

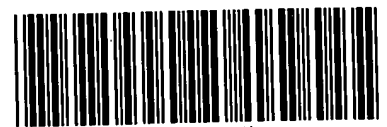
# **BAE Systems Global Combat Systems Munitions Limited**

Annual Report and Financial Statements

31 December 2024

Registered number: 01842252

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**BAE Systems Global Combat Systems Munitions Limited**  
**Annual Report and Financial Statements**  
**31 December 2024**

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**Strategic Report**

for the year ended 31 December 2024

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**Review of business and principal activities**

BAE Systems Global Combat Systems Munitions Limited (the "Company") is a member of the BAE Systems plc Group ("BAE Systems Group" or "Group") of companies, its principal activities are the design, development, manufacture and supply of munitions and associated components.

As the UK Ministry of Defence's long-term strategic partner for munitions supply, we continue to focus our operations in support of the UK Ministry of Defence and the UK's NATO allies, as well as other customers.

**Key performance indicators**

Key financial performance indicators are shown below:

	<b>2024</b>	2023
	<b>£000</b>	£000
Order intake	<b>137,841</b>	818,637
Revenue	<b>369,958</b>	279,524
Profit before tax	<b>34,839</b>	28,203
Return on revenue	<b>9%</b>	10%

**Order intake** represents the value of funded orders received from customers in the year. It is a measure of in year performance and supports future years' sales performance. The order intake in 2023 was unusually high as a result of an uplift to the Next Generation Munitions Solution ("NGMS") contract, the 2024 order intake is as expected.

**Revenue** represents the amounts derived from the provision of goods and services. The main drivers for the increase in revenue in 2024 are as a result of the award of a number of key contracts; the Next Generation Munitions Solution ("NGMS") contract in 2023, which is traded on a cost incurred basis under the IFRS15 accounting standard, the L15mm contact and the Modular Charge System ("MCS") Contract which started trading revenue through 2024.

**Profit before tax** is used for internal performance analysis as a measure of profitability that is comparable over time. The increase in profit in tax from 2023 to 2024 is aligned to the increase in revenue driven by the award of a number of key contracts; the Next Generation Munitions Solution ("NGMS") contract, the L15mm contact and the Modular Charge System ("MCS") Contract which all started trading through 2024.

**Return on revenue** shows the percentage of profit as a function of revenue.

**Strategic Report (continued)**  
for the year ended 31 December 2024

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**Principal risks and uncertainties**

The following are the principal risks considered by the board to be of relevance to the Company:

- Government customers, defence spending and terms of trade;
- Contract risk, execution and supply chain;
- Security (including cyber security);
- International markets;
- People;
- Safety;
- Acquisitions;
- Climate transition and environmental factors;
- Legal risk; and
- Business interruption.

All of these risks are also considered to be principal risks and uncertainties of the BAE Systems Group and are discussed on pages 58 to 65 of BAE Systems plc's 2024 Annual Report (available at [www.baesystems.com/investors](http://www.baesystems.com/investors)).

**Strategic Report (continued)**  
for the year ended 31 December 2024

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**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 such director 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; and
- e) the desirability of the Company maintaining a reputation for high standards of business conduct.

**Decision making**

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

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

During the year, the directors of the Company approved bids and contracts for the businesses for which they are responsible and, in so doing, in accordance with BAE Systems Group policies and processes, had regard to a number of matters including the business case and financial returns, technical and programme management matters, risk management, workforce matters and the long-term reputation of the Company.

**Employees**

The security, safety, wellbeing, skills, capabilities and commitment of the Company's people are critical to ensuring the long-term viability of the Company's business and delivering the innovation needed to solve the Company's customers' complex challenges.

Effective engagement enables the Company's employees to contribute to improving business performance and helps the Company to create an environment in which everyone is safe, valued and can fulfil their potential.

The Company used a range of channels to engage with employees throughout the year, as well as keeping employees informed about the performance, developments and prospects of the business and the BAE Systems Group. Please see Page 77 of BAE Systems plc's 2024 Annual Report (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)) for a description of the means by which the Company can engage with its employees.

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

These engagement activities form part of the Company's implementation of the BAE Systems group-wide employee engagement processes and policies which are described on pages 24 to 27 and 77 of BAE Systems plc's 2024 Annual Report (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)).

**Strategic Report (continued)**  
for the year ended 31 December 2024

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Employees (continued)

Through the implementation by the Company of these processes and policies, the directors have regard to the interests of the Company's employees.

Fostering business relationships with suppliers, customers and others

The directors recognise that understanding the Company's customers' needs and challenges is central to the Company's strategy and how and where it invests in technologies and infrastructure. Delivering on customer commitments is critical to the BAE Systems Group's mission to protect those who protect us and drives the Company's focus on operational excellence.

The Company's principal customer is the UK government and the directors are in regular contact with the customer. Strong and collaborative relationships with the UK Government helps the Company to identify customer requirements and to help position the Company as a trusted provider.

In addition, the directors understand that the Company's suppliers and an effective, efficient and resilient supply chain are essential to enable the Company to deliver for its customers and end-users. Engaged suppliers perform at a much higher level, knowing they are regarded as valued partners and critical to mutual success.

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

The community and the environment

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

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

All the above activities form part of the Company's implementation of the BAE Systems Group-wide community and environment processes and policies and the BAE Systems Group's impacts thereon which are described on pages 28 to 29, 49 to 51 and 225 to 231 of BAE Systems plc's 2024 Annual Report (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)).

**Strategic Report (continued)**  
for the year ended 31 December 2024

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**Dividends**

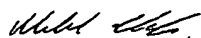
The directors recognise the importance of sustainable dividends. The board approved and declared a dividend of £20,000k to its shareholder on 22 July 2024. In determining the capital returns, the Board considered the ongoing performance of the business and market conditions. The Board balances payments of dividends in line with other key Group stakeholders in order to deliver a level and nature of return that is considered sustainable in the long-term.

**Maintaining a reputation for high standards of business conduct**

The BAE Systems Group is committed to ethical standards and responsible behaviour in everything it does. All employees of the Company are expected to act in accordance with the requirements of BAE Systems Group policies, including the Code of Conduct, at all times. As well as being the right thing to do, the directors consider that promoting and maintaining a responsible behaviour culture reduces the risk of compliance failure and supports the business in attracting and retaining high-calibre employees.

Detailed information on the BAE Systems Group-wide business conduct processes and policies is described on pages 52 to 53 in BAE Systems plc's 2024 Annual Report (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)).

This report was approved by the board on 7 August 2025 and signed on its behalf.



**M A Clarke**  
Director

## **Directors' Report**

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### **Company registration**

BAE Systems Global Combat Systems Munitions Limited is a private company, limited by shares and registered in England and Wales with the registered number 01842252.

### **Results and dividends**

The Company's profit for the financial year is £28,314k (2023: £24,335k). The directors propose a dividend of £20,000k (2023: £20,000k).

The dividend proposed per share is £0.10 (2023: £0.10).

### **Looking forward**

In 2024 the Company continued to deliver munitions to the UK Government and looking forward will continue to discharge its obligations to its domestic and foreign customers in what is a heightened European defence environment.

### **Going concern**

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £110,071k. The Company is dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. BAE Systems plc has indicated that, for at least 12 months from the date of approval of these financial statements, it will continue to make available funds as are needed by the Company to meet its liabilities as they fall due and in particular will not seek repayment of amounts currently made available. The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

### **Energy and carbon reporting exemption**

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed on pages 48-51 in the 2024 consolidated accounts of its ultimate parent, BAE Systems plc (available at [www.baesystems.com/investors](http://www.baesystems.com/investors)).

### **Employees**

The Company is committed to giving full and fair consideration to applications for employment from disabled people who meet the requirements for roles, and making available training opportunities and appropriate accommodation to disabled people employed by the Company. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged.

Employee engagement enables our employees to contribute to improving business performance and helps us to gauge our performance in creating an environment in which everyone can fulfil their potential. Engagement with UK employees has been referenced on page 77 in the Strategic Report of BAE Systems plc's 2024 Annual Report (available at [www.baesystems.com/investors](http://www.baesystems.com/investors)).

The Company welcomes employees becoming shareholders in BAE Systems plc and offers employee share plans to support this.

