)

Retail Prices Index (RPI) and Consumer Prices Index (CPI) inflation (continued)

The inflation risk premium deduction has been set at 0.55% per annum (2022 0.55%) and the CPI assumption has been set at 0.7% per annum (2022 0.7%) lower than RPI. The resulting RPI assumption is 2.8% per annum and the CPI assumption is 2.1% per annum. The 0.7% per annum RPI-CPI differential is a weighted average of a 1% per annum differential pre-2030 and 0.1% per annum differential post-2030; this reflects the anticipated change to the RPI index from 2030.

Rate of increase in salaries

The rate of increase in salaries for the UK schemes is assumed to be RPI inflation of 2.8% (2022 RPI inflation of 3.0%), plus a promotional scale.

Rate of increase in deferred pensions

The rate of increase in deferred pensions for the UK schemes is based on CPI inflation of 2.1% (2022 CPI inflation of 2.3%), with the exception of the legacy 2000 Plan, which is based on RPI inflation of 2.8% (2022 RPI inflation of 3.0%). For all UK schemes, the rate of increase in deferred pensions is subject to inflation caps.

Rate of increase in pensions in payment

The rate of increase in pensions in payment differs between UK schemes. Different tranches of the schemes' benefits increase at rates based on either RPI or CPI inflation, and some are subject to an inflation cap. With the exception of two smaller schemes, the rate of increase in pensions in payment is based on RPI inflation.

Life expectancy

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

In addition, to allow for future improvements in longevity, the Continuous Mortality Investigation 2022 tables (published by the Institute of Actuaries) have been used (in 2022, the Continuous Mortality Investigation 2021 tables were used), with an assumed long-term rate of future annual mortality improvements of 1.0% per annum (2022 1.0%), an initial rate adjustment parameter ('A') of 0.2% (2022 0.25%) in conjunction with a smoothing parameter ('S_k') of 7 for all members (2022 7) and the following weighting ('W') parameters: W2022 35% (2022 n/a); W2021 0% (2022 7.5%); and W2020 0% (2022 7.5%).

The disclosures below are in respect of the Company's share of the IAS 19 deficit using the allocation methodology outlined on page 26.

Notes to the Financial Statements

18. Retirement benefit obligations (continued)

Summary of movements in retirement benefit obligations

	£m
Company's share of IAS 19 surplus at 1 January 2023 (net of withholding tax)	4.9
Add back: withholding tax on surpluses	2.6
Company's share of IAS 19 surplus at 1 January 2023 (net)	7.5
Actual return on assets excluding amounts included in interest expense	(2.1)
Increase in liabilities due to changes in assumptions and experience	(0.6)
Contributions in excess of service cost	0.3
Net interest income	0.4
Withholding tax on surpluses	(1.9)
Company's share of IAS 19 surplus at 31 December 2023	3.6

Surplus recognition

All UK schemes are in an accounting surplus position. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Company, which is assumed to be via a refund. On 22 November 2023, the UK government announced that the authorised surplus payments charge would be reduced from 35% to 25% from 6 April 2024. The Company considers this to be a non-adjusting post balance sheet event and the surplus has been recognised net of withholding tax of 35% at 31 December 2023 (2022: 35%) based on the enacted legislation at that date. Should the legislation have been enacted at year-end, this would have resulted in an £0.5m increase in the pension surplus. This tax would be levied prior to the future refunding of any surplus and therefore the surplus has been presented on a net basis as this is not deemed to be an income tax of the Group.

Amounts recognised in the Balance Sheet

	2023 £m	2022 £m
Present value of funded obligations	(68.1)	(67.7)
Fair value of scheme assets	73.6	75.2
Withholding tax on surpluses	(1.9)	(2.6)
Company's share of IAS 19 surplus, net	3.6	4.9
Represented by:		
Retirement benefit surpluses	3.6	4.9
Retirement benefit obligations	-	-
	3.6	4.9

