

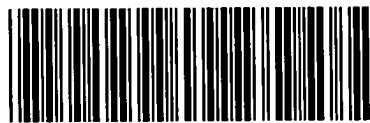
BAE Systems Enterprises Limited

Annual Report and Financial Statements

31 December 2023

Registered number: 00782930

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Strategic Report
for the year ended 31 December 2023

Review of business and principal activities

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

The increase in profit in the year has been driven by the increase in dividend income 2023 £525,014,000, (2022: £311,874,000).

Key performance indicators

The Company is part of the BAE Systems Group and the key performance indicators used to monitor and review the business are set by the Group and discussed in more detail in 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

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

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, reducing net assets.

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 they consider, 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 BAE Systems Group subsidiaries are required to adhere, together with BAE Systems Group's values, policies and processes. Decisions affecting a subsidiary are required to be taken in line with the Operational Framework, including in accordance with applicable delegations of authority. In making such decisions the Directors have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long term and the long term reputation of the Company and its businesses.

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

Employees

The Company itself has no employees but is the parent of a group of companies with more than 250 employees. Through the implementation of the BAE Systems Group wide employee processes and policies referred to below, the Directors of the Company are satisfied that employee engagement is a primary focus for management of the Company's Group and that regard is had to the interests of employees – connecting employees to the strategy and purpose of the Company's Group and the BAE Systems Group and empowering them to contribute to improving performance and creating an environment in which everyone can fulfil their potential.

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

These engagement activities form part of the Company's implementation of the BAE Systems group-wide employee engagement processes and policies which are described on pages 24 and 56 of BAE Systems plc's 2023 Annual Report (available at: www.baesystems.com/investors).

Fostering business relationships with suppliers, customers and others

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

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

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

The community and the environment

The Directors recognise the importance of leading a company that not only generates value for shareholders but also contributes to wider society. The Company's Group implements the requirements of the BAE Systems Group's Community Investment Policy, which is mandated through the Operational Framework, and looks to ensure that the Company's Group builds and nurtures mutually beneficial relationships between its businesses, the people that work for them, and local stakeholders. Giving back to local communities, and to charities that have a significance to the business, is vitally important to the Company's Group and its employees, allowing them to make a positive difference and have an impact where it counts.

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

Section 172(1) statement (continued)

The community and the environment (continued)

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

All the above activities form part of the Company's implementation of the BAE Systems Group-wide community and environment processes and policies and the BAE Systems Group's impacts thereon which are described on pages 59-60 and 48-55, respectively) of BAE Systems plc's Annual Report 2023 (available at: www.baesystems.com/investors).

Maintaining a reputation for high standards of business conduct

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

Detailed information on the BAE Systems Group-wide business conduct processes and policies are described on pages 62 to 65 of 2023 BAE Systems plc's Annual Report (available at: www.baesystems.com/investors).

Approved by the Board and signed on its behalf by:



A-L Holding
Director

Date: 26 July 2024

Directors' Report

Company registration

BAE Systems Enterprises Limited is a private company, limited by shares and registered in England and Wales with the registered number 00782930.

Results and dividends

The Company's profit for the financial year is £525,014,000 (2022: £311,971,000). An interim dividend of £524,740,000 has been paid during the year (2022 £311,874,000).

The Directors propose a final dividend for 2023 of £0.000275 per share totalling £275,000 (2022: £0.000095 per share totalling £95,000).

Business review and principal activities

The Company is an investment holding company and is itself wholly owned by BAE Systems plc. Disclosures required under the Directors' Report have been made in the Strategic Report.

Credit and liquidity risk

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flow risks are discussed in detail within the BAE Systems plc 2023 Annual Report (available at: www.baesystems.com/investors).

Looking forward

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

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £2,694,131. The Company is dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. BAE Systems plc has indicated that, for at least 12 months from the date of approval of these financial statements, it will continue to make available funds as are needed by the Company to meet its liabilities as they fall due and in particular will not seek repayment of amounts currently made available. The Directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

Energy and carbon reporting exemption

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed on pages 48 to 56 and 232 to 235 of the BAE Systems plc's 2023 Annual Report (available at www.baesystems.com/investors).

Post balance sheet events

On 12 January 2024, The Company's indirect investment, Air Astana, announced its intention to proceed with a joint initial public offering (IPO) on the London Stock Exchange, the Astana International Exchange in Kazakhstan, and the Kazakhstan Stock Exchange. On 9 February 2024, the IPO was launched. As a result of the IPO, the Company's indirect shareholding in Air Astana has reduced from 49% to 16.95%. Proceeds from the sale of shares were £169.4m.

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:

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

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

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:



A-L Holding
Director

Date: 26 July 2024

Registered office:
BAE Systems Enterprises Limited
Victory Point
Lyon Way
Frimley
Camberley
Surrey
GU16 7EX
England

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 Enterprises Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31st 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 and statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 15.

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 Enterprises Limited (continued)

Other information (continued)

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act, pension legislation 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. These included export controls, defence contracting and anti-bribery and corruption legislation.