## **Directors' Report (continued)**

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### **Research and development**

The Company is focused on technology innovation and engineering excellence and invests in next-generation research and technology programmes to improve the manufacturing and service of products, generating substantial intellectual property. Total research and development expenditure in the year was £7,614k (2023: £3,255k), of which £4,233k (2023: £2,515k) was funded by the Company.

### **Financial instruments**

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

### **Qualifying indemnity provisions**

The directors of BAE Systems Pension Funds Trustees Limited, BAE Systems 2000 Pension Plan Trustees Limited, BAE Systems Executive Pension Scheme Trustees Limited and Alvis Pension Scheme Trustees Limited benefit from indemnities in the governing documentation of the BAE Systems Pension Scheme, the BAE Systems 2000 Pension Plan, BAE Systems Executive Pension Scheme and the Alvis Pension Scheme, respectively, given by the Company, which are qualifying indemnity provisions for the purpose of the Companies Act 2006. All such indemnity provisions are in force at the date of this Directors' Report.

### **Credit risk and liquidity**

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](http://www.baesystems.com/investors)).

### **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.

### **Directors and their interests**

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

G E P Plant

M A Clarke

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.

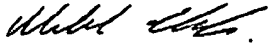
### **Auditor**

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

**Directors' Report (continued)**

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This report was approved by the board and signed on its behalf.



**M A Clarke**  
Director

Date: 7 August 2025

Registered address:  
BAE Systems Global Combat Systems Munitions Limited  
Victory Point  
Lyon Way  
Frimley  
Camberley  
Surrey  
GU16 7EX  
England  
United Kingdom

## **Directors' Responsibilities Statement**

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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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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## **Independent Auditor's Report to the Members of BAE Systems Global Combat Systems Munitions Limited**

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### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of BAE Systems Global Combat Systems Munitions Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2024 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;
- the Statement of Accounting Policies; and
- the related notes 1 to 29.

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.

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**Independent Auditor's Report to the Members of BAE Systems Global Combat Systems Munitions Limited (continued)**

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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](http://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 the UK Companies Act and the Corporation Tax Act 2010; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

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

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**Independent Auditor's Report to the Members of BAE Systems Global Combat Systems Munitions Limited (continued)**

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

- Accrued and deferred income relating to projects under the NGMS contract which may have been incorrectly calculated or calculated based on inappropriate judgements made over revenue recognition and cash intake. As a result, the accrued and deferred balances at year-end could be materially misstated. In response to the risk, our procedures included inspecting the terms of the contract, challenging the calculations of accrued and deferred income for projects under the NGMS contract and validating the mechanical accuracy of the calculations with reference to revenue recognised and billing raised in the period.

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.

**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.

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**Independent Auditor's Report to the Members of BAE Systems Global Combat Systems Munitions Limited (continued)**

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**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.

*Andrew Woodhead*

Andrew Woodhead FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor  
Cardiff, United Kingdom

7 August 2025

**BAE Systems Global Combat Systems Munitions Limited**  
**Annual Report and Financial Statements**  
**31 December 2024**

**Income Statement**  
for the year ended 31 December 2024

	Note	2024 £000	2023 £000
Revenue	3	369,958	279,524
Operating costs	4	(341,674)	(255,780)
<b>Gross profit</b>		<u>28,284</u>	<u>23,744</u>
Other income	5	4,344	2,309
<b>Operating profit</b>		<u>32,628</u>	<u>26,053</u>
Income from investments	6	2,709	2,243
Financial income	7	3,700	4,800
Financial expense	8	(4,198)	(4,293)
<b>Profit before tax</b>		<u>34,839</u>	<u>28,803</u>
Tax	11	(6,525)	(4,468)
<b>Profit for the financial year</b>		<u><u>28,314</u></u>	<u><u>24,335</u></u>

The results for 2024 and 2023 arise from continuing activities.

The notes on pages 19 to 62 form part of these financial statements.

**BAE Systems Global Combat Systems Munitions Limited**  
**Annual Report and Financial Statements**  
**31 December 2024**

**Statement of Comprehensive Income**  
for the year ended 31 December 2024

	Note	2024 £000	2023 £000
Profit for the financial year		28,314	24,335
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Remeasurements on retirement benefit schemes	16	3,500	(18,200)
Tax on items that will not be reclassified to the Income Statement	11	-	1
<b>Items that may be reclassified to Income Statement:</b>			
Fair value gain/(loss) arising on hedging instruments during the year	24	570	(3,486)
Cumulative fair value gain on hedging instruments reclassified to the Income Statement	24	(2,118)	(1,895)
Tax on items that may be reclassified to the Income Statement	11	387	1,265
<b>Total other comprehensive income/(expense) for the year (net of tax)</b>		<b>2,339</b>	<b>(22,315)</b>
<b>Total comprehensive income for the year</b>		<b>30,653</b>	<b>2,020</b>

The notes on pages 19 to 62 form part of these financial statements.

**BAE Systems Global Combat Systems Munitions Limited**  
**Annual Report and Financial Statements**  
**31 December 2024**

**Balance Sheet**  
as at 31 December 2024

	Note	2024 £000	2023 £000
<b>Non-current assets</b>			
Intangible assets	12	13,456	7,958
Property, plant and equipment	13	152,195	110,379
Right-of-use assets	14	74,365	79,665
Investments	15	15,149	15,149
Retirement benefit surpluses	16	63,600	54,000
Other financial assets	17	267	-
		319,032	267,151
<b>Current assets</b>			
Inventories	20	55,539	36,175
Trade, contract and other receivables	19	210,285	155,354
Other financial assets	17	360	330
Current tax	11	1,415	630
		267,599	192,489
<b>Total assets</b>		586,631	459,640
<b>Non-current liabilities</b>			
Trade, other and contract payables	21	(9,225)	(19,970)
Lease liabilities	14	(82,728)	(86,374)
Other financial liabilities	17	(1,105)	(2,695)
Provisions	22	(978)	(1,459)
Deferred tax liabilities	18	(10,169)	(5,292)
		(104,205)	(115,790)
<b>Current liabilities</b>			
Trade, contract and other payables	21	(370,940)	(246,737)
Lease liabilities	14	(4,276)	(3,804)
Other financial liabilities	17	(1,647)	(1,102)
Provisions	22	(807)	(1,233)
		(377,670)	(252,876)
<b>Total liabilities</b>		(481,875)	(368,666)
<b>Net assets</b>		104,756	90,974

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**BAE Systems Global Combat Systems Munitions Limited**  
**Annual Report and Financial Statements**  
**31 December 2024**

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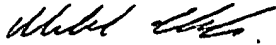
**Balance Sheet (continued)**  
as at 31 December 2024

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**Capital and reserves**

Issued share capital	24	50,000	50,000
Other reserves	24	(2,769)	(2,738)
Retained earnings		57,525	43,712
<b>Total equity</b>		<u>104,756</u>	<u>90,974</u>

Approved by the Board on 7 August 2025 and signed on its behalf by:



**M A Clarke**  
Director

Registered number: 01842252

The notes on pages 19 to 62 form part of these financial statements.

**Statement of Changes in Equity**  
for the year ended 31 December 2024

	Issued share capital £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 January 2023	50,000	453	56,418	106,871
Profit for the year	-	-	24,335	24,335
Other comprehensive expense for the year	-	(3,793)	(18,522)	(22,315)
Dividends (note 23)	-	-	(20,000)	(20,000)
Share-based payments	-	-	1,481	1,481
Cumulative fair value loss on hedging instruments transferred to the balance sheet (net of tax)	-	602	-	602
<b>At 31 December 2023</b>	<b>50,000</b>	<b>(2,738)</b>	<b>43,712</b>	<b>90,974</b>
Profit for the year	-	-	28,314	28,314
Other comprehensive (expense)/income for the year	-	(1,161)	3,500	2,339
Dividends (note 23)	-	-	(20,000)	(20,000)
Share-based payments	-	-	1,999	1,999
Cumulative fair value loss on hedging instruments transferred to the balance sheet (net of tax)	-	1,130	-	1,130
<b>At 31 December 2024</b>	<b>50,000</b>	<b>(2,769)</b>	<b>57,525</b>	<b>104,756</b>

The notes on pages 19 to 62 form part of these financial statements.

## Notes to the Financial Statements

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### 1. General information

BAE Systems Global Combat Systems Munitions 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 29. The address of the Company's registered office is shown on page 7.

