

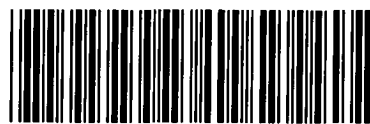
BAE Systems Enterprises Limited

Annual Report and Financial Statements

31 December 2021

Registered Number: 00782930

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Strategic Report

Review of business and principal activities

The principal activity of BAE Systems Enterprises Limited (the Company) is to act as a holding company for BAE Systems plc Group ("BAE Systems Group" or "Group") subsidiary companies.

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

Key performance indicators

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

Principal risks and uncertainties

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

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

Many people have contracted COVID-19 across the world and many deaths have occurred as a result of the COVID-19 pandemic. Although there has been an effective roll-out of vaccination programmes in certain countries, it is still not clear how long this pandemic will last or how enduring its long-term impact will be, or the further measures that will be taken by governments and others to seek to control this pandemic and its impact. The uncertainties surrounding the development of this pandemic make it difficult to predict the extent to which the Company may be affected.

Areas of the Company's Group's business that could be impacted include a decrease in spending by the Company's Group's major defence and commercial customers; an increase in taxation by governments; the failure to obtain awards for defence and commercial contracts; the failure of suppliers to deliver parts to the Company's Group; the requirement for the Company's Group or its suppliers to reduce site operational levels or close sites; the inability of the Company's Group to meet contractual delivery requirements on time; the inability to adequately staff and manage the business; and an increase in the cost or lack of availability of funding. If the Company's Group were unable to obtain appropriate funding either internally or externally it could be forced to make reductions in spending, seek to extend payment terms with suppliers and/or suspend or curtail planned programmes. Any of the above could have a material adverse effect on the Company's business, financial condition and results of operations.

Since the outbreak of the COVID-19 coronavirus pandemic, the Company's Group has taken a number of responsive measures including reducing site operational levels and introducing new cleaning regimes, safe working distance measures and protective equipment for its employees. The Company's Group continues to build on the experience gained to date in dealing with the pandemic. This includes the use of safe working practices and the effective use of home working.

Section 172(1) statement

This Statement contains an overview of how the directors have performed their duty to promote the success of the Company as set out in section 172(1) of the UK's Companies Act 2006. That section requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to:

- a) the likely consequences of any decision in the long term,
- b) the interests of the company's employees,
- c) the need to foster the company's business relationships with suppliers, customers and others,
- d) the impact of the company's operations on the community and the environment,
- e) the desirability of the company maintaining a reputation for high standards of business conduct, and
- f) the need to act fairly as between members of the company.

Decision Making

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

Employees

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

Strategic Report (continued)

Keeping employees connected, informed and engaged has never been more important as the Company's Group's employees continued to experience major impacts on their personal circumstances and ways of working through the pandemic. The Company's Group used a range of channels to make sure its employees had access to the information and support they needed 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 engagement through the Group intranet, employee app, email, videos, podcasts, newsletters, leadership communications, virtual discussions and briefings, and through our 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 and other activities regarding the interests of employees form part of the implementation by the Company's Group of the BAE Systems Group-wide employee engagement processes and policies which are described on pages 11, 18, 23, 56-58 and 153 of BAE Systems plc's annual report 2021 (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 products, services and solutions.

The Company's Group's largest customers are government bodies and commercial businesses. Strong and collaborative relationships and regular contact by management with principal government and commercial customers help the Company's Group to identify its customers' requirements and help position it as a trusted provider. The Company's Group, together with its procurement and supply chain function, works with its suppliers and their supply chains to provide equipment, goods and services that meet its customers' requirements. These supplier relationships are often long-term due to the length of the product life-cycles and management meet with key suppliers and work with the BAE Systems group's procurement function to develop deeper relationships with business in the supply chain and develop strategic relationships with key suppliers. The value of long-term supplier partnerships was shown during 2021, with the Group's long-term global supply agreements, put in place prior to the pandemic, being of particular assistance in maintain supply of critical components. A pro-active approach was taken to manage supplier relationships with the Group working closely with suppliers to anticipate issues and take action where possible to ensure continuity of supply.

