

BAE Systems (Oman) Limited

Annual Report and Financial Statements

31 December 2023

Registered number: 03135337

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Strategic Report
for the year ended 31 December 2023

Review of business and principal activities

The principal activity of the Company is the provision of in-country support services to the Typhoon and Hawk aircraft, including the provision of aircraft spares, training and ground equipment. Through the 2023 financial year the Typhoon and Hawk contracts delivered in line with company and customer expectations including a significant improvement in Typhoon aircraft available for flight operations. The contracting arrangements in place on Typhoon ended on 31st March 2024 and negotiations are currently ongoing to establish a reduced scope solution to support the 12 aircraft operated by the Royal Airforce of Oman (RAFO) at Adam Airbase.

Key performance indicators

Key financial performance indicators are shown below:

	2023	2022
	£000	£000
Order intake	51,496	78,855
Revenue	78,570	83,769
Operating profit	6,862	11,108

Order intake represents the value of funded orders received from customers in the year. It is a measure of in year performance and supports future years' sales performance. The 2023 order intake reflects an extension of nine months to the in-country support services to the Typhoon contract. By comparison, 2022 had a full 12-month in-country support service plus some capability enhancement tasks which have not been required in 2023.

Revenue represents the amounts derived from the provision of goods and services. Revenue in 2023 has decreased due to a reduction in the volume of spares and capability enhancement tasks that the customer has required.

Operating profit is used for internal performance analysis as a measure of operating profitability that is comparable over time. The profit in 2023 is aligned to the contract extension signed during the year although the volume of spares being delivered by the contract had reduced too. Overall operating profit has also been impacted by the costs associated with the demobilisation and exit of activities at Adam airbase which have actualised post year end and are reflected in the trading position for the Company.

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

Principal risks and uncertainties

The Company's principal risks are identified below.

The Company is dependent on government defence spending

Defence spending

Description: The Company's core businesses are primarily defence related, selling products and services directly and indirectly, mainly to the Omani government. Levels of defence spending by governments are difficult to predict and can fluctuate depending on change of government policy, other political considerations, budgetary constraints, specific threats to national security and macro-economic conditions (including movements in oil prices). There have been constraints on government expenditure in the Company's principal market.

Impact: Lower defence spending by the Company's major customer could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

Mitigation: The Company has long-standing relationships and security arrangements with the Omani government. A level of company provided support is required to ensure the continued safety and airworthiness of the aircraft. The Company is working with the customer to agree this level of support and formalise a contract.

Contract timing and milestones:

Description: The Company's profits and cash flows are dependent, to a significant extent, on the timing of, or failure to receive, award of defence contracts and the profile of cash receipts on its contracts.

Impact: The timing of, or failure to receive, awards and associated cash advances and milestone payments could materially affect the Company's profits and cash flows for the periods affected, thereby reducing cash available to meet the Company's cash allocation priorities. This in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Mitigation: The BAE Systems Group monitors a rolling forecast of its liquidity requirements to ensure that there is sufficient cash to meet its operational needs and maintain adequate headroom.

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

Principal risks and uncertainties (continued)

The Company operates in international markets

Description: International sales and operations are sensitive to: social and political changes impacting the business environment; economic downturns, political instability, armed conflict and civil disturbances; the imposition of capital controls; the introduction of burdensome taxes or tariffs; changes of export control, tax and other government policy and regulations in the UK and all other relevant jurisdictions; and the inability to obtain or maintain the necessary export licences and other trade restrictions.

Impact: Any of these factors could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

Mitigation: The BAE Systems Group has a well-established legal and regulatory compliance structure aimed at ensuring adherence to legal and regulatory requirements and identifying restrictions that could adversely impact the Company's activities, including export control requirements.

Currency risk

Description: Given the international nature of its business, the Company is exposed to volatility arising from movements in currency exchange rates, particularly in respect of the US Dollar, Euro and Omani Rial.

Impact: Significant fluctuations in exchange rates to which the Company is exposed could cause volatility in its financial results reported in pounds sterling and could have a material adverse effect on the Company's future results and financial condition.

Mitigation: The Company's policy is to hedge all material firm transactional currency exchange rate exposures.

