

BAE Systems SDT (UK) Limited

Annual Report and Financial Statements

31 December 2023

Registered number: 09623721



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Directors' Report

Company registration

BAE Systems SDT (UK) Limited (the "Company") is a private company, limited by shares and registered in England and Wales with the registered number 09623721.

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 £364,710 (2022: £356,900 profit). The directors propose a dividend of £364,710 (2022: £356,900). Dividends for 2022 were paid in year.

The dividend proposed per share is £364,710 (2022: £356,900).

Business review and principal activities

The principal activity of the Company is the provision of recruitment and associated support services in the UK to Kingdom of Saudi Arabia businesses to fulfil commitments to the Saudi Arabian Defence Sector. The Company also supports Saudi nationals who are on placement or visiting the UK.

Looking forward

The Company expects to sustain its long-term presence through delivering current programmes to BAE Systems Saudi Development & Training Ltd (its parent company in the Kingdom of Saudi Arabia), BAE Systems (Operations) Ltd and Saudi Maintenance and Supply Chain Management Company Ltd.

Going concern

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue operational existence for at least 12 months from the date of approval of the financial statements. The Company has net assets of £389,936 and made a profit of £364,710. The Company is also expected to continue to generate positive cashflows on the basis of the recharge mechanism on costs. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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 D Murphy	(resigned 11 January 2023)
G J Edwards	(appointed 22 March 2023)
C Kelly	
P S Inman	(resigned 28 February 2023)

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

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, and this Directors' Report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption per Section 415(A) of the Companies Act 2006.

Directors' Report (continued)

Post balance sheet events

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

Disclosure of information to auditor

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

Auditors

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: 26 June 2024

Registered office:
BAE Systems SDT (UK) Limited
Victory Point
Lyon Way
Frimley
Camberley
Surrey
GU16 7EX
England

Directors' Responsibilities Statement

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of BAE Systems SDT (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems SDT (UK) Limited (the "company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 14.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

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

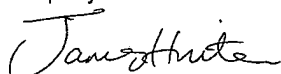
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit;
- the directors were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of BAE Systems SDT (UK) 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.



James Hunter FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Statutory Auditor

Reading, UK

26 June 2024

BAE Systems SDT (UK) Limited
Annual Report and Financial Statements
31 December 2023

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

	Note	2023 £	2022 £
Revenue	3	4,730,026	4,506,135
Operating costs	4	(4,243,735)	(4,061,627)
Gross profit		<u>486,291</u>	<u>444,508</u>
Financial expense	6	(4,426)	(129)
Profit before tax		<u>481,865</u>	<u>444,379</u>
Tax	7	(117,155)	(87,479)
Profit for the financial year		<u><u>364,710</u></u>	<u><u>356,900</u></u>
Total comprehensive income for the year		<u><u>364,710</u></u>	<u><u>356,900</u></u>

The results for 2023 and 2022 arise from continuing activities.

The notes on pages 12 to 24 form part of these financial statements.

BAE Systems SDT (UK) Limited
Annual Report and Financial Statements
31 December 2023

Balance Sheet
as at 31 December 2023

	Note	2023 £	2022 £
Non-current assets			
Right-of-use assets	10	73,801	-
Current assets			
Trade, contract and other receivables	8	593,544	667,544
Cash and cash equivalents		3,181,431	925,311
		<u>3,774,975</u>	<u>1,592,855</u>
Total assets		<u>3,848,776</u>	<u>1,592,855</u>
Non-current liabilities			
Lease liabilities	10	(39,201)	-
Current liabilities			
Current tax	7	(7,149)	(69,503)
Trade, contract and other payables	9	(3,378,396)	(1,141,226)
Loans and borrowings		-	-
Lease liabilities	10	(34,094)	-
		<u>(3,419,639)</u>	<u>(1,210,729)</u>
Total liabilities		<u>(3,458,840)</u>	<u>(1,210,729)</u>
Net assets		<u>389,936</u>	<u>382,126</u>
Capital and reserves			
Share capital	13	1	1
Retained earnings		389,935	382,125
Total equity		<u>389,936</u>	<u>382,126</u>

Balance Sheet (continued)
as at 31 December 2023

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



G J Edwards
Director

Registered number: 09623721

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

	Issued share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2022	1	399,568	399,569
Profit and total comprehensive income for the year	-	356,900	356,900
Dividends (note 12)	-	(374,343)	(374,343)
At 31 December 2022	<u>1</u>	<u>382,125</u>	<u>382,126</u>
Profit and total comprehensive income for the year	-	364,710	364,710
Dividends (note 12)	-	(356,900)	(356,900)
At 31 December 2023	<u><u>1</u></u>	<u><u>389,935</u></u>	<u><u>389,936</u></u>

The notes on pages 12 to 24 form part of these financial statements.

