

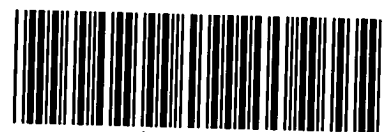
BAE Systems Applied Intelligence (International) Limited

Annual Report and Financial Statements

31 December 2023

Registered number: 06815164

THURSDAY



AD8KXSUA

A12

01/08/2024

#281

COMPANIES HOUSE

BAE Systems Applied Intelligence (International) Limited
Annual Report and Financial Statements
31 December 2023

Contents

	Page
Strategic Report	1 - 7
Directors' Report	8 - 9
Directors' Responsibilities Statement	10
Independent Auditor's Report to the Members of BAE Systems Applied Intelligence (International) Limited	11 - 14
Income Statement	15
Statement of Comprehensive Income	15
Balance Sheet	16 - 17
Statement of Changes in Equity	18
Notes to the Financial Statements	19 - 38

Strategic Report
for the year ended 31 December 2023

Review of business and principal activities

BAE Systems Applied Intelligence (International) Limited (the "Company") is a member of the BAE Systems plc Group ("BAE Systems Group" or "Group") of companies, its principal activities are the provision of data intelligence solutions which enable governments and commercial organisation to defend against national scale threats, protect their networks and data against sophisticated attacks and operate successfully in cyber space.

Key performance indicators

Key financial performance indicators are shown below:

	2023	2022
	£000	£000
Revenue	16,001	14,728
Operating profit/loss	613	(421)

Revenue represents the amounts derived from the provision of goods and services and is dependent on the level of customer backlog the company holds. Revenue has increased in the year due to an increased volume of project work in Europe.

Operating profit is used for internal performance analysis as a measure of operating profitability that is comparable over time. Operating costs have grown slower than revenue which has led to a better operating result.

Principal risks and uncertainties

The Company's principal risks are identified below, along with their potential impact on the Company and how these are currently being managed:

The Company operates in international markets

Political risk

Description: International sales and operations are sensitive to: social and political changes impacting the business environment; economic downturns and inflation; political instability, armed conflict and civil disturbances; the imposition of capital controls; the introduction of burdensome taxes or tariffs; changes to export control, tax and other government policy and regulations in the UK and all other relevant jurisdictions; and the inability to obtain or maintain the necessary export licences and other trade restrictions.

Impact: Any of these factors could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

Mitigation: Political risk insurance is held where considered appropriate with regard to the level of risk involved. However, as with all insurance, it does not provide full cover against all potential loss scenarios.

Currency risk

Description: Given the international nature of its business, the Company is exposed to volatility arising from movements in currency exchange rates.

Impact: Significant fluctuations in exchange rates to which the Company is exposed could cause volatility in its financial results reported in pounds sterling and could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

Mitigation: The Company's policy is to hedge all material firm transactional currency exchange rate exposures.

Strategic Report (continued)

for the year ended 31 December 2023

Principal risks and uncertainties (continued)

Contract risk, execution and supply chain

Contract risk and execution

Description: The Company executes high-value contracts for the provision of complex, strategically important products and services for its customers. It is important that the Company delivers on its projects within tight tolerances of quality, time and cost performance in a reliable, predictable and repeatable manner.

Impact: The failure by the Company to anticipate technical problems or deliver on its contractual commitments could result in (among other things) the loss, expiration, suspension, cancellation or termination of any one of its large contracts, which could have a material adverse effect on the Company's business, results of operations, financial condition, prospects or reputation.

Mitigation: All of the Company's major programmes are managed under the Company's mandated Lifecycle Management process, which includes contract-related risks. Robust bid preparation and approvals processes are well established within the Company, with decisions required to be taken at the appropriate level in line with clear delegations of authority. A leadership development programme for project directors is in place within the Company, covering the leadership competencies required to manage complex projects containing significant levels of risk and uncertainty.

Supply chain

Description: The Company is dependent upon the delivery of services and materials by suppliers and the assembly of components and subsystems by subcontractors used in its products in a timely and satisfactory manner, on satisfactory commercial terms and in full compliance with applicable terms and conditions. This can be exacerbated where the Company is dependent on either one or a limited number of suppliers. Some of the Company's suppliers or subcontractors may be impacted by the economic environment (including inflationary pressures and material shortages) which could impair their ability to meet their obligations to the Company and to supply on satisfactory commercial terms.

