BAE Systems Electronics Limited

Annual Report and Financial Statements

31 December 2022

Registered number:00053403

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Contents

Directors' Report

Company registration

BAE Systems Electronics Limited (the "Company") is a private company, limited by shares and registered in England and Wales with the registered number 00053403.

The Company is a member of the BAE Systems plc Group ("BAE Systems Group" or "Group") of companies.

Results and dividends

The Company's profit for the financial year is £53,144k (2021: £14,529k profit). The directors propose a dividend of £30,000k (2021: £20,000k).

The dividend proposed per share is £1.68 (2021: £1.12).

Business review and principal activities

The Company principally acts as an investment holding company. Within the year the company has made a profit of £53,090k due to an increase in income from subsidiaries and participating interests.

Looking forward

The Company will continue to act as an investment holding company for the forseeable future.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £1,338,107k, which the directors believe to be appropriate for the following reasons. 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 in writing 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.

Small companies exemption

Pursuant to Section 414(B) of the Companies Act 2006, the Company has taken advantage of the exemption from presenting a Strategic Report. This Directors' Report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption per Section 415A of the Companies Act 2006.

Post balance sheet events

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

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:

P S Inman	(resigned 28 February 2023)
D I Armstrong	(resigned 22 March 2023)
G J Edwards	(appointed 22 March 2023)
I L Muldowney	(appointed 22 March 2023)

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

Directors' Report (continued)

Disclosure of information to auditor

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

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:

G J Edwards
Director

Date: 23 June 2023

Registered office:
BAE Systems Electronics Limited
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU

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; 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 Electronics Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 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:

- income statement 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 20.

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.

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

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

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

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

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

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

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

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has 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 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; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

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

Jon Thomson FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

Date: 23 June 2023

Income Statement and Statement of Comprehensive Income
for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Operating costs	3	**(687)**	(3,949)
Other income	4	**584**	611
Operating loss		**(103)**	(3,338)
Impairment of investments	5	**-**	(9,495)
Income from subsidiary undertakings and participating interests	6	**53,464**	27,769
Financial income	7	**230**	329
Financial expense	8	**(501)**	(617)
Profit before tax		**53,090**	14,648
Tax	10	**54**	(119)
Profit and total comprehensive income for the financial year		**53,144**	14,529

The notes on pages 12 to 27 form part of these financial statements.

The results for 2022 and 2021 arise from continuing activities.

Balance Sheet
as at 31 December 2022

	Note	2022 £000	2021 £000
Non-current assets			
Investment property	12	**3,610**	3,777
Investments	13	**298,345**	298,345
Finance lease receivables	14	**4,233**	9,787
Trade and other receivables	15	**1,107,999**	1,055,723
		1,414,187	1,367,632
Current assets			
Finance lease receivables	14	**5,554**	5,454
Trade and other receivables	15	**110**	45
Current tax		**143**	143
		5,807	5,642
Total assets		**1,419,994**	1,373,274
Non-current liabilities			
Deferred tax liabilities	11	**(731)**	(785)
Lease liabilities	14	**(10,651)**	(18,211)
		(11,382)	(18,996)
Current liabilities			
Lease liabilities	14	**(7,563)**	(7,421)
Trade and other payables	16	**(1,335,216)**	(1,314,403)
Provisions	17	**(1,135)**	(900)
		(1,343,914)	(1,322,724)
Total liabilities		**(1,355,296)**	(1,341,720)
Net assets		**64,698**	31,554
Capital and reserves			
Issued share capital	18	**8,942**	8,942
Retained earnings		**55,756**	22,612
Total equity		**64,698**	31,554

Balance Sheet (continued)
as at 31 December 2022

Approved by the Board on 23 June 2023 and signed on its behalf by:

G J Edwards
Director

Registered number: 00053403

The notes on pages 12 to 27 form part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2022

	Issued share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2021	8,942	63,083	72,025
Total comprehensive income	-	14,529	14,529
Dividends (see note 19)	-	(55,000)	(55,000)
At 31 December 2021	8,942	22,612	31,554
Total comprehensive income	-	53,144	53,144
Dividends (see note 19)	-	(20,000)	(20,000)
At 31 December 2022	**8,942**	**55,756**	**64,698**

The notes on pages 12 to 27 form part of these financial statements.

The non-distributable portion of retained earnings is £17,032k (2021: £17,032k).

