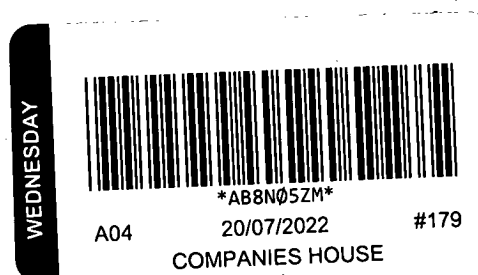


BAE Systems (Overseas Holdings) Limited

Annual Report and Financial Statements

31 December 2021

Registered Number: 02775320



Contents

Strategic Report	2
Directors' Report	5
Directors' Responsibilities Statement	6
Independent Auditor's Report to the Members of BAE Systems (Overseas Holdings) Limited	8
Income Statement and Statement of Comprehensive Income	11
Balance Sheet	12
Statement of Changes in Equity	12
Notes to the Financial Statements	13-20

Strategic Report

Review of business and principal activities

The principal activity of the Company is to act as a holding company for BAE Systems plc Group entities.

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

Key performance indicators

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

Principal risks and uncertainties

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

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

The outbreak of contagious diseases may have a material adverse effect on the Company's business, financial condition and results of operations

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

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

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

Section 172(1) statement

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

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

Strategic Report (continued)

Decision Making

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

Employees

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

Keeping employees connected, informed and engaged has never been more important as the Company's Group's employees continued to experience major impacts on their personal circumstances and ways of working through the pandemic. The Company's Group used a range of channels to make sure its employees had access to the information and support they needed throughout the year, as well as keeping employees informed about the performance, developments and prospects of the business and the BAE Systems Group. This included engagement through the Group intranet, employee app, email, videos, podcasts, newsletters, leadership communications, virtual discussions and briefings, and through the Group's line managers who played a key role in keeping their teams connected and engaged. This includes continuing to focus on two-way communications, ensuring there are channels through which employees can express their views, feedback and any concerns, helping the Company's Group understand employee sentiment on an ongoing basis and respond appropriately.

These engagement and other activities regarding the interests of employees form part of the implementation by the Company's Group of the BAE Systems Group-wide employee engagement processes and policies which are described on pages 11, 18, 23, 56-58 and 153 of BAE Systems plc's annual report 2021 (available at: www.baesystems.com/investors).

Fostering Business Relationships with Suppliers, Customers and Others

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

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

The Community and the Environment

The Directors recognise the importance of leading a company that not only generates value for shareholders but also contributes to wider society. Through the Operational Framework the Directors are satisfied that the Company's Group implements the requirements of the Group's Community Investment Policy, which looks to ensure the building and nurturing of mutually beneficial relationships between the Company's Group's business, its people and local stakeholders. Giving back to the communities in which we operate, and to charities that have meaning to our business, is vitally important to the Company's Group and its employees, allowing them to make a positive difference and have an impact where it counts. The Directors recognise that the Company's Group's operations have an impact on the environment – from the energy and resources used, to the products supplied and the waste generated. As an organisation, the Group is committed to reducing the environmental impact of our operations and products, minimising our environmental footprint and, in turn, decreasing our operational costs. Through the Operational Framework the Directors are satisfied that the Company's Group implements the requirements of the BAE Systems Group's Environmental Policy, which details BAE Systems' commitment to high standards of environmental management. In particular, the Company's Group is supporting the Group's target of achieving net zero greenhouse gas emissions across the Group's operations (scope 1 and 2) by 2030 and its target of working towards a net zero value chain by 2050.

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

Strategic Report (continued)

Maintaining a reputation for high standards of business conduct

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

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

Approved by the Board and signed on its behalf by:



D S Parkes
Director

28 June 2022

Directors' Report

Company registration

BAE Systems (Overseas Holdings) Limited (the Company) is a private company, limited by shares and registered in England and Wales with the registered number 02775320.

Review of business and principal activities

The Company is an investment holding company of principally overseas subsidiaries and equity investees and is itself wholly owned by BAE Systems (Holdings) Limited. Disclosures required under the Directors' Report have been made in the Strategic Report.

During the year the Company made investments which are detailed in note 7.