Notes to the Financial Statements

18. Retirement benefit obligations (continued)

Changes in the fair value of scheme assets

	£m
Company's share of the value of scheme assets at 1 January 2022	93.5
<i>Interest income</i>	1.8
<i>Actual return on assets excluding amounts included in interest income</i>	(16.8)
Actual return on assets	(15.0)
<i>Contributions by employer</i>	0.7
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	0.2
Total contributions by employer	0.9
Members' contributions	-
Administrative expenses	(0.1)
Benefits paid	(4.1)
Company's share of the value of scheme assets at 31 December 2022	75.2
<i>Interest income</i>	3.5
<i>Actual return on assets excluding amounts included in interest income</i>	(2.1)
Actual return on assets	1.4
<i>Contributions by employer</i>	0.7
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	0.2
Total contributions by employer	0.9
Members' contributions	-
Administrative expenses	(0.1)
Benefits paid	(3.8)
Company's share of the value of scheme assets at 31 December 2023	73.6

Notes to the Financial Statements

18. Retirement benefit obligations (continued)

Assets of defined benefit pension schemes

	2023			2022		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:						
UK	-	-	-	0.6	-	0.6
Overseas	1.6	-	1.6	2.6	-	2.6
Pooled investment vehicles ¹	-	24.9	24.9	-	28.3	28.3
Fixed interest securities:						
UK gilts	11.8	-	11.8	13.0	-	13.0
UK corporates	9.9	4.5	14.4	7.1	6.4	13.5
Overseas government	0.1	-	0.1	0.1	-	0.1
Overseas corporates	8.5	-	8.5	6.7	0.1	6.8
Index-linked securities:						
UK gilts	12.1	-	12.1	14.2	-	14.2
UK corporates	2.8	-	2.8	-	2.4	2.4
Overseas government	-	-	-	-	-	-
Overseas corporates	0.1	-	0.1	-	-	-
Property ²	-	3.8	3.8	-	4.6	4.6
Derivatives ³	-	(12.0)	(12.0)	-	(14.1)	(14.1)
Cash:						
Sterling	1.6	3.2	4.8	1.5	1.6	3.1
Foreign currency	0.7	-	0.7	-	-	-
Other	-	-	-	-	0.1	0.1
Company total	49.2	24.4	73.6	45.8	29.4	75.2

¹Primarily invested in private markets and exchange traded funds. The amounts classified as unquoted primarily comprise investments in private markets, with the majority held in infrastructure, alternatives and direct funds, valued in accordance with International Private Equity and Venture Capital Valuation Guidelines.

²Valued on the basis of open market value at the end of the year determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Note contained therein.

³Includes forward foreign exchange contracts, futures, and interest rate, inflation and longevity swaps. The valuations are based on valuation techniques using underlying market data and discounted cash flows.

Longevity swap

The Company holds longevity insurance contracts for some of its UK defined benefit pension schemes. These provide long-term protection and income to the underlying pension scheme in the event that insured members live longer than expected.

The value of the longevity insurance contracts held by the Company are calculated by an actuary. They are measured by discounting the difference between the projected fixed and floating cash flows payable under the contracts, excluding the value of future projected fees. The significant assumptions used for this valuation are the discount rate and mortality assumptions; fair values for these assumptions are advised by an actuary based on external data and characteristics of the insured member population.

As at 31 December 2023, the longevity swap valuation leads to a negative adjustment to the assets which reflects that experience to date on the contracts has been higher than expected deaths.

Notes to the Financial Statements

18. Retirement benefit obligations (continued)

Longevity swap (continued)

Changes in the present value of the defined benefit obligations

	£m
Company's share of the defined benefit obligations at 1 January 2022	(94.3)
<i>Current service cost</i>	(0.7)
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	(0.2)
Total current service cost	(0.9)
Members' contributions	-
Past service cost – plan amendments	-
Actuarial gain due to changes in assumptions and experience	25.2
Interest expense	(1.8)
Benefits paid	4.1
Company's share of the defined benefit obligations at 31 December 2022	(67.7)
<i>Current service cost</i>	(0.3)
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	(0.2)
Total current service cost	(0.5)
Members' contributions	-
Past service cost – plan amendments	-
Actuarial loss due to changes in assumptions and experience	(0.6)
Interest expense	(3.1)
Benefits paid	3.8
Company's share of the defined benefit obligations at 31 December 2023	(68.1)

Amounts recognised in the Income Statement

	2023 £m	2022 £m
Included in operating costs:		
Current service cost	(0.3)	(0.7)
Administrative expenses	(0.1)	(0.1)
	(0.4)	(0.8)
Included in finance costs:		
Net interest income on retirement benefit obligations	0.4	-

The Company incurred a charge of £0.2m (2022 £0.2m) in relation to defined contribution schemes for employees.