The principal activity of the Company is set out in the Strategic Report on page 1. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling (the Company's functional currency) and, unless otherwise stated, rounded to the nearest thousand.

Foreign transactions are included in accordance with the policies set out in note 2.16.

### 2. Accounting policies

#### 2.1 Basis of preparation

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

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the 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;
- 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;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 74A(b) of IAS 16
- 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.

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

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

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

These financial statements have been prepared using the going concern basis of accounting, as discussed in the Director's Report (page 6).

**Key sources of estimation uncertainty**

The application of the Company's accounting policies requires the use of estimates. In the event that these estimates or assumptions prove to be incorrect, there may be an adjustment to the carrying values of assets and liabilities within the next year. Potential areas of the Company's financial statements which could be materially impacted may include, but are not limited to:

**Notes to the Financial Statements**

**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

Accounting policy	Description
Valuation of retirement benefit obligations	<p>A number of actuarial assumptions are made in assessing the value of post-employment benefit obligations, including discount rate, inflation rate, and mortality assumptions. For each of the actuarial assumptions used there is a wide range of possible values and management estimates a point within that range that most appropriately reflects the Company's circumstances.</p> <p>If estimates relating to these actuarial assumptions are no longer valid or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly.</p> <p>Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macro-economic issues resulting from the pandemic. The impact of estimates made with regard to mortality projections may also change significantly.</p> <p>Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions including the impact of climate change on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months. Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgment is then required to determine the presentation of any tax payable in recovering the surplus.</p> <p>Note 16 provides information on the key assumptions and analysis of their sensitivities.</p>
Cumulative catch up adjustments	<p>Cumulative catch up adjustments recorded within the entity in the year may have been incorrectly calculated or calculated based on inappropriate judgments made over contingency creation and release. As a result, the margins recognised on contracts in year could be materially misstated.</p>

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.1 Basis of preparation (continued)

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##### **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**

The following standards, interpretations and amendments to existing standards became effective on 1 January 2024 and have not had a material impact on the Company:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current;
- Amendments to IAS 1: Non-current Liabilities with Covenants;
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements; and
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2024. 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 Group:

- Amendments to IAS 21: Lack of Exchangeability, effective from 1 January 2025;
- Amendments to IFRS 9 and IFRS 7: Amendments to the Classification and Measurement of Financial Instruments, effective from 1 January 2026;
- 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.

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 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.

##### *Performance obligations*

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

##### *Transaction price*

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

##### *Revenue and profit recognition*

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

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

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.2 Revenue and profit recognition (continued)

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

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

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.

#### *Outstanding commitments*

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

#### *Contract modifications*

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

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

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

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.2 Revenue and profit recognition (continued)

##### *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. The principal activities of the company are listed on page 1 of the strategic report.

##### *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 Research and development

The Company undertakes research and development activities either on its own behalf or on behalf of customers.

Company-funded expenditure on research, and on development activities not meeting the conditions for capitalisation, is written off as incurred and charged to the Income Statement.

Where the research and development activity is performed on behalf of customers, the revenue arising is recognised in the Income Statement in accordance with the Company's revenue recognition policy.

#### 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.

If a right-of-use asset meets the definition of investment property, the Company applies the requirements of IAS 40.

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

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

## **Notes to the Financial Statements**

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### **2. Accounting policies (continued)**

#### **2.7 Impairment**

The carrying amounts of the Company's intangible assets, property, plant and equipment and right-of-use assets, 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. For intangible assets that are not yet available for use, impairment testing is performed annually.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the Income Statement.

An impairment loss in respect of intangible assets, property, plant and equipment 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.

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, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **2.8 Investments**

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

#### **2.9 Inventories**

Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value. Inventory is valued using moving average unit cost method.

#### **2.10 Trade, contract and other receivables**

Trade and other receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

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

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.

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.11 Trade, contract and other payables

Trade and other payables are stated at amortised cost.

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

#### 2.12 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.

##### *Warranties and after-sales service*

Warranties and after-sales service are provided in the normal course of business with provisions for associated costs being made based on an assessment of future claims with reference to past experience. A provision for warranties is recognised when the underlying products and services are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

##### *Contract loss*

The Company holds provisions for expected legal, contractual and environmental costs that it expects to incur over an extended period. Management exercises judgement to determine the amount of these provisions. Provision is made for known issues based on past experience of similar items and other known factors. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount, being the single most likely amount in a range of possible outcomes.

#### 2.13 Share-based payments

BAE Systems plc, the Company's ultimate parent company, issues equity-settled share options to employees of the Company. In accordance with the requirements of IFRS 2 Share-based Payment, the Company has recognised a charge for the equity-settled share options issued to its employees.

Equity-settled share options and long-term incentive plan arrangements are measured at fair value at the date of grant using an option pricing model.

The fair value is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will actually vest.

#### 2.14 Dividends

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

#### 2.15 Interest income and borrowing costs

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

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.16 Foreign currencies**

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

**2.17 Financial instruments**

*Derivative financial instruments and hedging activities*

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

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

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

*Fair value through profit or loss*

Gains and losses on derivative financial instruments that are not designated as cash flow hedges are recognised within finance costs in the income statement for the period.

*Cash flow hedges*

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

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.18 Tax**

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

*Current tax*

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

*Deferred tax*

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

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to corporate 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.

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.19 Retirement benefits**

*Defined contribution pension schemes*

A defined contribution pension scheme is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions are recognised as an expense in the Income Statement as incurred.

*Defined benefit pension schemes*

The cost of providing benefits is determined periodically by independent actuaries and charged to the Income Statement in the period in which those benefits are earned by the employees. Remeasurements, including actuarial gains and losses, are recognised in the Statement of Comprehensive Income in the period in which they occur. Past service costs resulting from a plan amendment or curtailment are recognised immediately in the Income Statement.

The retirement benefit surpluses and obligations recognised in the Company's Balance Sheet represents the fair value of scheme assets, less the present value of the defined benefit obligations calculated using a number of actuarial assumptions as set out on page 49. The bid values of scheme assets are not intended to be realised in the short term and may be subject to significant change before they are realised. The present values of scheme liabilities are derived from cash flow projections over long periods and are, therefore, inherently uncertain.

IAS 19 Employee Benefits limits the measurement of a defined benefit surplus to the lower of the surplus in the defined benefit scheme and the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme. IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, issued in 2007, provides an interpretation of the requirements of IAS 19, clarifying that a refund is available if the entity has an unconditional right to a refund in certain circumstances. The Company has applied IFRIC 14 and has determined that there is no limit on the recognition of the surpluses in its defined benefit pension schemes as at 31 December 2024. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Company, which is assumed to be via a refund. These have been recognised after deducting a 25% (2023 35%) withholding tax which would be levied prior to the future refunding of any surplus and have been presented on a net basis as this is not deemed to be an income tax of the Company.

The Company participates in a number of group and multi-employer schemes administered by its ultimate parent company, BAE Systems plc. A share of the IAS 19 Employee Benefits pension deficit has been allocated to all participating employers. The Company has recognised only its share of the IAS 19 pension surpluses and deficits based on liability agreements and on the relative shares of contributions paid into the schemes. Whilst this methodology is intended to reflect a reasonable estimate of the share of the surplus or deficit, it may not accurately reflect the obligations of the participating employers. In the event that an employer who participates in BAE Systems plc's pension schemes fails or cannot be compelled to fulfil its obligations as a participating employer, the remaining participating employers are obliged to collectively take on its obligations. The Company considers the likelihood of this event arising as remote.

**Notes to the Financial Statements**

**3. Revenue**

Revenue by reporting segment:

	<b>2024</b>	2023
	<b>£000</b>	£000
External sales	348,258	253,174
Intercompany sales	21,700	26,350
	<u>369,958</u>	<u>279,524</u>

Revenue by customer location:

	<b>2024</b>	2023
	<b>£000</b>	£000
United Kingdom	361,114	264,099
Rest of Europe	6,072	12,417
Rest of the world	2,772	3,008
	<u>369,958</u>	<u>279,524</u>

**4. Operating costs**

	<b>2024</b>	2023
	<b>£000</b>	£000
Inventory recognised as an expense	172,424	101,139
Staff costs (note 9)	80,017	70,465
Depreciation of fixed assets	10,331	11,931
Depreciation of right-of-use assets	5,937	5,890
Amortisation of intangible assets	190	172
Impairment of fixed assets	-	335
Other operating charges	72,775	65,848
	<u>341,674</u>	<u>255,780</u>

The remuneration of the auditor for the year ended 31 December 2024 for auditing of the financial statements was £224k (2023: £224k) and £nil (2023: £nil) in respect of non-audit work.