Results and dividends

The Company's profit for the financial year is £73,342,000 (2020: profit £37,797,000). The directors propose a dividend of £21,808,000 for 2021 (2020: £nil). The dividend proposed per share is £0.12 (2020: £nil).

Looking forward

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

The Company and its ultimate parent entity BAE Systems plc continue to conduct ongoing risk assessments in relation to their business operations and liquidity, including with regard to the potential future impact of the COVID-19 pandemic.

Events after the reporting period

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

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

Financial Risk

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

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £342,649k, which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. BAE Systems plc has indicated in writing that, for at least 12 months from the date of approval of these financial statements, it will continue to make available funds as are needed by the Company to meet its liabilities as they fall due and in particular will not seek repayment of amounts currently made available.

Energy and Carbon Reporting exemption

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

Directors and their interests

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

D S Parkes
A-L Holding

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

Disclosure of information to auditor

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

Directors' Report (continued)

Auditor

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

Approved by the Board and signed on its behalf by:



D S Parkes
Director

28 June 2022

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

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard (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 or result of the Company for that period.

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

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

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

Independent Auditor's Report to the Members of BAE Systems (Overseas Holdings) Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31st December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement and Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 13.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

**Independent Auditor's Report to the Members of BAE Systems (Overseas Holdings) Limited
(continued)**

Matters on which we are required to report by exception

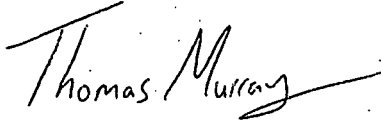
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

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.



Thomas Murray BSc ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Reading, UK

28 June 2022

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

	Notes	2021 £'000	2020 £'000
Operating income	2	52,166	35,178
Operating profit		52,166	35,178
Income from subsidiary undertakings and participating interests	3	21,808	2,619
Profit before finance costs and tax		73,974	37,797
Financial expense	4	(632)	-
Profit before tax		73,342	37,797
Tax expense	6	-	-
Profit for the year		73,342	37,797
Other comprehensive income		-	-
Total comprehensive income for the year		73,342	37,797

The notes on pages 12 to 19 form part of the financial statements.

The results for 2021 and 2020 arise from continuing activities.

Balance Sheet
as at 31 December 2021

	Notes	2021 £'000	2020 £'000
Non-current assets			
Investments	7	377,206	309,561
Trade and other receivables	8	278,295	271,984
		655,501	581,545
Current assets			
Other financial assets	9	-	1,231
		-	1,231
Total assets		655,501	582,776
Current liabilities			
Trade and other payables	10	(342,649)	(342,649)
Other financial liabilities	9	-	(804)
		(342,649)	(343,453)
Total liabilities		(342,649)	(343,453)
Net assets		312,852	239,323
Capital and reserves			
Issued share capital	11	175,953	175,953
Share premium	11	54	54
Retained earnings		136,845	63,316
Total equity		312,852	239,323

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



D S Parkes
Director

Registered number: 02775320

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

	Issued share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 1 January 2020	175,953	54	25,345	201,352
Profit for the year	-	-	37,797	37,797
Capital contribution	-	-	174	174
At 31 December 2020	175,953	54	63,316	239,323
Profit for the year	-	-	73,342	73,342
Capital contribution	-	-	187	187
At 31 December 2021	175,953	54	136,845	312,852

Retained earnings includes a non-distributable amount of £3,745,000 (2020 £3,558,000).

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

Notes to the Financial Statements

1 Accounting policies

BAE Systems (Overseas Holdings) Limited (the Company) is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is BAE Systems plc. The address of the Company's registered office is shown on page 5. The principal activity of the Company is that of an investment holding company.

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

Basis of preparation

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

- the requirements of paragraphs 45(b) and 46 to 52 if IFRS 2 Share-based Payment;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of International Accounting Standard (IAS) 1 Presentation of Financial Statements, to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16 Property, Plant and Equipment; paragraph 118(e) of IAS 38 Intangible Assets; and paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

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

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.

Changes in accounting policies

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

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments). The going concern basis has been applied in these financial statements.

Share-based payments

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

Dividends

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

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

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.

Investments

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

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

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in the Income Statement.

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

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

Equity investments in companies over which the company does not have control or significant influence are measured at fair value through profit and loss.

Trade and other receivables

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

The Company writes off a 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.

Trade and other payables

Trade and other payables are stated at amortised cost.