Supply chain

Description: The Company is dependent upon the delivery of materials by suppliers and the assembly of components and subsystems by subcontractors used in its products in a timely and satisfactory manner, on satisfactory commercial terms and in full compliance with applicable terms and conditions. This can be exacerbated where the Company is dependent on either one or a limited number of suppliers. Some of the Company's suppliers or subcontractors may be impacted by the economic environment (including inflationary pressures and material shortages) which could impair their ability to meet their obligations to the Company and to supply on satisfactory commercial terms.

Impact: A failure by one or more of the Company's suppliers to provide the agreed-upon materials, components or products or perform the agreed-upon services, on a timely basis, at the agreed price, according to specifications (including compliance with regulatory requirements) or at all may adversely affect the Company's ability to perform its obligations, result in additional costs or delays, require the Company to transition work to other companies (resulting in further additional costs and delay) and/or result in penalties under, or the termination of, customer contracts. This impact is heightened where a supplier is a sole supplier or one of a small number of suppliers. Additionally, the Company could be adversely affected by actions, or issues experienced by, the Company's suppliers which are outside its control, such as misconduct and reputational issues involving the Company's suppliers, which could subject the Company to liability or adversely affect its ability to compete for contracts. Any of the foregoing could have a material adverse effect on the Company's business, results of operations, financial condition, prospects and reputation.

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

Supply chain (continued)

Mitigation: The Company's supply chain function establishes and manages enduring end-to-end integrated supplier arrangements, in partnership with the programmes it supports. In many cases, the Company benefits from long-term programme positions and incumbencies with more stable forward visibility for long-lead items allowing the Company to better manage supplier deliverables against programme requirements. Supply chain management starts with the BAE Systems Group's Global Procurement Policy which defines the requirements to be implemented by each of its sectors for the establishment of procurement controls and the management of supplier-related risk. Risk-based due diligence and audit activity is undertaken for each supplier with whom the Company engages. Once a supplier has been approved, and a contract has been executed, the supply chain function continues to monitor that supplier. The supply chain risk management programme is working toward providing an enterprise-wide view of supplier risk, contributing to the continuity of supply and enabling better intelligence of sub-tier supply chain risk. Regular global supply chain meetings are held with senior procurement leaders to ensure that the latest risk data is appropriately shared. The Company seeks to manage inflation risk through its customer contracting arrangements on many of its major programmes, supplier cost management activity and through its long-term supplier agreements.

The Company could be negatively impacted by threats to the security of its information technology and operational technology systems

Description: As a defence and aerospace company, it is critical that the Company's information technology and operational technology ("IT & OT") infrastructure, as well as the products and services it sells, are cyber resilient and the proprietary, classified, confidential or otherwise protected information, intellectual property and personal data held and processed on them are appropriately secured. Cyber security threats are continuous and evolving, and vary from attacks common to most industries, including those originating both externally and internally, to those from more advanced and persistent, highly organised adversaries, including nation states. The cyber security threats faced by the Company include (but are not limited to): an attack impacting the availability of the Company's IT & OT infrastructure and systems and/or those of its customers, partners and suppliers; unlawful attempts to gain access to the Company's proprietary, classified, confidential or otherwise protected information, intellectual property and personal data, and that held or generated by the Company on behalf of its customers, partners and suppliers; and compromise of products and services for the purposes of sabotage or to disable or deny their use and/or alter their performance characteristics. The Company might also be exposed to cyber security risks through an attack on the Company's supply chain.

Impact: Given the nature and scope of cyber attacks, it is possible that the Company is unable to defend itself against all cyber-attacks, that unknown vulnerabilities could be exploited or that the Company may otherwise be unable to mitigate customer losses and other potential liabilities (including potential liabilities related to privacy and intellectual property). The Company could potentially be subject to: (a) production downtimes; (b) operational delays; (c) other detrimental impacts to its operations or ability to provide products and services to customers; (d) the compromise, misappropriation, destruction or corruption of the Company's proprietary, classified, confidential or otherwise protected information, intellectual property and personal data, and that held or generated by the Company on behalf of its customers, partners and suppliers; (e) security breaches; (f) other manipulation or improper use of the Company's or third-party systems, networks or products; and/or (g) financial losses from remedial actions, loss of business, or potential liability, penalties, fines and/or damages. Any of these could have a material adverse effect on the Company's business, results of operations, financial condition, prospects and reputation.