1. General information

BAE Systems Electronics 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 20. The address of the Company's registered office is shown on page 2.

The principal activity of the Company is set out in the Directors' 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 prepared in accordance with FRS 101. The Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS"), but makes amendments where necessary in order to comply with the Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

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

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

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

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 financial statements have been prepared under the historical cost convention.

These financial statements have been prepared using the going concern basis of accounting. As discussed in the Director's Report (page 1).

Key sources of estimation uncertainty
There were no significant accounting policies that are considered by the directors to contain key sources of estimation uncertainty.

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

Changes in accounting policies

Several standards, interpretations and amendments to existing standards became effective on 1 January 2022, none of which had a material impact on the Company.

The following standards, interpretations and amendments to existing standards became effective on 1 January 2022 and have not had a material impact on the Company:

- Amendments to IFRS 3: Business Combinations, effective from 1 January 2022;
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use effective from 1 January 2022;
- Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract effective from 1 January 2022; and
- Annual Improvements to IFRS Standards 2018-2020 Cycle, effective from 1 January 2022.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2022.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:

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendments FRS 101 reduced disclosure framework, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IAS 1 and 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;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture; and

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

- Amendment to IAS 12: Income Taxes, effective from 1 January 2023.

Significant accounting policies
The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Company's financial performance and position.

2.2 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.

2.3 Interest income and borrowing costs

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

2.4 Investment property

Cost
Land and buildings that are held to earn rentals or for capital appreciation, including those held as right-of-use assets, are classified as investment property. The Company measures investment property at its cost less accumulated depreciation and impairment losses.

Depreciation
Depreciation is provided, on a straight-line basis, to write off the cost of investment property over its estimated useful life of up to 50 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Balance Sheet date.

Impairment
The carrying amounts of the Company's investment property are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. Where an indication of impairment exists, an impairment exercise is performed. If the carrying value exceeds the recoverable amount (being the higher of the fair value less cost of disposal, and the value in use), then the carrying value is impaired to the recoverable amount.

If the recoverable amount exceeds the carrying amount in future periods, impairment losses are reversed to the extent that the revised carrying value does not exceed the cost less accumulated depreciation value should no impairment have been recognised.

2. Accounting policies (continued)

2.5 Leases

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

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

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

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

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

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

A sublease where the Company is an intermediate lessor is classified as a finance lease when it transfers substantially all of the risks and rewards of the right-of-use asset arising from the head lease.

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

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

2.6 Investments

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

Fixed asset investments in preference shares are held at fair value through profit or loss.

The carrying amounts of the Company's investments are reviewed at each Balance Sheet date to determine the assets' recoverable amount as required by IAS 36 Impairment of Assets. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

2. Accounting policies (continued)

2.6 Investments (continued)

An impairment loss is only reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount.

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

2.7 Tax

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

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

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

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

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

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

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

2.8 Provisions

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

2. Accounting policies (continued)

2.9 Trade and other receivables

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

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

2.10 Trade and other payables

Trade and other payables are stated at amortised cost.

3. Operating costs

	2022	2021
	£000	£000
Depreciation of investment property	**80**	83
Impairment of investment property	**87**	126
Management recharges from other BAE Systems plc Group companies	**153**	207
Other operating charges	**367**	3,533
	687	3,949

The remuneration of the auditor for the year ended 31 December 2022 for auditing of the financial statements was £31,800 (2021: £26,775) and £nil (2021: £nil) in respect of non-audit work and was borne by, BAE Systems plc, the ultimate parent company and has not been recharged to the Company.

4. Other income

	2022	2021
	£000	£000
Operating lease income (note 14)	**584**	611
	584	611

Notes to the Financial Statements

5. Impairment of investments

	2022 £000	2021 £000
Impairment of investments	-	9,495

The Company has not recognised an impairment in it's investment in BAE Systems Integrated System Technologies Limited (2021: 9,495k). See note 13 for details on investment.

6. Income from subsidiary undertakings and participating interests

	2022 £000	2021 £000
Dividends received from AMSH B.V	**53,464**	27,769

7. Financial income

	2022 £000	2021 £000
Interest income on finance lease receivables (note 14)	**230**	329
	230	329

8. Financial expense

	2022 £000	2021 £000
Interest expense on lease liabilities (note 14)	**501**	617
	501	617

9. Employees

The Company has no employees (2021: 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 (2021 same).