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

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

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

26 July 2024

Income Statement and Statement of Comprehensive Income
for the year ended 31 December 2023

	Note	2023 £000	2022 £000
Other income	4	-	95
Operating profit		<u>-</u>	<u>95</u>
Financial income	5	-	2
Dividends from investments	6	525,014	311,874
Profit before tax		<u>525,014</u>	<u>311,971</u>
Tax	8	-	-
Profit for the financial year		<u>525,014</u>	<u>311,971</u>
Total comprehensive income for the financial year		<u>525,014</u>	<u>311,971</u>

The notes on pages 14 to 23 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			
Investments	9	1,291,728	1,269,153
Trade and other receivables	10	2,698,173	2,173,433
		<u>3,989,901</u>	<u>3,442,586</u>
Current assets			
Trade and other receivables	10	-	29
		<u>3,989,901</u>	<u>3,442,615</u>
Total assets			
		<u>3,989,901</u>	<u>3,442,615</u>
Current liabilities			
Trade and other payables	11	(2,694,131)	(2,169,599)
		<u>(2,694,131)</u>	<u>(2,169,599)</u>
Total liabilities			
		<u>(2,694,131)</u>	<u>(2,169,599)</u>
Net assets			
		<u>1,295,770</u>	<u>1,273,016</u>
Capital and reserves			
Issued share capital	12	1,001,000	1,001,000
Retained earnings		294,770	272,016
		<u>1,295,770</u>	<u>1,273,016</u>
Total equity			
		<u>1,295,770</u>	<u>1,273,016</u>

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



A-L Holding
Director

Registered number: 00782930

The notes on pages 14 to 23 form part of these financial statements.

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

	Issued share capital £000	Retained earnings £000	Total equity £000
At 1 January 2022	1,001,000	252,228	1,253,228
Profit and total comprehensive income for the year	-	311,971	311,971
Dividends (note 13)	-	(311,994)	(311,994)
Capital contribution	-	19,811	19,811
At 31 December 2022	<u>1,001,000</u>	<u>272,016</u>	<u>1,273,016</u>
Profit and total comprehensive income for the year	-	525,014	525,014
Dividends (note 13)	-	(524,835)	(524,835)
Capital contribution	-	22,575	22,575
At 31 December 2023	<u><u>1,001,000</u></u>	<u><u>294,770</u></u>	<u><u>1,295,770</u></u>

The notes on pages 14 to 23 form part of these financial statements.

The non-distributable portion of retained earnings is £290,728k (2022: £268,153k).

Capital contribution relates to the cost of share-based payments issued by the Company's ultimate parent company, BAE Systems plc, to employees of the Company's operating subsidiary companies (see note 2.3 share-based payments).

Notes to the Financial Statements

1. General information

BAE Systems Enterprises 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 15. The address of the Company's registered office is shown on page 5.

The principal activity of the Company is set out in the Strategic Report on page 1. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling 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 paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- 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;
- 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.

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Key sources of estimation uncertainty

The estimates and underlying assumptions are reviewed on an ongoing basis. In the event these estimates prove to be incorrect, there may be an adjustment to the carrying amounts of assets and liabilities within the next financial year. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key source of estimation uncertainty regarding the carrying amounts of assets and liabilities relates to the determination of the value in use of the Company's investments. The value in use calculation requires an assessment of future cash flows expected to be generated by the investment, as well as the appropriate discount rate to apply to these projections. Note 9 provides information on the key assumptions adopted by the Company in performing these calculations.

Critical accounting judgments

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, 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 Dividends

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

2.3 Share based payments

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

2.4 Investments

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

The carrying amounts of the Company's investments are reviewed at each Balance Sheet date to determine whether there is any indication of impairment as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

An impairment loss in respect of investments 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.

2.5 Trade and other receivables

Trade and other receivables are stated at their cost less expected credit losses. An expected credit loss is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

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

2.6 Trade and other payables

Trade and other payables are stated at amortised cost.

Notes to the Financial Statements

2. Accounting policies (continued)

2.7 Tax

Tax expense comprises current tax. Current tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised in equity or other comprehensive income. It is the expected tax payable or receivable on the profit or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of the prior years.

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 tax 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.

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.

3. Operating costs

The remuneration of the auditor for the year ended 31 December 2023 for auditing of the financial statements was £6,800 (2022: £6,400) and £nil (2022: £nil) in respect of non-audit work. It has been borne by BAE Systems plc, the ultimate parent company and not been recharged.

4. Other income

	2023	2022
	£000	£000
Liquidation distribution of Piper Group Plc	-	95
	<u> </u>	<u> </u>

Notes to the Financial Statements

5. Financial income

	2023	2022
	£000	£000
Foreign currency gain on tax asset (unrealised)	-	2

6. Dividends from investments

	2023	2022
	£000	£000
Dividends received from BAE Systems (Operations) Limited	524,739	311,874
Dividends received from Brabazon Limited	275	-
	525,014	311,874

7. Employees

The Company has no employees (2022: nil).

None of the Directors received any emoluments from the Company during the year. All Directors who served during the year were employed by BAE Systems plc and were remunerated through that company.

The Directors did not provide any material qualifying services to the Company.