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

The Company could be negatively impacted by threats to the security of its information technology and operational technology systems (continued)

Mitigation: The security of the BAE Systems Group's products and services, data, facilities and IT & OT infrastructure is regularly considered by the BAE Systems Group's Board and senior management and underpins the BAE Systems Group's strategy and influences its engineering, technology and digital strategies. Education and awareness to embed a strong cyber security culture across the Company is another vital part of its preventative activities. Employees are subject to mandatory training which, depending on role, covers cyber security, physical security, document marking, security of export-controlled information, and personal data protection. As many cyber-attacks involve email, the Company runs a programme of phishing exercises for all email users across the enterprise. To further increase cyber resilience, the BAE Systems Group's Security Operations Centres perform continual protective monitoring of activity on core networks. The Cyber Incident Response plan feeds into the BAE Systems Group's crisis management plan and regular exercises are conducted across the business to test the Cyber Incident Response plan, including up to the BAE Systems Group's Executive Committee. The BAE Systems Group purchases cyber insurance; however, as with all insurance, it does not provide full cover against all potential loss scenarios. To mitigate the cyber security risk posed by suppliers, the Company includes cyber security-related obligations in its contracts where relevant. Cyber security risk is constantly reviewed and an agile, proactive, approach to mitigating the risk is taken. The BAE Systems Group does this by efficiently leveraging its core internal capabilities in cyber security, including its specialist threat intelligence service, to maintain a managed risk position as it digitally transforms and the threat landscape evolves.

The Company is subject to risk from a failure to comply with laws and regulations

Description: The Company operates in a highly regulated environment, across many jurisdictions and is therefore subject to a variety of legal, regulatory and litigation risks. These risks relate to (among other things) trade controls, intellectual property rights, data protection and security, contract-related claims, government contracts (including audits and reviews of those contracts), taxes, environmental matters, sanctions, product safety and reliability, health and safety, employment matters, competition laws and laws governing improper business practices (such as money laundering, false accounting, anti-bribery and corruption, and anti-boycott laws). These laws and regulations may be interpreted in different ways, conflict and/or change from time to time (as may any related interpretations and guidance). For example, export restrictions could become more stringent and political factors or changing international circumstances could result in the Company being unable to obtain or maintain necessary export licences.

Impact: Changes in laws and regulations (or the interpretation thereof) could result in higher compliance costs and impact customer or supplier contracts. Uncertainty relating to laws and regulations may also affect how the Company conducts its business and could limit its ability to enforce its rights. A breach of applicable legislation and/or regulations by the Company, its employees, sales representatives, marketing advisers or others working on its behalf could result in significant fines, penalties or other damages and/or the suspension or debarment of the Company from government contracts or the suspension of the Company's export privileges. If customers or other third parties were harmed by the conduct of members of the Company, this may also give rise to legal proceedings, including class actions. Other legal disputes may also arise between members of the Company and third parties relating to matters such as breaches or enforcement of legal rights or obligations arising under contracts, statutes or common law. Adverse findings in any such matters may result in members of the Company being liable to third parties or may result in rights not being enforced or not being enforced in the manner intended or desired. Any of the foregoing could have a material adverse effect on the Company's business, results of operations, financial condition, prospects and reputation.

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

The Company is subject to risk from a failure to comply with laws and regulations (continued)

Mitigation: The BAE Systems Group has a well-established legal and regulatory compliance structure aimed at ensuring adherence to regulatory requirements and identifying restrictions that could adversely impact the Company's activities. Internal and external market risk assessments form an important element of ongoing corporate development and training processes. A uniform global policy and process for the appointment of advisers engaged in business development is in effect and an export control policy mandates compliance with all applicable trade controls requirements. It is important that the Company maintains a culture in which it focuses on responsible business behaviours and that all employees act in accordance with the requirements of the BAE Systems Group's policies, including the Code of Conduct, at all times. Accordingly, it continues to reinforce the BAE Systems Group's ethics programme globally, supporting employees in making ethical decisions and embedding responsible business practices. The Company's internal legal team and, where appropriate, external counsel manage litigation and advise on the management of associated impacts.