The directors did not provide any material qualifying services to the Company (2021 same).

Notes to the Financial Statements

10. Tax

Tax expense

	2022 £000	2021 £000
Deferred tax		
Origination and reversal of temporary differences	**54**	54
Tax rate adjustment[1]	**-**	(173)
Tax income/(expense)	**54**	(119)

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

No provision for current tax is required. The Company has surrendered its tax losses to fellow group companies free of charge.

Reconciliation of tax expense

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

	2022 £000	2021 £000
Profit before tax	**53,090**	14,648
UK corporation tax rate	**19.00%**	19.00%
Expected tax income/(expense) on (loss)/profit	**(10,087)**	(2,783)
Exempt income from participating interests	**10,158**	5,276
Impairment of investments	**-**	(1,804)
Expenses not tax effected	**(13)**	-
Imputed interest expense	**663**	874
Other	**2**	2
Losses surrendered to fellow group companies	**(669)**	(1,511)
Tax rate adjustment [1]	**-**	(173)
Tax income/(expense)	**54**	(119)

Notes to the Financial Statements

11. Deferred taxation

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2022	2021	**2022**	2021	**2022**	2021
	£000	£000	**£000**	£000	**£000**	£000
Lease liabilities	**-**	-	**(734)**	(795)	**(734)**	(795)
Property, plant and equipment	**3**	3	**-**	-	**3**	3
Other	**-**	7	**-**	-	**-**	7
Deferred tax assets/(liabilities)	**3**	10	**(734)**	(795)	**(731)**	(785)
Set off of tax	**(3)**	(10)	**3**	10	**-**	-
Net deferred tax assets/(liabilities)	**-**	-	**(731)**	(785)	**(731)**	(785)

Movement in temporary differences during the year

	As at 1 January 2022 £000	Recognised in income £000	**As at 31 December 2022 £000**
Lease liabilities	(795)	61	**(734)**
Property, plant and equipment	3	-	**3**
Other	7	(7)	**-**
	(785)	54	**(731)**

	As at 1 January 2021 £000	Recognised in income £000	As at 31 December 2021 £000
Lease liabilities	(683)	(112)	(795)
Property, plant and equipment	3	-	3
Other	14	(7)	7
	(666)	(119)	(785)

Notes to the Financial Statements

12. Investment property

	Investment property £000
Cost	
At 1 January 2022	**5,181**
At 31 December 2022	**5,181**
Depreciation and impairment	
At 1 January 2022	**1,404**
Depreciation charge for the year	**80**
Impairment charge*	**87**
At 31 December 2022	**1,571**
Net book value	
At 31 December 2022	**3,610**
At 31 December 2021	3,777
Fair Value	
At 31 December 2022	**3,610**
At 31 December 2021	3,777

*The impairment charge has been driven by a tenants lease ending during the year at its investment property at Hyde Way.

Investment property held relates to assets purchased under leases, and therefore the fair value has been approximated to be equivalent to the carrying value of the asset.

13. Investments

	£000
Cost	
At 1 January 2022 and 31 December 2022	1,613,415
Impairment	
At 1 January 2022 and 31 December 2022	1,315,070
Net book value	
At 31 December 2022	**298,345**
At 31 December 2021	298,345

Impairment testing
During the year, management conducted an impairment review of the investments held by the Company. As a result of this review, there was no impairment charge for the year against the Company's investment in BAE Systems Integrated System Technologies Limited.

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 and adjusted for factors specific to the market in which the companies operate, have been used in discounting these projected risk-adjusted cash flows.

13. Investments (continued)

Subsidiary undertakings and participating interests at 31 December 2022

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2022 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 registered office address is Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire, GU14 6YU.

Company name	Class of shares held	Proportion of class (%)
AMSH B.V. *Coolsingel 61, 7th Floor – right, 3012 AB Rotterdam, Netherlands*	'B' ordinary shares of €4.50	50
BAE Systems (Projects) Limited	Ordinary shares of £1	100
BAE Systems Avionics Singapore Pte Limited *One Marina Boulevard, #28-00, Singapore 018989, Singapore*	Ordinary shares of SGD1	100
BAE Systems Integrated System Technologies Limited	Ordinary shares of £1	100
Flight Control System Management GmbH *PO Box 801109, 81663 Munich, Germany*	Ordinary shares of €0.51	33.3

14. Leases

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

	2022	2021
	£000	£000
Payments due:		
Within one year	**7,920**	7,920
Between one and five years	**6,655**	14,356
Later than five years	**9,077**	9,295
	23,652	31,571
Reconciliation to Balance Sheet:		
Undiscounted lease liability	**23,652**	31,571
Impact of discounting	**(5,438)**	(5,939)
Total discounted lease liability	**18,214**	25,632

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2022, amounted to £7,920k (2021: £7,858k).