The Community and the Environment

The Directors recognise the importance of leading a company that not only generates value for shareholders but also contributes to wider society. Through the Operational Framework the Directors are satisfied that the Company's Group implements the requirements of the BAE Systems group's Community Investment Policy, which looks to ensure the building and nurturing of mutually beneficial relationships between the Company's Group's business, its people and local stakeholders. Giving back to the communities in which we operate, and to charities that have meaning to our business, is vitally important to the Company's Group and its employees, allowing them to make a positive difference and have an impact where it counts. The Directors recognise that the Company's Group's operations have an impact on the environment – from the energy and resources used, to the products supplied and the waste generated. As an organisation, the 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 Directors are satisfied that the Company's Group implements the requirements of the BAE Systems group's Environmental Policy, which details BAE Systems' commitment to high standards of environmental management.

In particular, the Company's Group is supporting the Group's target of achieving net zero greenhouse gas emissions across the Group's operations (scope 1 and 2) by 2030 and its target of working towards a net zero value chain by 2050.

These activities form part of the Company's Group's implementation of the BAE Systems group-wide community and environment processes and policies and the BAE Systems group's impacts thereon which are described in the Environment and Social sections (pages 38-47 and 58-63 respectively) of BAE Systems plc's annual report 2021 (available at: www.baesystems.com/investors).

Maintaining a reputation for high standards of business conduct

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

Detailed information on the BAE Systems group-wide business conduct processes and policies are described in BAE Systems plc's annual report 2021 (available at: www.baesystems.com/investors) and in particular the Governance and Business Conduct section on pages 64-66.

Approved by the Board and signed on its behalf by:



D S Parkes
Director

28 June 2022

Directors' Report

Company registration

BAE Systems Enterprises Limited (the Company) 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 £307,151k (2020 profit £1,326k). An interim dividend of £305,705k has been paid during the year (2020 £nil). The directors propose a final dividend of £120k for 2021 (2020 £1,326k). The dividend proposed per share is £0.12 (2020: £1.325).

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.

Financial Risk

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

Looking forward

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

Events after the reporting period

Since the Balance Sheet date, several countries in which the Company's Group operates have announced or are making plans to increase spending to counter the elevated and evolving threat environment on multiple fronts. This has been determined to be a non-adjusting post balance sheet event. It is not currently possible for the Company to estimate the potential future financial impact of such changes.

Since the Balance Sheet date, there has been an increase globally in supply chain and inflationary pressures for businesses. This has been determined to be a non-adjusting post balance sheet event. The Company's Group is currently mitigating the major financial impacts of this issue and seeks to continue to do so.

Going concern

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements, notwithstanding net current liabilities of £2,169,478,700. The directors believe this to be appropriate given that they are able to demand the receivable balance be paid to settle the liabilities at any stage.

The Company and its ultimate parent entity, BAE Systems plc, continue to conduct ongoing risk assessments in relation to their business operations and liquidity, including with regard to the potential future impact of the COVID-19 pandemic. The directors consider that the Company will be able to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Energy and Carbon Reporting exemption

The Company has taken advantage of the exemption granted under The Companies Act (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the 2021 annual report of its ultimate parent, BAE Systems plc on pages 38-47 (available at: www.baesystems.com/investors).

Directors and their interests

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

D S Parkes

A-L Holding

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

Disclosure of information to auditor

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

Auditor

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

Approved by the Board and signed on its behalf by:



D S Parkes
Director

28 June 2022

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

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including 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 Financial Reporting Standard 101 "Reduced Disclosure Framework" has 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2021 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 profit and loss account and statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 12.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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.

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements, which included the UK Companies Act, pension legislation and taxation legislation; and
- do not have a direct effect on the financial statements, but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty, including in respect of export controls, defence contracting and anti-bribery and corruption legislation.

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

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

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management 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:

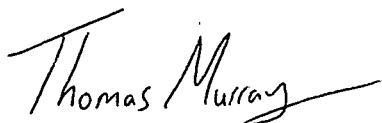
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law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

A handwritten signature in black ink that reads "Thomas Murray". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Tom Murray BSc ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, UK
28 June 2022

Income Statement and Statement of Comprehensive Income
for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Other income	2	-	23
Operating profit		-	23
Financial expense	3	(2)	(2)
Income from subsidiary undertakings and participating interests	4	307,153	1,305
Profit before tax		307,151	1,326
Tax result	6	-	-
Profit for the year		307,151	1,326
Total comprehensive income for the year		307,151	1,326

The notes on pages 12 to 17 form part of the financial statements.

The results for 2021 and 2020 arise from continuing activities.