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

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

Employees

The 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 and listening forums; 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.

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

Section 172(1) statement (continued)

Employees (continued)

The Company operates an Employee Incentive Scheme which entitles all employees to a financial benefit against the achievement of a set of business and programme milestones. This ensures that all employees feel connected with, and are invested in, the Company's achievements.

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 us to create best-in-class, cost-effective equipment, goods, services and solutions.

Our largest customer is the Oman government. Strong and collaborative relationships with our principal government customers help us to identify our customers' requirements and to help position the Company as a trusted provider. The directors are in regular contact with the principal government customers of the Company and in particular the Oman Ministry of Defence and the Royal Air Force of Oman.

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

The community and the environment

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

The Company recognises that its operations have an impact on the environment – from the energy and resources it uses, to the products it manufactures and the waste that it generates. As an organisation, the BAE Systems Group is committed to reducing the environmental impact of our operations and products, minimising our environmental footprint and, in turn, decreasing our operational costs. Through the Operational Framework the Company implements the requirements of the BAE Systems Group's Environmental Policy, which details our commitment to high standards of environmental management. In particular, the Company is supporting the Group's target of achieving net zero greenhouse gas emissions across the Group's operations (scope 1 and 2) by 2030 and its target of working towards a net zero value chain by 2050.

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

Section 172(1) statement (continued)

The community and the environment (continued)

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 48 to 55 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 us 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:



D G Tindall
Director

Date: 17 September 2024

Directors' Report

Company registration

BAE Systems (Oman) Limited is a private company, limited by shares and registered in England and Wales with the registered number 03135337.

Results and dividends

The Company's profit for the financial year is £5,952k (2022: £10,102k). The directors propose a dividend of £2,952k (2022: £11,386k).

The dividend proposed per share is £1,476k (2022: £5,693k).

Looking forward

Negotiations remain ongoing with the Omani customer to establish a revised contracting arrangement for Typhoon Support following the end of the previous contract on 31 March 2024. Based on formal direction from the customer this will be a reduced scope solution than was previously the case and, as such, the business has largely demobilised the workforce at Adam Airbase and is in the process of agreeing a revised scope of work and contracting terms and conditions to re-establish BAE Systems' role in the support solution. The Company will continue to fulfil its obligations in respect other ongoing support services contracts.

Going concern

The financial statements have been prepared on the going concern basis. As noted above, the previous Omani Typhoon Support contract ended during the year and negotiations are ongoing with the customer around our role in providing a level of support to the Royal Air Force of Oman. The Company will continue to fulfil its obligations in respect other ongoing support services contracts, and expects to continue operations for the foreseeable future. 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 such funds as are needed by the Company. 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. As with any company placing reliance on other Group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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 232-235 of BAE Systems plc's 2023 Annual Report: (available at www.annualreport.baesystems.com/2023).

Financial risk

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

Overseas branch office

The Company has an overseas branch office in Oman.

Directors' Report (continued)

Financial instruments

The international nature of the Company's business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the Company's policy is to hedge all material firm transactional exposures.

Post balance sheet events

Since the end of the financial year the customer has confirmed that the in-country support contract for Typhoon would not be extended past the 31 March 2024. A plan is therefore underway to exit the activities in Oman relating to the Typhoon contract delivery.

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:

S D Wood (resigned 03 October 2023)
A K Gilchrist (resigned 03 October 2023)
D Gaskell
M J Williamson (appointed 03 October 2023)
D G Tindall (appointed 03 October 2023)
P S Inman (resigned 28 February 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.

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.

Directors' Report (continued)

Approved by the Board and signed on its behalf by:



D G Tindall
Director

Date: 17 September 2024

Registered office:
BAE Systems (Oman) 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 (Oman) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems (Oman) 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 19.

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.

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our procedures performed to address them are described below:

We identified a significant risk due to fraud in relation to the accuracy of revenue, specific to margin recognised during the year. We performed the following procedures to address this risk:

- inquiry of management to obtain an understanding of the transactions and associated processes;
- inspected evidence to support the accuracy and completeness of expected total contract costs, focused on the costs to demobilise the contract; and
- inspected post year end evidence to assess management's forecasting accuracy.