Total research and development expenditure was £7,614k (2023: £3,255k), of which £4,233k (2023: £2,515k) was funded by the Company.

**Notes to the Financial Statements**

**5. Other income**

	<b>2024</b>	<b>2023</b>
	<b>£000</b>	<b>£000</b>
Royalty income	716	762
Other operating income	3,628	1,547
	<b>4,344</b>	<b>2,309</b>
	<b>4,344</b>	<b>2,309</b>

**6. Income from investments**

	<b>2024</b>	<b>2023</b>
	<b>£000</b>	<b>£000</b>
Dividends from investments	2,709	2,243
	<b>2,709</b>	<b>2,243</b>
	<b>2,709</b>	<b>2,243</b>

**7. Financial income**

	<b>2024</b>	<b>2023</b>
	<b>£000</b>	<b>£000</b>
Net interest income on retirement benefit obligations (note 16)	3,700	4,800
	<b>3,700</b>	<b>4,800</b>
	<b>3,700</b>	<b>4,800</b>

**8. Financial expense**

	<b>2024</b>	<b>2023</b>
	<b>£000</b>	<b>£000</b>
Foreign exchange losses	40	36
Interest expense on lease liabilities (note 14)	4,158	4,257
	<b>4,198</b>	<b>4,293</b>
	<b>4,198</b>	<b>4,293</b>

**Notes to the Financial Statements**

**9. Employees**

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

	<b>2024</b>	2023
	<b>No.</b>	No.
Business Development	9	8
Commercial	20	18
Early careers	66	54
Engineering	332	300
Finance	26	24
Health & Safety	19	19
HR	5	5
IT	17	15
Leadership team	14	14
Legal	10	8
Production	802	673
Purchasing	36	28
Security	10	7
	<u>1,366</u>	<u>1,173</u>

The aggregate staff costs of Company employees were as follows:

	<b>2024</b>	2023
	<b>£000</b>	£000
Wages and salaries	63,954	56,393
Social security costs	7,265	6,022
Cost of defined benefit pension scheme (note 16)	3,100	4,100
Cost of defined contribution pension scheme (note 16)	3,699	2,469
Share-based payments (note 25)	1,999	1,481
	<u>80,017</u>	<u>70,465</u>

**Notes to the Financial Statements**

**10. Directors' remuneration**

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

	<b>2024</b>	2023
	<b>£000</b>	£000
Directors' remuneration	504	474
Company contributions to money purchase pension schemes	15	35
	<u>519</u>	<u>509</u>

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

	<b>2024</b>	2023
	<b>Number of directors</b>	Number of directors
Defined contribution schemes	2	2

	<b>2024</b>	2023
	<b>Number of directors</b>	Number of directors
Number of directors who exercised share options	1	-
Number of directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	1	1

Amounts paid in respect of the highest paid director were as follows:

	<b>2024</b>	2023
	<b>£000</b>	£000
Remuneration and amounts receivable under long-term incentive schemes	323	296
Company contributions to money purchase pension schemes	8	19
	<u>331</u>	<u>315</u>

**Notes to the Financial Statements**

**11. Tax**

	<b>2024</b>	<b>2023</b>
	<b>£000</b>	<b>£000</b>
<b>Current tax</b>		
UK:		
Current tax	(1,681)	(1,090)
Adjustments in respect of prior years	43	(103)
	<u>(1,638)</u>	<u>(1,193)</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(4,540)	(2,180)
Tax rate adjustment <sup>1</sup>	-	21
Adjustments in respect of prior years	(347)	(1,116)
	<u>(4,887)</u>	<u>(3,275)</u>
	<u>(6,525)</u>	<u>(4,468)</u>
<b>Tax (expense)</b>		

**Reconciliation of tax result**

The following reconciles the expected tax expense, using the UK corporation tax rate, to the reported tax (expense)/income:

	<b>2024</b>	<b>2023</b>
	<b>£000</b>	<b>£000</b>
<b>Profit before tax</b>	34,839	28,803
	<u>25.00%</u>	<u>23.52%</u>
Expected tax expense on profit	(8,710)	(6,775)
Expenses not tax effected	(15)	(27)
Income not subject to tax	864	552
Property, plant and equipment	(156)	(419)
Provisions and accruals	-	(6)
Retirement benefit schemes	1,525	1,529
Share-based payments	(207)	(105)
Imputed expense	478	536
Losses received from fellow group companies	-	1,445
Adjustments in respect of prior years	(304)	(1,219)
Tax rate adjustment <sup>1</sup>	-	21
	<u>(6,525)</u>	<u>(4,468)</u>
<b>Tax (expense)</b>		

**Notes to the Financial Statements**

**11. Tax (continued)**

The UK corporation tax rate increased from 19% to 25% with effect from 1 April 2023. A blended rate of 23.52% is used in the prior year comparative column above to reflect this change.

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

**Tax recognised in other comprehensive income**

	2024			2023		
	Before tax £000	Tax benefit/ (expense) £000	Net of tax £000	Before tax £000	Tax benefit/ (expense) £000	Net of tax £000
<b>Items that will not be reclassified to the Income Statement:</b>						
Remeasurements on retirement benefit schemes	3,500	-	3,500	(18,200)	1	(18,199)
<b>Items that may be reclassified to the Income Statement:</b>						
Fair value gain/(loss) arising on hedging instruments during the year	570	(143)	427	(3,486)	791	(2,695)
Cumulative fair value gain on hedging instruments reclassified to the income statement	(2,118)	530	(1,588)	(1,895)	474	(1,421)
	1,952	387	2,339	(23,581)	1,266	(22,315)

**Notes to the Financial Statements**

**11. Tax (continued)**

	2024			2023		
	Other reserves £000	Retained earnings £000	Total £000	Other reserves £000	Retained earnings £000	Total £000
<b>Current tax</b>						
Retirement benefit schemes	-	-	-	-	897	897
	-	-	-	-	897	897
<b>Deferred tax</b>						
Financial instruments	387	-	387	1,265	-	1,265
Retirement benefit schemes	-	-	-	-	(896)	(896)
	387	-	387	1,265	(896)	369
<b>Tax on other comprehensive income</b>	387	-	387	1,265	1	1,266

<sup>1</sup>The deferred tax asset at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse. The resulting tax rate adjustment is included in the prior year comparative column above.

**Notes to the Financial Statements**

**12. Intangible assets**

	<b>Computer software £000</b>
<b>Cost</b>	
At 1 January 2024	8,334
Additions	5,578
Transfer from tangible assets	110
At 31 December 2024	14,022
<b>Amortisation</b>	
At 1 January 2024	376
Amortisation charge for the year	190
At 31 December 2024	566
<b>Net book value</b>	
At 31 December 2024	13,456
At 31 December 2023	7,958
<b>Non amortised assets</b>	
Assets under construction as at 31 December 2024	13,043
Assets under construction as at 31 December 2023	7,486

**Capital commitments**

Capital expenditure contracted for but not provided for in full in the financial statements is £1,881k (2023: £4,864k).

**Notes to the Financial Statements**

**13. Property, plant and equipment**

	Land and buildings £000	Plant and machinery £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2024	77,734	197,741	275,475
Additions	26,587	25,670	52,257
Transfers between classes	8	(8)	-
Disposals	-	(1,383)	(1,383)
Transfer to intangible assets	-	(110)	(110)
<b>At 31 December 2024</b>	<b>104,329</b>	<b>221,910</b>	<b>326,239</b>
<b>Depreciation</b>			
At 1 January 2024	19,495	145,601	165,096
Depreciation charge for the year	2,760	7,571	10,331
Disposals	-	(1,383)	(1,383)
<b>At 31 December 2024</b>	<b>22,255</b>	<b>151,789</b>	<b>174,044</b>
<b>Net book value</b>			
<b>At 31 December 2024</b>	<b>82,074</b>	<b>70,121</b>	<b>152,195</b>
At 31 December 2023	58,239	52,140	110,379
<b>Non-depreciated assets:</b>			
Assets in course of construction			
<b>At 31 December 2024</b>	<b>54,107</b>	<b>34,916</b>	<b>89,023</b>
At 31 December 2023	28,286	22,926	51,212

**Capital commitments**

Capital expenditure contracted for but not provided for in full in the financial statements is £28,306k (2023: £13,078k).