Impact: A failure by one or more of the Company's suppliers to provide the agreed-upon materials, components or products or perform the agreed-upon services, on a timely basis, at the agreed price, according to specifications (including compliance with regulatory requirements) or at all may adversely affect the Company's ability to perform its obligations, result in additional costs or delays, require the Company to transition work to other companies (resulting in further additional costs and delay) and/or result in penalties under, or the termination of, customer contracts. This impact is heightened where a supplier is a sole supplier or one of a small number of suppliers. Additionally, the Company could be adversely affected by actions, or issues experienced by, the Company's suppliers which are outside its control, such as misconduct and reputational issues involving the Company's suppliers, which could subject the Company to liability or adversely affect its ability to compete for contracts. Any of the foregoing could have a material adverse effect on the Company's business, results of operations, financial condition, prospects and reputation.

Mitigation: The Company's supply chain function establishes and manages enduring end-to-end integrated supplier arrangements, in partnership with the programmes it supports. In many cases, the Company benefits from long-term programme positions and incumbencies with more stable forward visibility for long-lead items allowing the Company to better manage supplier deliverables against programme requirements. Supply chain management starts with the BAE Systems Group's Global Procurement Policy which defines the requirements to be implemented by each of its sectors for the establishment of procurement controls and the management of supplier-related risk. Risk-based due diligence and audit activity is undertaken for each supplier whom the BAE System Group engages. Once a supplier has been approved, and a contract has been executed, the supply chain function continues to monitor that supplier. The supply chain risk management programme is working toward providing an enterprise-wide view of supplier risk, contributing to the continuity of supply and enabling better intelligence of sub-tier supply chain risk. Regular global supply chain meetings are held with senior procurement leaders to ensure that the latest risk data is appropriately shared. The Company seeks to manage inflation risk through its customer contracting arrangements on many of its major programmes, supplier cost management activity and through its long-term supplier agreements.

Strategic Report (continued)
for the year ended 31 December 2023

Principal risks and uncertainties (continued)

The Company could be negatively impacted by threats to the security of its information technology and operational technology systems

Description: As much of the Company's work relies on its reputation for strong security, in particular the services it provides for the national security community, which are subject to particularly stringent security requirements, it is critical that the Company's information technology and operational technology ("IT & OT") infrastructure, as well as the products and services it sells, are cyber resilient and the proprietary, classified, confidential or otherwise protected information, intellectual property and personal data held and processed on them are appropriately secured. Cyber security threats are continuous and evolving, and vary from attacks common to most industries, including those originating both externally and internally, to those from more advanced and persistent, highly organised adversaries, including nation states. The war in Ukraine has also increased Russian-aligned hacktivist activity against pro-Ukraine nations and their defence industries. The cyber security threats faced by the Company include (but are not limited to): an attack impacting the availability of the Company's IT & OT infrastructure and systems and/or those of its customers, partners and suppliers; unlawful attempts to gain access to the Company's proprietary, classified, confidential or otherwise protected information, intellectual property and personal data, and that held or generated by the Company on behalf of its customers, partners and suppliers; and compromise of products and services for the purposes of sabotage or to disable or deny their use and/or alter their performance characteristics. The Company might also be exposed to cyber security risks through an attack on the Company's supply chain.

Impact: Given the nature and scope of cyber attacks, it is possible that the Company is unable to defend itself against all cyber-attacks, that unknown vulnerabilities could be exploited or that the Company may otherwise be unable to mitigate customer losses and other potential liabilities (including potential liabilities related to privacy and intellectual property). The Company could potentially be subject to: (a) production downtimes; (b) operational delays; (c) other detrimental impacts to its operations or ability to provide products and services to customers; (d) the compromise, misappropriation, destruction or corruption of the Company's proprietary, classified, confidential or otherwise protected information, intellectual property and personal data, and that held or generated by the Company on behalf of its customers, partners and suppliers; (e) security breaches; (f) other manipulation or improper use of the Company's or third-party systems, networks or products; and/or (g) financial losses from remedial actions, loss of business, or potential liability, penalties, fines and/or damages. Any of these could have a material adverse effect on the Company's business, results of operations, financial condition, prospects and reputation.