Tax

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

Judgements made in applying accounting policies

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

Key sources of estimation uncertainty

The application of the Company's accounting policies requires the use of estimates. In the event these estimates prove to be incorrect, there may be an adjustment to the carrying amounts of assets and liabilities within the next financial year. The key risk of a material adjustment to the carrying amounts of assets and liabilities relates to the determination of the fair value of the Company's investments. The fair value calculation requires an assessment of future cash flows expected to be generated by the investment, as well as the appropriate discount rate to apply to these projections. Note 7 provides information on the key assumptions adopted by the Company in performing these calculations.

Notes to the Financial Statements (continued)

2 Operating Income

	2021 £'000	2020 £'000
Impairment of investments	(1,285)	(652)
Reversal of impairments	-	3,745
Fair value movements on equity investments	53,652	28,821
Profit on disposal of investments	-	3,264
Other costs	(201)	-
Operating (costs)/income	52,166	35,178

The remuneration of the auditor for the year ended 31 December 2021 for auditing of the financial statements was £8,085 (2020 £7,700) and £nil (2020 £nil) in respect of non-audit work. This has been borne by BAE Systems plc, the ultimate parent company.

Details regarding the impairments and fair value gains are contained within note 7.

3 Income from subsidiary undertakings and participating interests

	2021 £'000	2020 £'000
Dividend received from MBDA Holdings SAS	13,609	-
Dividend received from BAE Systems (Operations) Singapore Pte Limited	1,453	1,159
Dividend received from BAE Systems Electronics Limited	3,669	-
Dividend received from BAE Systems Oman LLC	-	950
Dividend received from BAE Systems (Operations) Limited	3,077	-
Dividend received from BAE Systems India (Services) Private Limited	-	510
Income from subsidiary undertakings and participating interests	21,808	2,619

4 Financial expense

	2021 £'000	2020 £'000
Foreign exchange costs	(27)	-
Corporation tax interest	(605)	-
Financial expense	(632)	-

5 Employees

The average number of Company employees was nil (2020 nil). None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by BAE Systems plc and were remunerated through that company. The directors did not provide any material qualifying services to the Company (2020: same).

Notes to the Financial Statements *(continued)*

6 Tax

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

Reconciliation of tax expense

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

	2021 £'000	2020 £'000
Profit before tax	73,342	37,797
UK corporation tax rate	19.00%	19.00%
Expected tax (expense)/income on result	(13,935)	(7,182)
Income not subject to tax	4,138	498
Expenses not tax effected	(38)	-
Imputed interest expense	187	154
Losses surrendered to fellow group companies	(302)	(154)
Chargeable gains relieved	-	620
Investments (impairment)/reversal	(244)	588
Investment fair value adjustment	10,194	5,476
Tax result	-	-

Notes to the Financial Statements (continued)

7 Investments

	Subsidiary companies £'000	Other investments at cost less impairment £'000	Other investments at fair value £'000	Total £'000
Cost or fair value				
At 1 January 2021	235,304	69,103	180,559	484,966
Fair Value gain	-	-	53,652	53,652
Additions	-	-	15,278	15,278
At 31 December 2021	235,304	69,103	249,489	553,896
Provision for impairment				
At 1 January 2021	(172,829)	(2,576)	-	(175,405)
Impairment	(84)	(1,201)	-	(1,285)
At 31 December 2021	(172,913)	(3,777)	-	(176,690)
Net book value				
At 31 December 2021	62,391	65,326	249,489	377,206
At 31 December 2020	62,475	66,527	180,559	309,561

Subsidiary and other investments at cost less impairment

At the Balance Sheet date, the carrying amount of the Company's investments was compared to their recoverable amounts. As a result of this review, an impairment charge has been recognised where the carrying values of a number of investments were not supported by their recoverable amount.

Other investments at fair value

Additions during the year included an investment of £15,090,718 in ICEYE Oy.

At the reporting date, management estimated the fair value of the investments held at fair value by the Company. As a result a fair value gain of £21,799,315 in respect of BAE Systems Electronics Limited and £31,852,571 in respect of BAE Systems (Operations) Limited were recognised.

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

Notes to the Financial Statements (continued)

7 Investments (continued)

Subsidiary undertakings and participating interests at 31 December 2021

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2021 is disclosed below. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned indirectly by the Company and, unless otherwise stated, have a financial year end of 31 December.