**Notes to the Financial Statements**

**14. Leases**

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

	2024		
	Land and buildings £000	Plant and machinery £000	Total £000
Opening net book value as at 01 January	77,891	1,774	79,665
Additions during the year	-	717	717
Modifications	(80)	-	(80)
Depreciation expense for the year	(5,257)	(680)	(5,937)
Closing net book value as at 31 December	72,554	1,811	74,365
	2023		
	Land and buildings £000	Plant and machinery £000	Total £000
Opening net book value as at 01 January	83,691	1,993	85,684
Additions during the year	-	351	351
Modifications	(535)	55	(480)
Depreciation expense for the year	(5,265)	(625)	(5,890)
Closing net book value as at 31 December	77,891	1,774	79,665

**Notes to the Financial Statements**

**14. Leases (continued)**

**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.

	<b>2024</b>	<b>2023</b>
	<b>£000</b>	<b>£000</b>
Payments due:		
Within one year	8,300	7,944
Between one and five years	33,144	32,517
Later than five years	85,884	94,105
	127,328	134,566
Impact of discounting	(40,324)	(44,388)
Total discounted lease liability	87,004	90,178

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2024, amounted to £7,968k (2023: £7,822k).

**Amounts recognised in the Income Statement**

	<b>2024</b>	<b>2023</b>
	<b>£000</b>	<b>£000</b>
<b>Included in operating costs:</b>		
Depreciation on right-of-use assets	5,937	5,890
<b>Included in net finance costs:</b>		
Interest expense on lease liabilities	4,158	4,257

**Notes to the Financial Statements**

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**15. Investments**

	<b>Subsidiary companies £000</b>
<b>Cost</b>	
At 1 January 2024	15,149
<b>At 31 December 2024</b>	<u>15,149</u>

**Impairment testing**

During the year, management conducted an impairment review of the investments held by the Company. As a result of this review, there were no impairment reversals required.

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 growth rate assumptions in the range 0% to 2% applied. The IBP process includes the use of historic experience, available government spending data and the BAE Systems plc Group's order backlog. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 7.75% (2023: 8.0%) (adjusted for risks specific to the market in which the cash-generating unit operates), have been used in discounting these projected risk-adjusted cash flows.

**Notes to the Financial Statements**

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**15. Investments (continued)**

**Subsidiary undertakings and participating interests at 31 December 2024**

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2024 is disclosed below. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned directly by the Company and, unless otherwise stated, have a financial year end of 31 December.

<b>Company name</b>	<b>Class of shares held</b>	<b>Proportion of class (%)</b>
Royal Ordnance (Crown Service) Pension Scheme Trustees Limited <i>Victory Point, Lyon Way, Frimley, Camberley, Surrey, GU16 7EX, England, United Kingdom</i>	Ordinary shares of £1	100%
Royal Ordnance Senior Staff Pension Scheme Trustees Limited <i>Victory Point, Lyon Way, Frimley, Camberley, Surrey, GU16 7EX, England, United Kingdom</i>	Ordinary shares of £1	100%
International Military Sales Limited <i>Victory Point, Lyon Way, Frimley, Camberley, Surrey, GU16 7EX, England, United Kingdom</i>	Ordinary shares of £1	100%
CTA International SAS <i>13 Route De La Miniere, 78000 Versailles, France</i>	Ordinary shares of €15	50%

**Notes to the Financial Statements**

**16. Retirement benefit obligations**

**Background**

BAE Systems plc operates pension schemes for qualifying employees in the UK, US and other countries. The principal schemes in the UK are funded defined benefit schemes and the assets are held in separate trustee-administered funds. The allocation of each Company's share of the pension deficit is based on the relative payroll contributions of active members, as outlined on page 31.

At 31 December 2024, the weighted average duration of the UK defined benefit pension obligations was 12 years (2023 13 years).

The Company participates in the following BAE Systems plc schemes: BAE Systems Pension Scheme (Main Scheme) and Royal Ordnance Pension Scheme (ROPS).

The split of the defined benefit pension liability on a funding basis between active, deferred and pensioner members is set out below:

	Active %	Deferred %	Pensioner %
Main Scheme <sup>1</sup>	27	19	54
Royal Ordnance Pension Scheme <sup>2</sup>	12	16	72

1. Source: 31 March 2024 actuarial valuation report.
2. Source: 31 March 2022 actuarial valuation report.

**Regulatory framework**

The funded UK schemes are registered and subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund as set out in the Pension Act 2004. These schemes were established under trust and the responsibility for their governance lies jointly with the trustees and BAE Systems plc.

**Benefits**

The UK defined benefit schemes provide benefits to members in the form of a set level of pension payable for life based on members' final salaries. The majority of benefits attract inflation-related increases both in deferment and payment. All UK defined benefit schemes are closed to new entrants, with benefits for new employees being provided through a defined contribution scheme. The Normal Retirement Age for the majority of active members of the Main Scheme is 65. Specific benefits applicable to members differ between schemes. Further details on the benefits provided by each scheme are provided on the BAE Systems Pensions website: [www.baesystems.com/en-pensions/home](http://www.baesystems.com/en-pensions/home).

**Funding**

**Introduction**

Disclosures in respect of pension funding provided below reflect the pension schemes as a whole. Disclosures in respect of pension accounting under IAS 19 are provided on pages 49 - 54.

The majority of the UK defined benefit pension schemes are funded by BAE Systems plc's subsidiaries and equity accounted investments. The individual pension schemes' funding requirements are based on actuarial measurement frameworks set out in their funding policies.

**Notes to the Financial Statements**

**16. Retirement benefit obligations (continued)**

The funding valuations are performed by professional qualified independent actuaries and include assumptions which differ from the actuarial assumptions used for IAS 19 accounting purposes shown on page 49. The purpose of the funding valuations is to design funding plans which ensure that the schemes have sufficient funds available to meet future benefit payments.

**Valuations**

Funding valuations of the UK defined benefit schemes are performed at least every three years. The most recent triennial funding valuation for the Main Scheme was carried out as at 31 March 2024. This valuation was concluded and signed off on 6 February 2025.

The results of the most recent triennial valuations are shown below. These valuations and, where necessary, deficit recovery plans were agreed with the trustees and certified by the scheme actuaries after consultation with The Pensions Regulator in the UK.

	Main Scheme as at 31 March 2024 £bn	ROPS as at 31 March 2022 £bn
Market value of assets	19.2	1.5
Present value of liabilities	(18.4)	(1.5)
Funding surplus	0.8	-
Percentage of accrued benefits covered by the assets at the valuation date	104%	102%

The valuations were determined using the following mortality assumptions:

Life expectancy of a male currently aged 65 (years)	86 – 89
Life expectancy of a female currently aged 65 (years)	88 – 90
Life expectancy of a male currently aged 45 (years)	88 – 91
Life expectancy of a female currently aged 45 (years)	90 – 93

As part of the process of the Main Scheme's 2021 valuation, the Trustees and the Group agreed to update the methodology to use a cash flow matching strategy, such that assets are invested with the aim of the expected income directly matching the expected benefit payments of the Main Scheme. The most recent triennial valuation at 31 March 2024 has been carried out using the same principles. The cash flow matching strategy aims to manage risk through a defined amount of risk buffer assets, which equate to the agreed prudence margin in the valuation. The risk buffer assets are measured over time to ensure the Main Scheme is sufficiently funded. The asset portfolio is currently invested in a selection of bonds designed to match the pension payments for current pensioners, as well as a mix of growth-seeking assets aimed to generate returns for the pension payments for future pensioners.

Over time, assets from the return-seeking portfolio will be realised to purchase additional, lower-risk assets to match the increasing current pensioner payments. The valuations for the other schemes use a different method in that discount rates were directly based on prudent levels of expected returns for the assets held by the schemes, reflecting the planned investment strategies and maturity profiles of each scheme. The discount rates are curves which provide a different rate for each year into the future. Under IAS 19, the discount rate for accounting purposes is based on third-party AA corporate bond yields.