Sensitivity analysis

The sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 December 2023 and keeping all other assumptions as set out on page 43.

The pension schemes hold a number of unquoted pooled investment vehicles, which are investments in private markets. These are valued based on latest available valuation reports, and as noted on page 17, these valuations are subject to estimation uncertainty as their valuation techniques incorporate a number of assumptions, including those associated with the COVID-19 pandemic and the impact of climate change.

Notes to the Financial Statements

18. Retirement benefit obligations (continued)

Financial assumptions

The estimated impact of changes in the discount rate and inflation assumptions on the defined benefit pension obligation, together with the estimated impact on scheme assets after allocation to other participating employers, is shown in the table below. The estimated impact on scheme assets takes into account the risk management activities in respect of interest rate and inflation risk. The sensitivity analysis on the defined benefit obligation is measured on an IAS 19 accounting basis and, therefore, does not reflect the natural hedging in the discount rate used for funding valuation purposes.

	Decrease/ (increase) in pension obligation ¹ £m	(Decrease)/ increase in scheme assets ¹ £m
Discount rate:		
0.5 percentage point increase	4	(4)
0.5 percentage point decrease	(4)	5
1.0 percentage point increase	7	(8)
1.0 percentage point decrease	(9)	10
2.0 percentage point increase	13	(15)
2.0 percentage point decrease	(20)	21
3.0 percentage point increase	18	(21)
3.0 percentage point decrease	(34)	36
Inflation:		
0.1 percentage point increase	0	1
0.1 percentage point decrease	0	(1)
0.5 percentage point increase	(2)	3
0.5 percentage point decrease	2	(3)
1.0 percentage point increase	(5)	6
1.0 percentage point decrease	5	(5)

Demographic assumptions

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

	(Decrease)/ increase in net surplus ¹ £m
Life expectancy:	
One-year increase	(49)
One-year decrease	48

¹Before deduction of withholding tax

Notes to the Financial Statements

19. Provisions

	Legal, contractual and environmental £000
Non-current	20
Current	189
	<hr/>
At 1 January 2023	209
Created	4
Utilised in year	(196)
	<hr/>
At 31 December 2023	17
	<hr/> <hr/>
Represented by:	
Non-current	17
Current	-
	<hr/>
	17
	<hr/> <hr/>

Legal, contractual and environmental

Reflecting the inherent uncertainty within many legal proceedings and other factors, the amount of the outflows could differ significantly from the amount provided and the timing of the outflows cannot be reliably estimated.

Notes to the Financial Statements

20. Share capital

	£1 Ordinary shares	Nominal value £000
Issued and fully paid		
At 1 January 2022, 31 December 2022 and 31 December 2023	<u>50,000,000</u>	<u>50,000</u>

21. Prior year restatement

The Company's practice is to recharge Facility Management Services costs to other entities. In the previous accounting period, the Company has offset recharge income of £22,798k against the associated costs within operating costs. However, the Directors have reconsidered this and determined that the Company should present recharge income separately within revenue in order to provide a clearer reflection of the Company's results. Therefore, revenue and operating costs have been restated in the prior year to reflect this. This restatement has no impact on the profit of the Company.

The following table summarises the impact of the prior period error on the financial statements of the Company:

Income Statement and Statement of Comprehensive Income (extract)

	2022 As previously reported £000	Impact of restatement £000	2022 Restated £000
Revenue	21,621	22,798	44,419
Operating costs	<u>(24,927)</u>	<u>(22,798)</u>	<u>(47,725)</u>
Operating Income	583	-	583
Profit before tax	574	-	574
Profit for financial year	574	-	574
Total comprehensive income	<u>6,374</u>	<u>-</u>	<u>6,374</u>

Notes to the Financial Statements

22. Controlling parties

The immediate parent company is BAE Systems (Property Investments) Limited and the ultimate parent company and controlling party is BAE Systems plc, which is both the smallest and largest parent company preparing consolidated 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