Subsidiaries – wholly-owned

4219 Lafayette, LLC⁷
4219 Lafayette Center Drive, Chantilly VA
20151, United States
BAE Systems (Gripen Overseas)
Limited,
Warwick House, PO Box 87, Farnborough
Aerospace Centre, Farnborough, Hampshire,
GU14 6YU, England
BAE Systems (Malaysia) Sdn Bhd,
Level 25 Menara Hong Leong, No. 6 Jalan
Damanlela, Bukit Damansara, 50490 Kuala
Lumpur, Malaysia
BAE Systems (Operations) Singapore
Pte Limited,
One Marina Boulevard #28-00, Singapore
018989, Singapore
BAE Systems (Poland) Sp. z o.o.,
ul. Abp. A. Baraniaka 88, 61-131 Poznan,
Poland
BAE Systems Applied Intelligence (Asia
Pacific) Pte Limited
101 Thomson Road, United Square #25-03/04,
307591, Singapore
BAE Systems Applied Intelligence A/S,
c/o Kromann Reumert, Sundkrogsgade 5,
Copenhagen East, 2100, Denmark
BAE Systems Applied Intelligence
(Connect) A/S
c/o Kromann Reumert, Sundkrogsgade 5,
Copenhagen East, 2100, Denmark
BAE Systems Applied Intelligence GCS
Inc.,
CSC 100 Shockoe Slip, 2nd Floor, Richmond,
VA 23219, United States
BAE Systems Applied Intelligence
(GCS) Limited
Surrey Research Park, Guildford, Surrey GU2
7RQ, United Kingdom
BAE Systems Applied Intelligence
France SAS,
19 Boulevard Malesherbes, 75008, Paris,
France
BAE Systems Communications
Solutions LLC⁷
Knowledge Oasis, Building 4, Second Floor,
0402-Z427, Knowledge Oasis Muscat, PO Box
16, Postal Code 135, Muscat, Oman
BAE Systems do Brasil Ltda,
SCN Quadra 5 Bloco A, Ed. Brasilia Shopping,
Torre Norte, Sala 426, Brasilia, DF CEP:70715-
900, Brazil
BAE Systems Finance B.V.
c/o IQ-EQ, Hoogoorddreef 15,
1101 BA Amsterdam, Netherlands
BAE Systems Holdings (South Africa)
(Pty) Limited,
Central Office Park No. 5, 257 Jean Avenue,
Centurion, Gauteng, 0157, South Africa

BAE Systems Holdings B.V.,
c/o IQ-EQ, Hoogoorddreef 15,
1101 BA Amsterdam, Netherlands
BAE Systems Holding GmbH,
Hauptstrasse 48, 82433 Bad Kohlgrub,
Germany
BAE Systems India (Services) Private
Limited^{1,6}
#201, 2nd Floor, World Mark 2, Aerocity, NH-8,
New Delhi – 110037, India
BAE Systems Insurance (Isle of Man)
Limited,
Tower House, Loch Promenade, Douglas, IM1
2LZ, Isle of Man, United Kingdom
BAE Systems Regional Aircraft (Japan)
KK^{1,3,8}
Minami Azabu T&F Building 8th Floor,
4-11-22 Minami Azabu, Minato-ku, Tokyo,
Japan
BAE Systems Regional Aircraft
Colombia SAS^{1,5}
c/o Brigard & Urrutia, Calle 70 A No. 4-41,
Bogota, Colombia
BAE Systems Zephyr Corporation^{1,2}
c/o The Corporation Trust Company,
Corporation Trust Center, 1209 Orange Street,
City of Wilmington, County of New Castle, DE
19801, United States
BAE Systems Zephyr Second
Corporation^{1,2}
c/o The Corporation Trust Company,
Corporation Trust Center, 1209 Orange Street,
City of Wilmington, County of New Castle, DE
19801, United States
BAE Systems Zephyr Third
Corporation^{1,2}
c/o The Corporation Trust Company,
Corporation Trust Center, 1209 Orange Street,
City of Wilmington, County of New Castle, DE
19801, United States
BAE Systems Zephyr Fourth
Corporation^{1,2}
c/o The Corporation Trust Company,
Corporation Trust Center, 1209 Orange Street,
City of Wilmington, County of New Castle, DE
19801, United States
BAE Systems Zephyr Fifth Corporation^{1,2}
c/o The Corporation Trust Company,
Corporation Trust Center, 1209 Orange Street,
City of Wilmington, County of New Castle, DE
19801, United States
ETI Engineering, Inc.³
1676 International Drive, 10th Floor, Suite
1000, McLean VA 22102, United States
Royal Ordnance B.V.⁵
c/o IQ-EQ, Hoogoorddreef 15,
1101 BA Amsterdam, Netherlands
Sepia LLC^{1,7}