Balance Sheet
as at 31 December 2021

	Notes	2021 £'000	2020 £'000
Non-current assets			
Investments	7	1,249,342	1,230,771
Trade and other receivables	8	2,173,338	1,866,415
		3,422,680	3,097,186
Current assets			
Trade and other receivables	8	27	31
		27	31
Total assets		3,422,707	3,097,217
Current liabilities			
Trade and other payables	9	(2,169,479)	(1,862,680)
Total liabilities		(2,169,479)	(1,862,680)
Net assets		1,253,228	1,234,537
Capital and reserves			
Issued share capital	10	1,001,000	1,001,000
Retained earnings		252,228	233,537
Total equity		1,253,228	1,234,537

Approved by the Board on 28 June 2022 and signed on its behalf by:



D S Parkes
Director

Registered number: 00782930

Statement of Changes in Equity
for the year ended 31 December 2021

	Notes	Issued share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2020		1,001,000	214,788	1,215,788
Profit for the year		-	1,326	1,326
Capital contribution		-	17,423	17,423
At 31 December 2020		1,001,000	233,537	1,234,537
Profit for the year		-	307,151	307,151
Capital contribution	7	-	18,571	18,571
Ordinary share dividends	10	-	(307,031)	(307,031)
At 31 December 2021		1,001,000	252,228	1,253,228

Retained earnings includes a non-distributable amount of £248,342k (2020 £229,771k).

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 1 share-based payments).

Notes to the Financial Statements

1 Accounting policies

BAE Systems Enterprises Limited (the Company) is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is BAE Systems plc. The address of the Company's registered office is shown on page 5. The principal activity of the Company is set out in the Directors' Report on page 4.

These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless otherwise stated, rounded to the nearest thousand.

Basis of preparation

These financial statements have been prepared in accordance with FRS 101 Reduced Disclosure Framework. The Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- the requirement of paragraph 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 International Accounting Standard (IAS) 1 Presentation of Financial Statements, to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16 Property, Plant and Equipment; paragraph 118(e) of IAS 38 Intangible Assets; and paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

The Company intends to continue to prepare its financial statements in accordance with FRS 101 and on a going concern basis.

The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, BAE Systems plc, a company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual undertaking and not as a group.

The following paragraphs summarise the main accounting policies of the Company and have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared under the historical cost convention. The going concern basis has been applied in these financial statements.

Changes in accounting policies

There are no standards, amendments to existing standards, or interpretations that became effective on 1 January 2021 and have had a material impact on the Company.

Dividends

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

Share-based payments

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

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

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 other intangible assets, property, plant and equipment, investment property and right-of-use assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount.

Trade and other receivables

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

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

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.

Trade and other payables

Trade and other payables are stated at their cost.

Tax

Tax expense comprises current tax. Current tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised 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.

Critical accounting judgements and key sources of estimation uncertainty

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

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

Judgements made in applying accounting policies

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

Key sources of estimation uncertainty

The application of the Company's accounting policies requires the use of estimates. In the event these estimates prove to be incorrect, there may be an adjustment to the carrying amounts of assets and liabilities within the next financial year. The key risk of a material adjustment to the carrying amounts of assets and liabilities relates to the determination of the fair value of the Company's investments. The recoverable amount of the investments held by the Company has been calculated with reference to their value in use. Note 7 provides information on the key assumptions adopted by the Company in performing these calculations.

Notes to the Financial Statements (continued)

2 Other income

	2021 £'000	2020 £'000
Return of Share Capital from BAE Systems Integrated System Technologies GmbH	-	23
Other income	-	23

The remuneration of the auditor for the year ended 31 December 2021 for auditing of the financial statements was £5,355 (2020 £5,100) and £nil (2020 £nil) in respect of non-audit work. It has been borne by BAE Systems plc, the ultimate parent company and not been recharged.

3 Financial expense

	2021 £'000	2020 £'000
Foreign currency loss on tax asset (unrealised)	(2)	(2)
Financial expense	(2)	(2)

4 Income from subsidiary undertakings and participating interests

	2021 £'000	2020 £'000
Dividends received from Brabazon Limited	130	492
Dividends received from BAE Systems Integrated System Technologies GmbH	-	113
Dividends received from BAE Systems Integrated System Technologies (KSA) Ltd	100	700
Dividends received from BAE Systems (Operations) Limited	306,923	-
Income from subsidiary undertakings and participating interests	307,153	1,305

5 Directors and employees

During the year, the Company had two directors in office (2020 two) and no employees (2020 nil).

None of the directors received any emoluments from the Company during the year (2020 nil). 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 (continued)

6 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.