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

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

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

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 Directors' Report.

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

Matters on which we are required to report by exception

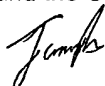
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Jonathan Crompton (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor
Manchester, United Kingdom

17 September 2024

Income Statement
for the year ended 31 December 2023

	Note	2023 £000	2022 £000
Revenue	3	78,570	83,769
Operating costs	4	(71,708)	(73,126)
Other operating income	5	-	465
Operating profit		6,862	11,108
Financial expense	6	-	(2)
Profit before tax		6,862	11,106
Tax	9	(910)	(1,004)
Profit for the financial year		5,952	10,102

The notes on pages 22 to 43 form part of these financial statements.

Statement of Comprehensive Income
for the year ended 31 December 2023

	2023	2022
	£000	£000
Profit for the financial year	5,952	10,102
Other comprehensive income:		
Items that will not be reclassified to the Income Statement		
Remeasurements on retirement benefit schemes	-	1,712
Tax on items that will not be reclassified to the Income Statement	-	(428)
	-	1,284
Items that may be reclassified to the Income Statement		
Fair value gain arising on hedging instruments during the year	16	7
Cumulative fair value gain on hedging instruments reclassified to the Income Statement	16	(254)
Tax on items that may be reclassified to the Income Statement	16	62
	(185)	51
Other comprehensive (expense)/income net of tax	(185)	1,335
Total comprehensive income for the year	5,767	11,437

The notes on pages 22 to 43 form part of these financial statements.

The results for 2023 and 2022 arise from continuing activities.

Balance Sheet
as at 31 December 2023

	Note	2023 £000	2022 £000
Non-current assets			
Intangible assets	10	-	-
Right-of-use assets	11	-	-
Other receivables	12	11,873	6,126
Deferred tax assets	13	63	123
		<u>11,936</u>	<u>6,249</u>
Current assets			
Trade, contract and other receivables	12	30,536	44,679
Other financial assets	15	8	254
		<u>30,544</u>	<u>44,933</u>
Total assets		<u>42,480</u>	<u>51,182</u>
Current liabilities			
Trade, contract and other payables	14	(32,801)	(35,802)
Other financial liabilities	15	(1)	-
Current tax		(770)	(804)
Total liabilities		<u>(33,572)</u>	<u>(36,606)</u>
Net assets		<u>8,908</u>	<u>14,576</u>

Balance Sheet (continued)
as at 31 December 2023

	Note	2023 £000	2022 £000
Capital and reserves			
Issued share capital	16	-	-
Other reserves	16	(44)	190
Retained earnings		8,952	14,386
Total equity		<u>8,908</u>	<u>14,576</u>

Approved by the Board on 17 September 2024 and signed on its behalf by:



D G Tindall
Director

Registered number: 03135337

The notes on pages 22 to 43 form part of these financial statements.

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

	Issued share capital	Other reserves	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 January 2022	-	269	20,990	21,259
Profit for the year	-	-	10,102	10,102
Other comprehensive income for the year	-	51	1,284	1,335
Dividends paid in the year (note 18)	-	-	(17,990)	(17,990)
Cumulative fair value gain on hedging instruments transferred to the Balance Sheet (net of tax)	-	(130)	-	(130)
At 31 December 2022	-	190	14,386	14,576
Profit for the year	-	-	5,952	5,952
Other comprehensive expense for the year	-	(185)	-	(185)
Dividends paid in the year (note 18)	-	-	(11,386)	(11,386)
Cumulative fair value gain on hedging instruments transferred to the Balance Sheet (net of tax)	-	(49)	-	(49)
At 31 December 2023	-	(44)	8,952	8,908

The notes on pages 22 to 43 form part of these financial statements.

Other reserves are defined in note 16.

Notes to the Financial Statements

1. General information

BAE Systems (Oman) Limited (the "Company") is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is BAE Systems plc. The address of the Company's registered office is shown on page 11.

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.

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

2. Accounting policies

2.1 Basis of preparation

These financial statements have been 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 IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- 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; and
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures; and
- the requirements 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.

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

These financial statements have been prepared using the going concern basis of accounting. As discussed in the Director's Report (page 9).