Notes to the Financial Statements

8. Tax

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

Reconciliation of tax expense

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

	2023	2022
	£000	£000
Profit before tax	525,014	311,971
UK corporation tax rate	<u>23.52%</u>	<u>19.00%</u>
Expected tax expense	(123,483)	(59,274)
Income not subject to tax	123,483	59,274
Imputed interest income	(992)	(375)
Losses received from fellow group companies	992	375
Tax result	<u><u>-</u></u>	<u><u>-</u></u>

The UK corporation tax rate increased from 19% to 25% with effect from 1 April 2023. A blended rate of 23.52% is used in the reconciliation above to reflect this change (2022: 19.0%).

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

Notes to the Financial Statements

9. Investments

	Subsidiary companies £000
Cost	
At 1 January 2023	1,269,453
Additions	22,575
At 31 December 2023	1,292,028
Provision for impairment	
At 1 January 2023	300
At 31 December 2023	300
Net book value	
At 31 December 2023	1,291,728
At 31 December 2022	1,269,153

A flow down of BAE Systems plc investment from issue of share-based payments resulted in an increase in the Company's investments of £22,575,000.

Impairment testing

At the Balance Sheet date, the carrying amount of the Company's investments was compared to their recoverable amounts. No impairments or reversals of impairments were required.

The recoverable amount of each investment is based on value in use estimated using either the net assets of the Company, or the risk-adjusted future cash flow projections from the five-year Integrated Business Plan (IBP) and a terminal value based on the projections for the final year of that plan, with growth rate assumptions of 2% applied for each significant investment. The IBP process includes the use of historical experience, available government spending data and the Group's order backlog, as well as the impact of evolving issues such as global economic uncertainty and climate change. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 8.0% (2022: 8.0%) (adjusted for risks specific to the market in which the cash-generating unit operates), have been used in discounting these projected risk-adjusted cash flows.

Notes to the Financial Statements

9. Investments (continued)

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, have a financial year end of 31 December, and the address of the registered office is Victory Point, Lyon Way, Frimley, Camberley, Surrey, England, GU16 7EX, England.

Company name	Class of shares held	Proportion of class (%)
BAE Systems (Operations) Limited ¹	Ordinary	99%
Brabazon Limited (in members' voluntary liquidation) <i>C/o Interpath Ltd 10 Fleet Place, London, EC4M 7RB, United Kingdom</i>	Ordinary	100%
BAE Systems Integrated Systems Technologies (KSA) Limited	Ordinary	100%
BAE Systems (Kazakhstan) Limited ²	Ordinary	99%
BAE Systems Deployed Systems Limited ²	Ordinary	60%
Air Astana JSC ² <i>4A Zakarpatskaya Street, Almaty 050039, Kazakhstan</i>	Ordinary	49%

¹The Company owns 997,340,000 ordinary 'A' shares and 180,000 ordinary 'B' shares of £1 in BAE Systems (Operations) Limited, which represents 99% of the issued ordinary shares.

²Shares held indirectly.

Notes to the Financial Statements

10. Trade and other receivables

	2023 £000	2022 £000
Non-current		
Amounts owed by BAE Systems plc subsidiaries	<u>2,698,173</u>	<u>2,173,433</u>
Current		
Withholding tax on dividend received from BAE Systems Integrated System Technologies GmbH	<u>-</u>	<u>29</u>

Amounts owed by BAE Systems plc subsidiaries are payable on demand and are unsecured. No interest is applied to amounts owed. They are classed as non-current as they are not expected to settle in the normal operating cycle.

The impact of discounting non-current amounts owed by BAE Systems plc 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. Non-current amounts are not expected to settle during normal operating cycle.

11. Trade and other payables

	2023 £000	2022 £000
Current		
Amounts owed to ultimate parent company	575,696	51,164
Amounts owed to immediate parent company	2,118,435	2,118,435
	<u>2,694,131</u>	<u>2,169,599</u>

Amounts owed to ultimate parent company and immediate parent company are payable on demand. No interest is applied to amounts owed and they are unsecured.

12. Issued Share capital

	£1 Ordinary shares	Nominal value £000
Issued and fully paid		
At 1 January 2022, 31 December 2022 and 31 December 2023	<u>1,001,000,000</u>	<u>1,001,000</u>

Notes to the Financial Statements

13. Dividends

	2023	2022
	£000	£000
Interim dividend for ordinary shares paid in the year	524,740	311,874
Prior year final dividend of £0.000095 (2022: £0.00012) per share for ordinary shares paid in the year	95	120
	524,835	311,994
	524,835	311,994

The Directors propose a final dividend for 2023 of £275,000 (2022: £0.000095 per share totalling £95,000).

14. Post balance sheet events

On 12 January 2024, The Company's indirect investment, Air Astana, announced its intention to proceed with a joint initial public offering (IPO) on the London Stock Exchange, the Astana International Exchange in Kazakhstan, and the Kazakhstan Stock Exchange. On 9 February 2024, the IPO was launched. As a result of the IPO, the Company's indirect shareholding in Air Astana has reduced from 49% to 16.95%. Proceeds from the sale of shares were £169.4m.

15. Controlling parties

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