Notes to the Financial Statements

1. General information

BAE Systems SDT (UK) 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 14. The address of the Company's registered office is shown on page 2.

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 pound.

Foreign operations are included in accordance with the policies set out in note 2.3.

2. Accounting policies

2.1 Basis of preparation

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

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of; paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements;
- 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.

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Key sources of estimation uncertainty

There were no significant accounting policies that are considered by the directors to be critical because of the level of complexity and estimation uncertainty involved in their application and their impact on the financial statements.

Critical accounting judgments

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

Changes in accounting policies

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

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023;
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1 January 2023; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2023. These either have been, or are expected to be endorsed by the UK Endorsement Board and are not expected to have a material impact on the Company:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current, effective from 1 January 2024;
- Amendments to IAS 1: Non-Current Liabilities with Covenants, effective from 1 January 2024;
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements, effective from 1 January 2024;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or joint venture;
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback, effective from 1 January 2024; and
- IFRS 18 Presentation and Disclosure in Financial Statements, effective from 1 January 2027.

Material accounting policies

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

2.2 Revenue and profit recognition

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Revenue and profit recognition (continued)

Performance obligations

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

Transaction price

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

Revenue and profit recognition

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

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

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Revenue and profit recognition (continued)

Revenue and profit recognition (continued)

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

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

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

Contract modifications

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

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

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

Costs to obtain a contract

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

Costs to fulfil a contract

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

2.3 Foreign currencies

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.4 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.

2.5 Interest income and borrowing costs

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

2.6 Trade, contract and other receivables

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

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

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

2.7 Cash and cash equivalents

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.8 Trade and other payables

Trade and other payables are stated at amortised cost.

2.9 Dividends

Equity dividends paid on ordinary share capital are recognised as a liability in the period in which they are declared.

2.10 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 directly in equity or other comprehensive income. It 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.

Current tax

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

3. Revenue

The whole of the revenue is attributable to long-term contracts associated recruitment and associated support services.

Revenue by customer location:

	2023	2022
	£	£
Kingdom of Saudi Arabia	<u>4,730,026</u>	<u>4,506,135</u>

All revenue arose from sales to the Kingdom of Saudi Arabia.

There are no obligations for returns, refunds and other similar obligations.

Notes to the Financial Statements

4. Operating costs

	2023 £	2022 £
Recharges for other BAE companies	250,297	608,686
Staff costs (note 5)	2,495,372	2,243,559
Depreciation of right of use assets	29,490	7,549
Manpower recruitment costs	432,126	428,063
Staff travel costs	145,880	40,468
Computer costs	143,263	156,132
Short term lease expense	151,534	226,738
Other operating charges	595,773	350,432
	<u>4,243,735</u>	<u>4,061,627</u>

The remuneration of the auditor for the year ended 31 December 2023 for auditing of the financial statements was £14,100 (2022: £12,682) and £nil (2022: £nil) in respect of non-audit work.

5. Employees

The monthly average number of Company* employees was 30 (2022: 27). The aggregate staff costs of Company employees were as follows:

	2023 £	2022 £
Wages and salaries	1,996,333	1,757,602
Social security costs	183,188	171,129
Cost of defined benefit pension scheme	237,550	257,755
Cost of defined contribution pension scheme	59,265	39,889
Share-based payments	19,036	17,184
	<u>2,495,372</u>	<u>2,243,559</u>

* There is only one category of employee.

None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by BAE Systems plc and were remunerated through that company. The directors did not provide any material qualifying services to the Company.

Notes to the Financial Statements

6. Financial expense

	2023	2022
	£	£
Forex expense	97	-
Interest expense on lease liabilities (note 10)	4,329	129
	4,426	129
	4,426	129

7. Tax

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

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

Tax expense

	2023	2022
	£	£
Current		
UK:		
Current tax	(118,401)	(69,503)
Adjustments in respect of prior years	1,246	(17,976)
	(117,155)	(87,479)
Tax expense	(117,155)	(87,479)

The Tax rate of 23.52% used is due to the current rate being pro-rated for the part of the financial year for which it applied. If the 25% rate was used for the entire year, then the tax expense would have been higher.