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

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:

<u>Accounting policy</u>	<u>Description</u>
Revenue and profit recognition	The Company accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Company's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired. The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks, which are reliant on the knowledge and experience of the Company's project managers, engineers, and finance and commercial professionals. The Company's estimates and assumptions relating to revenue could be impacted by issues such as reduced productivity as a result of altered working practices to comply with health and safety, production delays and increased costs as a result of disruption to the supply chain or where there is uncertainty as to the recovery from customers of programme costs incurred. Material changes in these estimates could affect the profitability of individual contracts. A 5% increase in costs would lead to £1,848k in extra sales to be recognised.

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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

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;
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback, effective from 1 January 2024; and
- IFRS 18 Presentation and Disclosure in Financial Statements, effective from 1 January 2027.

Material accounting policies

The 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.

2.2 Foreign currencies

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

2.3 Revenue and profit recognition

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.3 Revenue and profit recognition (continued)

Performance obligations

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

Transaction price

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

Revenue and profit recognition

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

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs;
- 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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.3 Revenue and profit recognition (continued)

Revenue and profit recognition (continued)

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

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

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

Outstanding commitments

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

Contract modifications

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

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

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

Costs to obtain a contract

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.3 Revenue and profit recognition (continued)

Costs to fulfil a contract

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

2.4 Intangible assets

Intangible assets are carried at cost, less accumulated amortisation and impairment losses.

Software

Software includes:

- Software development costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, which are recognised as intangible assets. Company-funded expenditure associated with enhancing or maintaining computer software programs for sale is recognised as an expense as incurred

Amortisation

Amortisation on intangible assets, is charged to the Income Statement on a straight-line basis over their estimated useful lives.

The estimated useful lives are as follows:

Software - 2 to 5 years

2.5 Leases

The Company as lessee

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

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

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

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

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.6 Trade, contract and other receivables

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

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

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.

2.7 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, call and term deposits, and other short-term liquid investments with original maturities of three months or less and which are subject to an insignificant risk of change in value.

2.8 Trade, contract and other payables

Trade and other payables are stated at amortised cost.

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

2.9 Financial instruments

Derivative financial instruments and hedging activities

The international nature of the Company's business means that it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the Company's policy is to hedge all material firm transactional exposures.

In accordance with its treasury policy, the Company does not hold derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the Balance Sheet date. Fair values are estimated by discounting expected future cash flows based on reputable third party forecast data, and then adjusting for credit risk, including the Company's own credit risk, and market risk.

Fair value through profit or loss

Gains and losses on derivative financial instruments that are not designated as cash flow hedges are recognised in the Income Statement for the year.

Notes to the Financial Statements

2. Accounting policies (continued)

2.9 Financial instruments (continued)

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows relating to a highly probable forecast transaction (income or expense), or recognised asset or liability, the effective portion of any change in the fair value of the instrument is recognised in other comprehensive income and presented in the hedging reserve in equity. Amounts recognised in equity are removed from the hedging reserve and included in the cost of the underlying transaction or reclassified to the Income Statement when the underlying transaction affects profit or loss. The ineffective portion of any change in the fair value of the instrument is recognised in the Income Statement immediately. The Company treats the foreign currency basis element of the designated foreign exchange derivative hedging instrument as a cost of hedging and as such it is excluded from the hedge designation.

2.10 Retirement benefits

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 contribution pension schemes

The Company has employees in defined benefit pension schemes. In accordance with IAS19 paragraph 34, it is accounted for as if it were a defined contribution plan. Obligations for contributions are recognised as an expense in the Income Statement as incurred.

2.11 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 at the reporting date, and any adjustment to tax payable in respect of previous years.

Notes to the Financial Statements

2. Accounting policies (continued)

2.11 Tax (continued)

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 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.

3. Revenue

Revenue by customer location:

	2023	2022
	£000	£000
Middle East	78,570	83,769

Notes to the Financial Statements

4. Operating costs

	2023	2022
	£000	£000
Inventory recognised as an expense	66,317	67,424
Staff costs (note 7)	3,472	3,387
Amortisation of intangible assets (note 10)	-	26
Depreciation of right-of-use assets (note 11)	-	1,031
Other operating charges	1,919	1,258
	<u>71,708</u>	<u>73,126</u>

The remuneration of the auditor for the year ended 31 December 2023 for auditing of the financial statements was £12,700 (2022: £12,500) and £nil (2022: £nil) in respect of non-audit work.