**Notes to the Financial Statements**

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**16. Retirement benefit obligations (continued)**

The inflation assumptions for each of the valuations were derived based on the difference between the yields, on index-linked and fixed interest long-term government bonds. The inflation assumption is a curve which provides a different rate for each year into the future.

There have been no changes to the contributions or benefits, as set out in the rules of the schemes, for pension scheme members as a result of the new funding valuations.

The results of future triennial valuations and associated funding requirements will be impacted by a number of factors, including the future performance of investment markets and anticipated members' longevity.

**Contributions**

Under the terms of the trust deeds of the UK schemes, BAE Systems plc is required to have a funding plan determined at the conclusion of the triennial funding valuations.

The total Company contributions made to the defined benefit schemes in the year ended 31 December 2024 were £6,700k (2023 £7,200k). Contributions in 2025 to the Group's pension schemes are expected to be at a lower level than 2024, primarily reflecting the impact of updated market conditions on the cost of benefit accrual.

Notes to the Financial Statements

16. Retirement benefit obligations (continued)

**Risk management**

The defined benefit pension schemes expose the Company to actuarial risks, including market (investment) risk, interest rate risk, inflation risk and longevity risk.

Risk	Mitigation
<p><b>Market (investment) risk</b> Asset returns may not move in line with the liabilities and may be subject to volatility.</p>	<p>The investment portfolios are highly diversified, investing in a wide range of assets, in order to reduce the exposure of the total portfolio to a materially adverse impact from a single security or type of security. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of index-linked bonds, gilts and swaps, designed to mirror movements in corresponding liabilities.</p> <p>Environmental (including exposure to climate related risks), Social and Governance (ESG) factors are incorporated into the investment analysis and decision-making process carried out by the Trustees of the UK schemes. There is alignment between the UK Main Scheme and Company's climate change objectives with consistent long-term net zero ambitions.</p>
<p><b>Interest rate risk</b> Liabilities are sensitive to movements in interest rates, with lower interest rates leading to an increase in the valuation of liabilities.</p>	<p>The Main Scheme has adopted a cash flow matching strategy, whereby contractual income from assets is designed to directly match benefits paid to members each year. A portfolio of assets with contractual income has been structured to match benefits already in payment, representing around half of the liabilities. This inherently hedges the associated interest rate risk. As members retire and become pensioners, additional matching assets will be purchased to keep pace. Interest rate risk associated with the remaining purchase of matching assets is mitigated via a hedging strategy involving mainly physical assets and derivatives. The overall level of interest rate hedging on the funding basis has increased over the years.</p>
<p><b>Inflation risk</b> Liabilities are sensitive to movements in inflation, with higher inflation leading to an increase in the valuation of liabilities.</p>	<p>The Main Scheme's cash flow matching strategy includes aligning asset income to the inflation-linked members' benefit payments. Inflation risk is mitigated by the presence of caps on most inflation linked benefits and via a hedging strategy, executed with several banks to reduce counterparty risk. The overall level of inflation hedging on the funding basis has increased over the years.</p> <p>In 2014, the Main Scheme implemented a pension increase exchange to allow retired members to elect for a higher current pension in exchange for foregoing certain rights to future pension increases.</p>
<p><b>Longevity risk</b> Liabilities are sensitive to life expectancy, with increases in life expectancies leading to an increase in the valuation of liabilities.</p>	<p>Longevity adjustment factors are used in the majority of the UK pension schemes in order to adjust the pension benefits payable so as to share the cost of people living longer with employees.</p> <p>In 2013, with the agreement of BAE Systems plc, the trustees of the 2000 Plan, Royal Ordnance Pension Scheme and Shipbuilding Industries Pension Scheme (SIPS) entered into arrangements with Legal &amp; General to insure against longevity risk for the current pensioner population, covering a total of £4.4bn of pension scheme liabilities. These arrangements reduce the funding volatility relating to increasing life expectancy. This longevity risk cover with Legal &amp; General remains in place following the merger of the 2000 Plan and SIPS into the Main Scheme.</p>

## Notes to the Financial Statements

### 16. Retirement benefit obligations (continued)

#### Virgin Media case

As noted in the 2023 Annual Report and Financial Statements, the Company is aware of the 'Virgin Media v NTL Pension Trustees Ltd and others' case and continues to monitor developments in this area of the law with the help of its advisors. Following the Court of Appeal's decision to uphold the ruling of the High Court against Virgin Media, the Company has been considering the extent to which the defined benefit schemes are exposed to the outcomes of this case and any resulting change in pension obligations, if any, is not anticipated to be material to the Company. The Company is therefore satisfied that it remains appropriate to make no adjustment to the financial statements on this basis but will keep the matter under review.

#### IAS 19 Accounting

The disclosures below relate to pension schemes in the UK which are accounted for as defined benefit schemes in accordance with IAS 19.

#### Principal actuarial assumptions

The assumptions used are estimates chosen from a range of possible actuarial assumptions which, due to the long-term nature of the obligation covered, may not necessarily occur in practice.

	2024	2023	2022
<b>Financial assumptions</b>			
Discount rate – past service (%)	5.5	4.5	4.8
Discount rate – future service (%)	5.6	4.6	4.8
Retail Prices Index (RPI) inflation (%)	2.9	2.8	3.0
Rate of increase in salaries (%)	2.9	2.8	3.0
Rate of increase in deferred pensions (%)	2.3/2.9	2.1/2.8	2.3/3.0
Rate of increase in pensions in payment (%)	1.7 – 3.6	1.6 – 3.6	1.7 – 3.6
<b>Demographic assumptions</b>			
Life expectancy of a male currently aged 65 (years)	85 – 88	85 – 89	86 – 89
Life expectancy of a female currently aged 65 (years)	88 – 91	88 – 89	88 – 90
Life expectancy of a male currently aged 45 (years)	86 – 89	86 – 89	87 – 90
Life expectancy of a female currently aged 45 (years)	89 – 92	89 – 90	89 – 91

#### Discount rate

The discount rate assumptions are derived through discounting the projected benefit payments of the principal schemes using a third-party AA corporate bond yield curve to produce a single equivalent discount rate. This inherently captures the maturity profile of the expected benefit payments. The discount rate used for future service differs from that used for past service as it only uses the cash flows relating to active members, which have a different duration. Further information on the duration of the schemes is detailed on page 45.

#### Retail Prices Index (RPI) and Consumer Prices Index (CPI) inflation

The inflation assumptions are derived by reference to the difference between the yields on index-linked and fixed-interest long-term government bonds. Index-linked government bonds contain a premium that investors are willing to pay to mitigate the risk that RPI inflation is higher than expected. To account for this, the RPI assumption includes an inflation risk premium deduction.

**Notes to the Financial Statements**

**16. Retirement benefit obligations (continued)**

The inflation risk premium deduction has been set at 0.55% per annum (2023 0.55%) and the CPI assumption has been set at 0.6% per annum (2023 0.7%) lower than RPI. The resulting RPI assumption is 2.9% per annum and the CPI assumption is 2.3% per annum. The 0.6% per annum RPI-CPI differential is a weighted average of a 1% per annum differential pre-2030 and 0.1% per annum differential post-2030; this reflects the anticipated change to the RPI index from 2030.

*Rate of increase in salaries*

The rate of increase in salaries for the UK schemes is assumed to be RPI inflation of 2.9% (2023 2.8%), plus a promotional scale.

*Rate of increase in deferred pensions*

The rate of increase in deferred pensions for the UK schemes is based on Consumer Prices Index (CPI) inflation of 2.3% (2023 CPI inflation of 2.1%), with the exception of the legacy 2000 Plan, which is based on RPI inflation of 2.9% (2023 RPI inflation of 2.8%). The rate of increase in deferred pensions is subject to inflation caps.

*Rate of increase in pensions in payment*

The rate of increase in pensions in payment differs between UK schemes. Different tranches of the schemes' benefits increase at rates based on either RPI or CPI inflation, and some are subject to an inflation cap.

*Life expectancy*

The Company has used the Self-Administered Pension Schemes S3 mortality tables based on year of birth (as published by the Institute of Actuaries) for both pensioner and non-pensioner members in conjunction with the results of an investigation into the actual mortality experience of scheme members and information on the demographic profile of the scheme's membership.