14. Leases (continued)

Amounts recognised in the Income Statement

	2022 £000	2021 £000
Included in operating costs:		
Depreciation on investment property	**80**	83
Impairment on investment property	**87**	126
	167	209
Included in other income:		
Operating lease income from subleasing investment property	**584**	611
	584	611
Included in financial income/(expense):		
Interest income on finance lease receivables	**230**	329
Interest expense on lease liabilities	**(501)**	(617)
	(271)	(288)

Operating leases
The Company is party to operating leases in which it is the lessor, primarily relating to investment property. Under the terms of the lease agreements, no contingent rents are receivable. The leases have varying terms including escalation clauses and renewal rights. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations.

A maturity analysis of the future undiscounted lease receipts from operating leases in which the Company is lessor is presented in the table below.

	2022 £000	2021 £000
Receipts due:		
Within one year	-	111
	-	111

Finance lease receivables
Certain of the Company's subleases where the Company is an intermediate lessor are classified as finance leases under IFRS 16. A sublease is classified as a finance lease when it transfers substantially all of the risks and rewards of the right-of-use asset arising from the head lease.

A maturity analysis of the future undiscounted lease receipts from finance leases in which the Company is lessor is presented in the table below.

14. Leases (continued)

	2022 £000	2021 £000
Receipts due:		
Within one year	**5,684**	5,684
Between one and two years	**4,263**	5,684
Between two and three years	**-**	4,263
Total undiscounted gross receipts	**9,947**	15,631
Deduct: Impact of discounting	**(160)**	(390)
Finance lease receivables	**9,787**	15,241

15. Trade and other receivables

	2022 £000	2021 £000
Non-current		
Amounts owed by BAE Systems plc	**698,590**	645,127
Amounts owed by BAE Systems plc subsidiaries	**190,032**	191,219
Amounts owed by subsidiaries	**219,377**	219,377
	1,107,999	1,055,723
Current		
Prepayments	**110**	45
	110	45

All amounts owed by BAE Systems plc Group companies are interest free and payable on demand and are unsecured.

The impact of discounting non-current amounts owed by BAE Systems plc and its subsidiaries is not material so has not been applied.

16. Trade and other payables

	2022 **£000**	2021 £000
Current		
Trade payables	**171**	170
Amounts owed to BAE Systems plc subsidiaries	**1,334,932**	1,314,095
Accruals	**113**	138
	1,335,216	1,314,403

All amounts owed to BAE Systems plc Group companies are payable on demand and are unsecured. No interest is applied to amounts owed.

17. Provisions

	Legal, contractual and environmental £000
Non-current	-
Current	900
At 1 January 2022	900
Created	235
At 31 December 2022	**1,135**
Represented by:	
Non-current	-
Current	1,135
	1,135

Legal, contractual and environmental
The provision at 31 December 2022 relates to a contractual liability which arose on the historical sale of a property.

While the timing of the outflows is uncertain, the Company expects the residual provision to be utilised over a period of approximately one year.

18. Share capital

	50p Ordinary shares	Nominal value £000
Authorised		
At 1 January 2021, 31 December 2021 and 31 December 2022	**18,000,000**	**9,000**
Issued and fully paid		
At 1 January 2021, 31 December 2021 and 31 December 2022	**17,883,631**	**8,942**

19. Dividends

	2022 £000	2021 £000
Final dividend of £1.12 (2021: £3.08) per ordinary share proposed and paid during the year relating to the previous year's results.	**20,000**	55,000

The directors are proposing a final dividend of £1.68 (2021: £1.12) per share totalling £30,000k (2021: £20,000k).

This dividend has not been accrued in the Balance Sheet.

20. Controlling parties

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

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

6 Carlton Gardens
London
SW1Y 5AD

Website: www.baesystems.com