5. Other operating income

	2023	2022
	£000	£000
Foreign exchange gain	-	465
	<u>-</u>	<u>465</u>

6. Financial expense

	2023	2022
	£000	£000
Interest expense on lease liabilities (note 11)	-	2
	<u>-</u>	<u>2</u>

Notes to the Financial Statements

7. Employees

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

	2023	2022
	No.	No.
Administration	22	17
Engineering	9	8
Maintenance	24	25
Operations	16	17
	71	67

The aggregate staff costs of Company employees were as follows:

	2023	2022
	£000	£000
Wages and salaries	3,221	3,319
Social security costs	17	36
Cost of defined benefit pension scheme	125	-
Cost of defined contribution pension scheme	109	32
	3,472	3,387

Notes to the Financial Statements

8. Directors' remuneration

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

	2023	2022
	£000	£000
Directors' remuneration	53	58
Company contributions to defined benefit pension schemes	4	5
Compensation for loss of office	-	5
	57	68

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

	2023	2022
	Number of directors	Number of directors
Defined benefit schemes	3	3

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

Notes to the Financial Statements

9. Tax

	2023	2022
	£000	£000
Current tax		
UK:		
Current tax	(771)	(804)
Double tax relief	771	804
	<hr/>	<hr/>
	-	-
Overseas:		
Current tax	(771)	(804)
	<hr/>	<hr/>
	(771)	(804)
Deferred tax		
Origination and reversal of temporary differences	(139)	(200)
	<hr/>	<hr/>
	(139)	(200)
	<hr/>	<hr/>
Tax result	(910)	(1,004)
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

9. Tax (continued)

Reconciliation of tax result

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

	2023	2022
	£000	£000
Result before taxation	6,862	11,106
UK corporation tax rate	23.52%	19.00%
Expected tax expense on result	(1,613)	(2,110)
Property, plant and equipment	-	(1)
Provisions	1	(5)
Pensions	(10)	(42)
Imputed interest income	(309)	(134)
Losses received from fellow group companies	1,019	1,287
Other	2	1
Tax result	(910)	(1,004)

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

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

Notes to the Financial Statements

9. Tax (continued)

Tax recognised in other comprehensive income

	2023			2022		
	Before tax £000	Tax benefit/ (expense) £000	Net of tax £000	Before tax £000	Tax benefit/ (expense) £000	Net of tax £000
Items that will not be reclassified to the income statement:						
Remeasurements on retirement benefit schemes	-	-	-	1,712	(428)	1,284
Items that may be reclassified to the income statement:						
Fair value gain/(loss) arising on hedging instruments during the period	7	(2)	5	240	(60)	180
Cumulative fair value (gain)/loss on hedging instruments reclassified to the Income Statement	(254)	64	(190)	(172)	43	(129)
	<u>(247)</u>	<u>62</u>	<u>(185)</u>	<u>1,780</u>	<u>(445)</u>	<u>1,335</u>

Notes to the Financial Statements

9. Tax (continued)

	2023			2022		
	Other reserves £000	Retained earnings £000	Total £000	Other reserves £000	Retained earnings £000	Total £000
Deferred tax						
Financial instruments	62	-	62	(17)	-	(17)
Retirement benefit schemes	-	-	-	-	(428)	(428)
Tax on other comprehensive income	62	-	62	(17)	(428)	(445)

10. Intangible assets

	Software £000
Cost	
At 1 January 2023	251
At 31 December 2023	251
Amortisation	
At 1 January 2023	251
At 31 December 2023	251
Net book value	
At 31 December 2023	-
At 31 December 2022	-

Notes to the Financial Statements

11. Leases

The Company leased land, buildings, vehicles and equipment under non-cancellable lease arrangements. There are no terms that represent unusual arrangements or create material onerous or beneficial rights or obligations. In 2022 the leases were disposed of.