In addition, to allow for future improvements in longevity, the Continuous Mortality Investigation 2023 tables (published by the Institute of Actuaries) have been used (in 2023, the Continuous Mortality Investigation 2022 tables were used), with an assumed long-term rate of future annual mortality improvements of 1.0% per annum (2023 1.0%), an initial rate adjustment parameter ('A') of 0.2% (2023 0.2%), a smoothing parameter ('S<sub>k</sub>') of 7 (2023 7) and the following weighting ('W') parameters: W2023 35%, W2022 35% (2023 35%); W2021 0% (2023 0%); and W2020 0% (2023 0%).

The disclosures below are in respect of the Company's share of the IAS 19 deficit using the allocation methodology outlined on page 31.

**Summary of movements in retirement benefit obligations**

	<b>£m</b>
Company's share of IAS 19 surplus at 1 January 2024	54.0
Actual return on assets excluding amounts included in net finance costs	(80.7)
Decrease in liabilities due to changes in assumptions and experience	76.4
Contributions in excess of service cost	2.4
Net interest income	3.7
Movement in withholding tax on surpluses	7.8
<b>Company's share of IAS 19 surplus at 31 December 2024</b>	<b>63.6</b>

Notes to the Financial Statements

16. Retirement benefit obligations (continued)

**Surplus recognition**

All funded UK schemes are in an accounting surplus position. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Company, which is assumed to be via a refund. The surplus has been recognised net of withholding tax of 25% at 31 December 2024 (2023: 35%) based on the enacted legislation at that date. This tax would be levied prior to the future refunding of any surplus and therefore the surplus has been presented on a net basis as this is not deemed to be an income tax of the Company.

**Amounts recognised in the Balance Sheet**

	2024 £m	2023 £m
Present value of funded obligations	(672.4)	(764.4)
Fair value of scheme assets	757.2	847.4
Withholding tax on surpluses	(21.2)	(29.0)
<b>Company's share of IAS 19 surpluses, net</b>	<b>63.6</b>	<b>54.0</b>
Represented by:		
Retirement benefit surpluses	63.6	54.0
Retirement benefit obligations	-	-
	<b>63.6</b>	<b>54.0</b>

**Changes in the fair value of scheme assets**

	£m
Company's share of the value of scheme assets at 1 January 2023	<b>882.1</b>
Interest income	40.4
Actual return on assets excluding amounts included in interest income	(31.9)
Actual return on assets	8.5
Contributions by employer	5.8
Contributions by employer in respect of employee salary sacrifice arrangements	1.4
Total contributions by employer	7.2
Members' contributions	0.1
Administrative expenses	(2.5)
Benefits paid	(48.0)
Company's share of the value of scheme assets at 31 December 2023	<b>847.4</b>
Interest income	36.2
Actual return on assets excluding amounts included in interest income	(80.7)
Actual return on assets	(44.5)
Contributions by employer	5.5
Contributions by employer in respect of employee salary sacrifice arrangements	1.2
Total contributions by employer	6.7
Members' contributions	0.1
Administrative expenses	(1.6)
Benefits paid	(50.9)
<b>Company's share of the value of scheme assets at 31 December 2024</b>	<b>757.2</b>

Notes to the Financial Statements

16. Retirement benefit obligations (continued)

*Assets of defined benefit pension schemes*

	2024			2023		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:						
UK	-	-	-	-	-	-
Overseas	40.6	-	40.6	36.8	-	36.8
Pooled investment vehicles <sup>1</sup>	-	211.6	211.6	-	236.1	236.1
Fixed interest securities:						
UK gilts	178.9	-	178.9	213.9	-	213.9
UK corporates	96.9	20.3	117.2	109.8	21.9	131.7
Overseas government	0.9	-	0.9	0.5	-	0.5
Overseas corporates	153.8	-	153.8	149.2	-	149.2
Index-linked securities:						
UK gilts	206.4	-	206.4	240.2	-	240.2
UK corporates	7.8	-	7.8	13.2	-	13.2
Overseas corporates	0.1	-	0.1	0.4	-	0.4
Property <sup>2</sup>	-	16.2	16.2	-	18.1	18.1
Derivatives <sup>3</sup>	-	(222.3)	(222.3)	-	(296.6)	(296.6)
Cash:						
Sterling	14.3	24.3	38.6	8.4	92.5	100.9
Foreign currency	1.0	0.2	1.2	3.1	(0.2)	2.9
Other	-	6.2	6.2	-	0.1	0.1
<b>Company total</b>	<b>700.7</b>	<b>56.5</b>	<b>757.2</b>	<b>775.5</b>	<b>71.9</b>	<b>847.4</b>

1. Primarily invested in private markets and exchange traded funds. The amounts classified as unquoted primarily comprise investments in private markets, with the majority held in infrastructure, alternatives and direct funds, valued in accordance with International Private Equity and Venture Capital Valuation Guidelines.

2. Valued on the basis of open market value at the end of the year determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Note contained therein.

3. Includes forward foreign exchange contracts, futures, and interest rate, inflation and longevity swaps. The valuations are based on valuation techniques using underlying market data and discounted cash flows.

**Longevity swap**

The Company holds longevity insurance contracts for some of its UK defined benefit pension schemes. These provide long-term protection and income to the underlying pension scheme in the event that insured members live longer than expected.

The value of the longevity insurance contracts held by the Company are calculated by an actuary. At a high level, they are measured by discounting the difference between the projected fixed and floating cash flows payable under the contracts, excluding the value of future projected fees. The significant assumptions used for this valuation are the discount rate and mortality assumptions; fair values for these assumptions are advised by an actuary based on external data and characteristics of the insured member population.

**Notes to the Financial Statements**

**16. Retirement benefit obligations (continued)**

As at 31 December 2024, the longevity swap valuation leads to a negative adjustment to the assets which reflects that experience to date on the contracts has been higher than expected deaths.

*Changes in the present value of the defined benefit obligations*

	£m
Company's share of the defined benefit obligations at 1 January 2023	<b>(781.0)</b>
Current service cost	(1.6)
Contributions by employer in respect of employee salary sacrifice arrangements	(1.4)
Total current service cost	(3.0)
Members' contributions	(0.1)
Actuarial gain due to changes in assumptions and experience	7.3
Interest expense	(35.6)
Benefits paid	48.0
Company's share of the defined benefit obligations at 31 December 2023	<b>(764.4)</b>
Current service cost	(1.5)
Contributions by employer in respect of employee salary sacrifice arrangements	(1.2)
Total current service cost	(2.7)
Members' contributions	(0.1)
Actuarial gain due to changes in assumptions and experience	76.4
Interest expense	(32.5)
Benefits paid	50.9
<b>Company's share of the defined benefit obligations at 31 December 2024</b>	<b>(672.4)</b>

*Amounts recognised in the Income Statement*

	2024 £m	2023 £m
<b>Included in operating costs:</b>		
Current service cost	<b>(1.5)</b>	(1.6)
Administrative expenses	<b>(1.6)</b>	(2.5)
	<b>(3.1)</b>	(4.1)
<b>Included in finance costs:</b>		
Net interest income on retirement benefit obligations	<b>3.7</b>	4.8

The Company incurred a charge of £3,699k (2023 £2,469k) in relation to defined contribution schemes for employees.

**Sensitivity analysis**

The sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 December 2024 and keeping all other assumptions as set out on page 43.

The pension schemes hold a number of unquoted pooled investment vehicles, which are investments in private markets. These are valued based on latest available valuation reports, and as noted on page 15, these valuations are subject to estimation uncertainty as their valuation techniques incorporate a number of assumptions, including those associated with the impact of climate change.

Notes to the Financial Statements

16. Retirement benefit obligations (continued)

*Financial assumptions*

The estimated impact of changes in the discount rate and inflation assumptions on the defined benefit pension obligation, together with the estimated impact on scheme assets, is shown in the table below. The sensitivity analysis on the defined benefit obligation is measured on an IAS 19 accounting basis.