Mitigation: The security of the BAE Systems Group's products and services, data, facilities and IT & OT infrastructure is regularly considered by the BAE Systems Group's Board and senior management and underpins the BAE Systems Group's strategy and influences its engineering, technology and digital strategies. Education and awareness to embed a strong cyber security culture across the Company is another vital part of its preventative activities. Employees are subject to mandatory training which, depending on role, covers cyber security, physical security, document marking, security of export-controlled information, and personal data protection. As many cyber-attacks involve email, the Company runs a programme of phishing exercises for all email users across the enterprise. To further increase cyber resilience, the BAE Systems Group's Security Operations Centres perform continual protective monitoring of activity on core networks. The Cyber Incident Response plan feeds into the BAE Systems Group's crisis management plan and regular exercises are conducted across the business to test the Cyber Incident Response plan, including up to the BAE Systems Group's Executive Committee. The BAE Systems Group purchases cyber insurance; however, as with all insurance, it does not provide full cover against all potential loss scenarios. To mitigate the cyber security risk posed by suppliers, the Company includes cyber security-related obligations in its contracts where relevant. Cyber security risk is constantly reviewed and an agile, proactive, approach to mitigating the risk is taken. The BAE Systems Group does this by efficiently leveraging its core internal capabilities in cyber security, including its specialist threat intelligence service, to maintain a managed risk position as it digitally transforms and the threat landscape evolves.

Strategic Report (continued)
for the year ended 31 December 2023

The Company's strategy is dependent on its ability to recruit and retain people with appropriate talent and skills

Description: Competition for the people the Company needs to deliver its strategy, including those with innovative technological capabilities, is high. Competition may be intensified by nationality and regulatory restrictions (including the requirement for security clearances for certain roles), and exacerbated by macroeconomic, industry and labour market conditions more generally.

Impact: The loss of key employees or inability to attract the appropriate people on a timely basis could adversely impact the Company's ability to deliver its strategy, meet its business plan and deliver on its contractual commitments, which accordingly could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

Mitigation: The Company recognises that its employees are key to delivering its strategy and business plan, and focuses on developing the existing workforce and hiring talented people to meet current and future requirements. The Company has well-established graduate recruitment and apprenticeship programmes and, to maximise the contribution that its workforce can make to the performance of the business, has an effective through career capability development programme. In order to seek to maximise its talent pool, the Company is committed to creating a diverse and inclusive environment for its employees.

Strategic Report (continued)
for the year ended 31 December 2023

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 considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to:

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

Decision making

The BAE Systems Group Operational Framework (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.

Employees

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

Effective engagement enables our 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. This included surveys and insight sessions; in-person and virtual meetings, briefings, conferences, events and listening forums at all levels; regular leadership updates through videos and events throughout the year (including in relation to financial and business performance); and engagement through the BAE Systems Group's Employee App, intranet, email and TV systems.

The Company operates an Employee Incentive Scheme which entitles all employees to a financial benefit against the achievement of a set of business and programme milestones. This ensures that all employees feel connected with, and are invested in, the Company'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 and 56 of BAE Systems plc's 2023 Annual Report (available at: www.baesystems.com/investors).

Strategic Report (continued)
for the year ended 31 December 2023

Section 172(1) statement (continued)

Pursuant to the BAE Systems Group's People Policy, directors and employees are required to contribute to creating an engaged and inclusive working environment, where individuals are respected and where the value of a diverse workforce is recognised. Also, pursuant to the Policy, employees are to be provided with the means to give their views and feedback.

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 fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the Company's success. The Company has a close relationships with its customer, suppliers and industry partners which help us to create best-in-class services and solutions.

Our largest customers are governments and government bodies. Strong and collaborative relationships with our principal customers help us to identify their requirements and to position the Company as a trusted provider. The directors and their teams are in regular contact with the principal customers of the Company.

The Company, through its supply chain function, works with its suppliers and their supply chains to provide services that meet its customer's requirements. The Company's supplier relationships are often long-term and meetings are held with key suppliers, to foster broader engagement with 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 BAE Systems Group's Community Investment Policy, which is mandated through the Operational Framework and looks to ensure that we build and nurture mutually beneficial relationships between our business, our 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 our Company and our employees, allowing us to make a positive difference and have an impact where it counts.