	2022		
	Land and buildings £000	Plant and machinery £000	Total £000
Net book value as at 01 January	992	39	1,031
Depreciation expense for the year	(992)	(39)	(1,031)
Net book value as at 31 December	-	-	-

Amounts recognised in the Income Statement

	2023	2022
	£000	£000
Included in operating costs:		
Depreciation on right-of-use assets	-	1,031
	-	1,031
Included in net finance costs:		
Interest expense on lease liabilities	-	2
	-	2

Notes to the Financial Statements

12. Trade, contract and other receivables

	2023	2022
	£000	£000
Non-current		
Amounts owed by BAE Systems plc	11,873	6,126
Current		
Contract receivables	794	57
Trade receivables	5,971	16,757
Amounts owed by BAE Systems plc	20,897	23,590
Amounts owed by BAE Systems plc subsidiaries	85	59
Other receivables	2,768	4,135
Prepayments	21	81
	30,536	44,679

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 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.

13. Deferred tax

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2023	2022	2023	2022	2023	2022
	£000	£000	£000	£000	£000	£000
Property, plant and equipment	14	16	-	-	14	16
Provisions and accruals	34	18	-	-	34	18
Retirement benefit schemes, additional contributions	-	153	-	-	-	153
Financial instruments	15	-	-	(64)	15	(64)
	63	187	-	(64)	63	123

Notes to the Financial Statements

13. Deferred tax (continued)

Movement in temporary differences during the year

	At 1 January 2023 £000	Recognised in income £000	Recognised in equity £000	At 31 December 2023 £000
Property, plant and equipment	16	(2)	-	14
Provisions and accruals	18	16	-	34
Additional contributions	153	(153)	-	-
Financial instruments	(64)	-	79	15
	<u>123</u>	<u>(139)</u>	<u>79</u>	<u>63</u>

	At 1 January 2022 £000	Recognised in income £000	Recognised in equity £000	At 31 December 2022 £000
Property, plant and equipment	19	(3)	-	16
Provisions and accruals	38	(20)	-	18
Retirement benefit schemes:				
Deficits	453	(25)	(428)	-
Additional contributions	305	(152)	-	153
Financial instruments	(90)	-	26	(64)
	<u>725</u>	<u>(200)</u>	<u>(402)</u>	<u>123</u>

Notes to the Financial Statements

14. Trade, contract and other payables

	2023	2022
	£000	£000
Current		
Contract liabilities	26,174	22,623
Trade payables	20	692
Amounts owed to BAE Systems plc	4,628	4,625
Amounts owed to BAE Systems plc subsidiaries	399	2,880
End of service benefits	420	360
Other payables	17	3,760
Accruals	1,143	862
	32,801	35,802
	32,801	35,802

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

For the Company, the payment of an end of service gratuity is required to be provided for as a statutory obligation for its Oman branch. The gratuity is calculated based on the employee's basic salary and length of service. The Company recognises the cost as an expense in the Income Statement.

15. Financial instruments

	2023	2022
	£000	£000
Financial assets		
Current		
Cash flow hedges – foreign exchange contracts	8	254
Financial liabilities		
Current		
Cash flow hedges – foreign exchange contracts	(1)	-

Notes to the Financial Statements

16. Share capital and other reserves

Share capital

	£1 Ordinary shares	Nominal value £
Issued and fully paid		
At 1 January 2022, 31 December 2022 and 31 December 2023	<u>2</u>	<u>2</u>

Other reserves

		Hedging reserve £000
At 1 January 2022		269
Amounts debited to the hedging reserve (net of tax)		(79)
At 31 December 2022		<u>190</u>
Amounts debited to the hedging reserve (net of tax)		(234)
At 31 December 2023		<u>(44)</u>

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

17. Dividends

	2023 £000	2022 £000
Final dividend of £5,645k (2022: £8,995k) per ordinary share proposed and paid during the year relating to the previous year's results	<u>11,386</u>	<u>17,990</u>

The directors are proposing a final dividend of £1,476k (2022: £5,693k) per share totalling £2,952k (2022: £11,386k).

This dividend has not been accrued in the Balance Sheet.

18. Post balance sheet events

Since the end of the financial year the customer has confirmed that the in-country support contract for Typhoon would not be extended past the 31 March 2024. A plan is therefore underway to exit the activities in Oman relating to the Typhoon contract delivery.

Notes to the Financial Statements

19. Controlling parties

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