Notes to the Financial Statements

7. Tax (continued)

Reconciliation of tax expense

The following reconciles the expected tax expense using the UK corporation tax rate, to the reported tax expense.

	2023 £	2022 £
Profit before tax	481,866	444,379
UK corporation tax rate	23.52%	19.00%
Expected tax expense on profit	(113,335)	(84,432)
Expenses not tax effected	(12,121)	25,030
Income not subject to tax	7,055	(10,101)
Adjustments in respect of prior years	1,246	(17,976)
Tax expense	(117,155)	(87,479)

Provision for deferred tax is not required.

8. Trade, contract and other receivables

	2023 £	2022 £
Current		
Amounts owed by BAE Systems plc subsidiaries	-	158,055
Amounts owed by BAE Systems plc	65,000	-
Prepayments	485,801	71,489
Contract receivables	19,000	438,000
VAT debtor	22,404	-
Other receivables	1,339	-
	593,544	667,544

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

Notes to the Financial Statements

9. Trade, contract and other payables

	2023	2022
	£	£
Current		
Trade payables	8,074	11,470
Amounts owed to BAE Systems plc subsidiaries	107,842	374,343
Amounts owed to BAE Systems plc	-	34,048
Other taxes and social security	46,260	39,547
Accruals	581,029	226,935
Deferred income	2,632,077	280,037
Other payables	3,114	174,846
	3,378,396	1,141,226

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

Notes to the Financial Statements

10. Leases

The Company leases vehicles under non-cancellable lease arrangements. There are no terms that represent unusual arrangements or create material onerous or beneficial rights or obligations.

	<u>2023</u>	<u>2022</u>
	Vehicles £	Vehicles £
Net book value as at 01 January	-	11,375
Additions during the year	103,291	(9,290)
Disposals during the year	-	(56,994)
Modifications	-	5,464
Depreciation expense for the year	(29,490)	(7,549)
Depreciation eliminated on disposal	-	56,994
Net book value as at 31 December	<u>73,801</u>	<u>-</u>

Lease liabilities

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

	2023 £	2022 £
Payments due:		
Within one year	37,464	-
Between one and five years	40,602	-
	<u>78,066</u>	<u>-</u>
Impact of discounting	(4,771)	-
Total discounted lease liability	<u>73,295</u>	<u>-</u>

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2023, amounted to £37,000 (2022: £7,000).

The amounts paid in respect of short-term leases and low-value leases not recognised on the Balance Sheet amount to £151,534 (2022: £219,301).

Notes to the Financial Statements

10. Leases (continued)

Amounts recognised in the Income Statement

	2023 £	2022 £
Included in operating costs:		
Depreciation on right-of-use assets	29,490	7,549
Short-term lease expense and low-value lease expense	151,534	219,301
	181,024	226,850
Included in net finance costs:		
Interest expense on lease liabilities	4,329	129
	4,329	129

11. Related party transactions

	2023 Sales £	2023 Debtors £	2023 Creditors £
Related party			
BAE Systems Saudi Development and Training Company Ltd	4,730,026	19,000	107,842
SDT KSA	-	-	2,632,077
BAE Systems plc	-	65,000	-
	4,730,026	84,000	2,739,919
	4,730,026	84,000	2,739,919

	2022 Sales £	2022 Debtors £	2022 Creditors £
Related party			
BAE Systems Saudi Development and Training Company Ltd	4,506,135	438,000	374,343
	4,506,135	438,000	374,343
	4,506,135	438,000	374,343

Notes to the Financial Statements

12. Dividends

	2023 £	2022 £
Final dividends paid in respect of prior years	<u>356,900</u>	<u>374,343</u>

The Directors are proposing a final dividend of £364,710 (2022: £356,900) per share totalling £364,710 (2022: £356,900).

This dividend has not been accrued on the Balance Sheet.

13. Share capital

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

14. Controlling parties

The immediate parent company is BAE Systems Saudi Development and Training Company Limited and the ultimate controlling party is BAE Systems plc, which is both the smallest and largest parent company preparing group financial statements. BAE Systems plc is incorporated in the United Kingdom and registered in England and Wales. BAE Systems Saudi Development and Training Company Limited is incorporated in the Kingdom of Saudi Arabia.

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

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London
SW1Y 5AD

Website: www.baesystems.com