4219 Lafayette Center Drive, Chantilly VA
20151, United States
BAE Systems India (Homeland Security)
Private Limited^{1,6}
#201, 2nd Floor, World Mark 2, Aerocity, NH-8,
New Delhi – 110037, India
BAE Systems India (Technology) Private
Limited^{1,6}
#201, 2nd Floor, World Mark 2, Aerocity, NH-8,
New Delhi – 110037, India
BAE Systems India (Ventures) Private
Limited^{1,6}
#201, 2nd Floor, World Mark 2, Aerocity, NH-8,
New Delhi – 110037, India
BAE Systems Oman LLC¹
PO Box 74, Postal Code 111, Seeb, Oman
BAE Systems Saudi Limited¹
PO Box 1732, Riyadh 11441, Saudi Arabia
PT. BAE Systems Services^{1,3}
Wisma 46, Kota BNI, 34th Floor, Suite 34.01.A,
Jl. Jenderal Sudirman Kavling 71, Jakarta
10220, Indonesia
BAE Systems MAI Turkey Hava
Sistemleri A.Ş.¹
Universiteler Mahallesi, Beytepe Lodumlu Köy
Yolu Cad. No:5/348 Çankaya, Ankara, Turkey

Equity accounted investments

BAE Systems Strategic Aerospace
Services WLL(49%)¹
Building 52, Floor 2, Area 23,
Qatari Bin Al Fajaa, Doha, Qatar
MBDA Holdings SAS (25%)¹
1 Avenue Réaumur, 92350 Le Plessis-
Robinson, France
Nurol BAE Systems Hava Sistemleri
Anonim Şirketi (49%)^{1,4}
Universiteler Mah, 1605.Cad, No:3/1-3, 06800,
Ankara, Turkey

Notes

1. Directly owned by BAE Systems (Overseas Holdings) Limited.
2. Ownership held in common stock.
3. Ownership held in common shares.
4. Ownership held in class of B shares.
5. In members' voluntary liquidation.
6. Year end 31 March.
7. Unincorporated entity for which the address given is the principal place of business.
8. In liquidation.

Notes to the Financial Statements (continued)

8 Trade and other receivables

	2021 £'000	2020 £'000
Non-current		
Amounts owed by ultimate parent company ¹	114,875	113,755
Amounts owed by BAE Systems plc subsidiaries ¹	163,420	158,229
	278,295	271,984

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

9 Other financial assets and liabilities

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.

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. These amounts are presented within the same line item in the income statement as the underlying transaction, typically revenue or operating costs. 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.

	2021		2020	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Current				
Cash flow hedges – foreign exchange contracts	-	-	1,231	(804)
	-	-	1,231	(804)

10 Trade and other payables

	2021 £'000	2020 £'000
Current		
Amounts owed to immediate parent company ¹	329,703	329,703
Amounts owed to BAE Systems plc subsidiaries ¹	12,946	12,946
	342,649	342,649

¹ Amounts owed to immediate parent company and BAE Systems plc subsidiaries are payable on demand. No interest is applied.

Notes to the Financial Statements (continued)

11 Share capital and other reserves

Share capital

	Ordinary Shares of £1 each	Nominal value £'000
Issued and fully paid		
At 1 January and 31 December 2021	175,952,543	175,953

Equity dividends

The directors propose a dividend of £21,808,000 for 2021 (2020 £nil). The dividend proposed per share is £0.12 (2020: £nil).

Other reserves

	Share premium £'000	Total £'000
At 1 January 2020 & 31 December 2020	54	54
At 1 January 2021 & 31 December 2021	54	54

12 Events after the reporting period

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

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

13 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