	Decrease/ (increase) in pension obligation <sup>1</sup>	(Decrease)/ increase in scheme assets <sup>1</sup>
	£m	£m
<b>Discount rate:</b>		
0.5 percentage point increase/decrease	32/(35)	(41)/42
1.0 percentage point increase/decrease	61/(73)	(81)/86
2.0 percentage point increase/decrease	113/(162)	(159)/176
	(Increase)/ decrease in pension obligation <sup>1</sup>	(Increase)/ decrease in scheme assets <sup>1</sup>
<b>Inflation:</b>		
0.1 percentage point increase/decrease	(4)/4	5/(5)
0.5 percentage point increase/decrease	(23)/22	27/(27)
1.0 percentage point increase/decrease	(46)/42	56/(53)

1. Before deduction of withholding tax.

*Demographic assumptions*

Changes in the life expectancy assumption, including the benefit of longevity swap arrangements, would have the following effect on the net IAS 19 deficit:

	(Decrease)/ increase in net surplus <sup>1</sup>
	£m
<b>Life expectancy:</b>	
One-year increase	(16)
One-year decrease	16

1. Before deduction of withholding tax.

**Notes to the Financial Statements**

**17. Other financial assets and liabilities**

	2024 £000	2023 £000
<b>Financial assets</b>		
<b>Non-current</b>		
Cash flow hedges – foreign exchange contracts	267	-
<b>Current</b>		
Cash flow hedges – foreign exchange contracts	360	330
<b>Financial liabilities</b>		
<b>Non-current</b>		
Cash flow hedges – foreign exchange contracts	(1,105)	(2,695)
<b>Current</b>		
Cash flow hedges – foreign exchange contracts	(1,647)	(1,102)

**Notes to the Financial Statements**

**18. Deferred tax**

**Deferred tax assets/(liabilities)**

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2024 £000	2023 £000	2024 £000	2023 £000	2024 £000	2023 £000
Property, plant and equipment	-	-	(11,232)	(6,431)	(11,232)	(6,431)
Provisions and accruals	140	226	-	-	140	226
Financial instruments	923	913	-	-	923	913
<b>Deferred tax assets/(liabilities)</b>	<b>1,063</b>	<b>1,139</b>	<b>(11,232)</b>	<b>(6,431)</b>	<b>(10,169)</b>	<b>(5,292)</b>

**Movement in temporary differences during the year**

	At 1 January 2024 £000	Recognised in income £000	Recognised in equity £000	At 31 December 2024 £000
Property, plant and equipment	(6,431)	(4,801)	-	(11,232)
Provisions and accruals	226	(86)	-	140
Financial instruments	913	-	10	923
	<b>(5,292)</b>	<b>(4,887)</b>	<b>10</b>	<b>(10,169)</b>

	At 1 January 2023 £000	Recognised in income £000	Recognised in equity £000	At 31 December 2023 £000
Property, plant and equipment	(3,233)	(3,198)	-	(6,431)
Provisions and accruals	303	(77)	-	226
Financial instruments	(258)	-	1,171	913
Additional contributions	896	-	(896)	-
	<b>(2,292)</b>	<b>(3,275)</b>	<b>275</b>	<b>(5,292)</b>

**Notes to the Financial Statements**

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**18. Deferred tax (continued)**

<sup>1</sup>The UK corporation tax rate increased from 19% to 25% with effect from 1 April 2023. 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 deferred tax assets continue to be recognised to the extent that there is evidence that future taxable profits will be available against which the temporary differences to which they relate will reverse.

**19. Trade, contract and other receivables**

	<b>2024</b>	2023
	<b>£000</b>	£000
Trade debtors	25,863	15,952
Amounts owed by BAE Systems plc	108,843	59,352
Amounts owed by BAE Systems plc subsidiaries	3,356	3,713
Other receivables	21,675	27,278
Prepayments	1,597	5,370
Contract receivables	48,951	43,689
	<u>210,285</u>	<u>155,354</u>

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**

**20. Inventories**

	<b>2024</b>	<b>2023</b>
	<b>£000</b>	<b>£000</b>
Work in progress	55,539	36,175
	<u>55,539</u>	<u>36,175</u>

**21. Trade, other and contract payables**

	<b>2024</b>	<b>2023</b>
	<b>£000</b>	<b>£000</b>
<b>Non-current</b>		
Contract liabilities	9,225	19,970
	<u>9,225</u>	<u>19,970</u>
<b>Current</b>		
Contract liabilities	216,976	119,237
Trade payables	29,745	5,311
Amounts owed to BAE Systems plc subsidiaries	4,569	4,922
Amounts owed to BAE Systems plc	81,176	78,793
Other taxes and social security	4,306	1,607
Accruals	34,168	36,867
	<u>370,940</u>	<u>246,737</u>

Revenue recognised in the year includes £72,048k (2023: £17,969k) that was included in the opening contract liabilities balance.

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**

**22. Provisions**

	Warranties and after- sales service £000	Contract loss £000	Total £000
Non-current	1,459	-	1,459
Current	769	464	1,233
	<u>2,228</u>	<u>464</u>	<u>2,692</u>
At 1 January 2024	2,228	464	2,692
Released	(1,165)	(183)	(1,348)
Created	705	14	719
Utilised in year	(31)	(247)	(278)
	<u>1,737</u>	<u>48</u>	<u>1,785</u>
<b>At 31 December 2024</b>	<b><u>1,737</u></b>	<b><u>48</u></b>	<b><u>1,785</u></b>
<b>Represented by:</b>			
Non-current	978	-	978
Current	759	48	807
	<u>1,737</u>	<u>48</u>	<u>1,785</u>

**Warranties and after-sales service**

Warranty and after-sales service costs are generally incurred within three years post-delivery. Whilst actual events could result in potentially significant differences to the quantum, but not the timing, of the outflows in relation to the provisions, management has reflected current knowledge in assessing the provision levels.

**Contract loss**

Reflecting the inherent uncertainty within many legal proceedings, the amount of the outflows could differ significantly from the amount provided and the timing of the outflows cannot be reliably estimated.

**23. Dividends**

	2024 £000	2023 £000
Final dividend of £0.10 (2023: £0.10) per ordinary share proposed and paid during the year relating to the previous year's results	20,000	20,000
	<u>20,000</u>	<u>20,000</u>

The directors are proposing a final dividend of £0.10 (2023: £0.10) per share totalling £20,000,000 (2023: £20,000,000).

The proposed final dividend is subject to approval by the shareholders and has not been included as a liability in these financial statements.

**Notes to the Financial Statements**

**24. Share capital and other reserves**

**Share capital**

	<b>£1 Ordinary shares</b>	<b>Nominal value £000</b>
<b>Authorised, issued and fully paid</b>		
At 1 January 2023, 31 December 2023 and 31 December 2024	200,000,000	50,000

**Other reserves**

		<b>Hedging Reserve £000</b>
<b>At 1 January 2023</b>		453
Net amounts recognised in hedging reserve		(3,191)
<b>At 31 December 2023</b>		(2,738)
Net amounts recognised in hedging reserve		(31)
<b>At 31 December 2024</b>		(2,769)

*Hedging reserve*

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

**Notes to the Financial Statements**

**25. Share based payments**

Share-based payment awards in respect of shares in the ultimate parent company, BAE Systems plc, have been granted to employees of the Company under various plans. Details of the terms and conditions of each share-based payment plan are given in the Annual Remuneration Report of the BAE Systems plc Annual Report.

	Range of exercise price of outstanding options (£) 2024	Weighted average remaining contracted life (years) 2024	Range of exercise price of outstanding options (£) 2023	Weighted average remaining contracted life (years) 2023
Executive Share Option Plan	7.35 - 7.35	7	4.85 - 7.35	7
Performance Share Plan		6		5
Restricted Share Plan		5		6

The average share price of BAE Systems plc in the year was £12.85 (2023: £9.77).

**26. Related party transactions**

Related party	2024		2023	
	Sales £000	Debtors £000	Sales £000	Debtors £000
CTAI	362	232	436	81
MBDA	4,943	-	2,627	-
Rheinmetall BAE Systems Land Limited	87	1,187	-	24
Non wholly-owned BAE Systems Group subsidiaries	5,392	1,419	3,063	105

**27. Events after the reporting period**

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

**28. Contingent liabilities**

The directors have become aware of a possible liability arising from a potential divergence between administration practice and the Rules in place for ROPS in a small number of areas. No liability has been recognised for the year ended 31 December 2024 in respect of this as the amount cannot be reliably estimated at this stage, whilst investigations take place.

**Notes to the Financial Statements**

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**29. 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](http://www.baesystems.com)