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

	2021 £'000	2020 £'000
Profit before tax	307,151	1,326
UK corporation tax rate	19.00%	19.00%
Expected tax (expense) on profit	(58,359)	(252)
Income not subject to tax	58,359	252
Imputed interest (expense)/income	276	(6)
Losses received from fellow group companies	(276)	6
Tax Result	-	-

7 Investments

	Subsidiary companies £'000	Total £'000
Cost		
At 1 January 2021	1,234,942	1,234,942
Additions	18,571	18,571
At 31 December 2021	1,253,513	1,253,513
Provision for impairment		
At 1 January 2021	(4,171)	(4,171)
At 31 December 2021	(4,171)	(4,171)
Net book value		
At 31 December 2021	1,249,342	1,249,342
At 31 December 2020	1,230,771	1,230,771

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.

A flow down of BAE Systems plc investment from issue of share-based payments resulted in an increase in the Company's investments of £18,571k.

The recoverable amount of the investments held by the Company has been calculated with reference to their value in use. The value in use calculations use risk-adjusted future cash flow projections based on the five-year Integrated Business Plan (IBP) and include a terminal value based on the projections for the final year of that plan, with a 2% growth rate assumption applied. The IBP process includes the use of historic experience, available government spending data and the Group's order backlog, as well as the impact on evolving issues such as COVID-19, climate change and Brexit. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital, adjusted for risks specific to the market in which the investments operate, have been used in discounting these projected risk-adjusted cash flows.

Notes to the Financial Statements (continued)

7 Investments (continued)

Subsidiary undertakings at 31 December 2021

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2021 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 Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire, GU14 6YU, UK.

Company name	Class of shares held	Proportion of class (%)
BAE Systems (Operations) Limited ¹	Ordinary ¹	99%
BAE Systems (Hawk Synthetic Training) Limited	Ordinary	100%
Brabazon Limited	Ordinary	100%
Piper Group Plc ²	Ordinary	100%
BAE Systems Integrated System Technologies (KSA) Limited	Ordinary	100%
BAE Systems (Kazakhstan) Limited ³	Ordinary	99%
BAE Systems Deployed Systems Limited ³	Ordinary	60%
BAE Systems (Aviation Services) Ltd ³	Ordinary	50%
Air Astana JSC ³ 121 Kabanbay Bazyr Avenue, Yessil District, Astana 010000, Kazakhstan	Ordinary	49%

¹ The 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.

² In Members' Voluntary Liquidation.

³ Shares held indirectly.

8 Trade and other receivables

	2021 £'000	2020 £'000
Non-current		
Amounts owed by BAE Systems plc subsidiaries ¹	2,173,338	1,866,415
	2,173,338	1,866,415
Current		
Withholding tax on dividend received from BAE Systems Integrated System Technologies GmbH	27	31
	27	31
	2,173,365	1,866,446

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

Notes to the Financial Statements (continued)

9 Trade and other payables

	2021 £'000	2020 £'000
Current		
Amounts owed to ultimate parent company ¹	51,044	51,276
Amounts owed to immediate parent company ¹	2,118,435	1,811,404
	2,169,479	1,862,680

¹Amounts owed to ultimate parent company and immediate parent company are payable on demand. No interest is applied to the amounts owed.

10 Share capital and other reserves

Share capital

	£1 Ordinary shares '000	Nominal value £'000
Issued and fully paid		
At 1 January and 31 December 2021	1,001,000	1,001,000

Equity dividends

	2021 £'000	2020 £'000
Interim dividend for ordinary shares paid in the year	305,705	-
	305,705	-

The directors are proposing a final dividend of £0.12 (2020: £1.325) per share totalling £120,000 (2020: £1,326,000). This dividend has not been accrued in the balance sheet.

11 Events after the reporting period

Since the Balance Sheet date, several countries in which the Company's Group operates have announced or are making plans to increase spending to counter the elevated and evolving threat environment on multiple fronts. This has been determined to be a non-adjusting post balance sheet event. It is not currently possible for the Company to estimate the potential future financial impact of such changes.

TSince the Balance Sheet date, there has been an increase globally in supply chain and inflationary pressures for businesses. This has been determined to be a non-adjusting post balance sheet event. The Company's Group is currently mitigating the major financial impacts of this issue and seeks to continue to do so.

12 Controlling parties

The immediate parent company is BAE Systems (Holdings) Limited and the ultimate controlling party is BAE Systems plc, which is both the smallest and largest parent company preparing group financial statements. Both companies are incorporated in the United Kingdom and registered in England and Wales.

The consolidated financial statements of BAE Systems plc are available to the public and may be obtained from its registered address:

6 Carlton Gardens
London
SW1Y 5AD

Website: www.baesystems.com