The Company recognises that its operations have an impact on the environment – from the energy and resources it uses, to the waste that it generates. As an organisation, BAE Systems Group is committed to 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 BAE Systems Group's Environmental Policy, which details our commitment to high standards of environmental management.

If 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 59 to 60 and pages 48 to 55, respectively, of BAE Systems plc's 2023 Annual Report (available at: www.baesystems.com/investors).

Maintaining a reputation for high standards of business conduct

The BAE Systems Group aims to be a recognised leader in business conduct which helps us to earn and maintain stakeholder trust and sustain business success. The directors consider it fundamental to maintain a culture focused on embedding responsible business behaviours. 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, this reduces the risk of compliance failure and supports us in attracting and retaining high-calibre employees.

Detailed information on the BAE Systems Group-wide business conduct processes and policies is described on pages 62 to 65 in BAE Systems plc's 2023 Annual Report (available at: www.baesystems.com/investors).

Strategic Report (continued)
for the year ended 31 December 2023

Approved by the Board and signed on its behalf by:



B Martin
Director

Date: 24 June 2024

Directors' Report

Company registration

BAE Systems Applied Intelligence (International) Limited is a private company, limited by shares and registered in England and Wales with the registered number 06815164.

Results and dividends

The Company's profit for the financial year is £792k (2022: £968k loss). The directors do not propose a dividend for 2023 (2022: £nil).

Looking forward

The Company will continue with its current contracts and seek further opportunities to grow.

Going concern

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue operational existence for at least 12 months from the date of approval of the financial statements. The Company has net assets of £13,926k and has retained earnings of £3,150k. Additionally the Company participates in the BAE Systems plc group's centralised treasury arrangements and treasury activities. The Company has adopted policies and procedures which are designed to reduce the financial risks faced by the Company (policies and procedures are managed by BAE Systems plc). BAE Systems plc, the Company's ultimate parent has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company. As such the directors consider the Company to have sufficient resources to remain in operation. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Directors and their interests

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

D J Lawton (resigned 09 October 2023)
B Martin (appointed 09 October 2023)
D R Smith

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.

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 to 55 and pages 232 to 235 of BAE Systems plc's 2023 Annual Report (available at www.baesystems.com/investors).

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.

Directors' Report (continued)

Post balance sheet events

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

Disclosure of information to auditor

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

Auditors

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

Approved by the Board and signed on its behalf by:



B Martin
Director

Date: 24 June 2024

Registered office:
BAE Systems Applied Intelligence (International) Limited
Surrey Research Park
Guildford
Surrey
GU2 7RQ

Directors' Responsibilities Statement

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 Applied Intelligence (International) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems Applied Intelligence (International) Limited (the 'company'):

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

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the related notes 1 to 16.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

Independent Auditor's Report to the Members of BAE Systems Applied Intelligence (International) Limited (continued)

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements, 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.

Independent Auditor's Report to the Members of BAE Systems Applied Intelligence (International) Limited (continued)

As a result of performing the above, we identified the area with the greatest potential risk of fraud to be in relation to revenue recognition on certain (significant) contracts. The specific procedures we performed to respond to this risk are described below.

- We obtained an understanding and assessed the relevant controls.
- We assessed whether revenue recognised to date is based on the current best estimates of the degree of work performed under the contract, which included reviewing the evidence for the progress made against the contract.
- We reviewed contract risk registers to provide evidence over the judgement taken when providing for the cost of mitigating technical risk and meeting future milestones.
- We assessed the reliability of management estimates through consideration of the historical accuracy of prior period management estimates, and through challenge of project managers.

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 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, and reviewing internal audit report regulatory authorities.

Report on other legal and regulatory requirements**Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

Matters on which we are required to report by exception

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

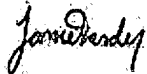
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law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

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of BAE Systems Applied Intelligence (International) Limited (continued)

Use of our report

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



Jamie Mander ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor

Reading, United Kingdom

24 June 2024

BAE Systems Applied Intelligence (International) Limited
Annual Report and Financial Statements
31 December 2023

Income Statement
for the year ended 31 December 2023

	Note	2023 £000	2022 £000
Revenue	3	16,001	14,728
Operating costs	4	(15,388)	(15,149)
Operating profit/(loss)		613	(421)
Financial income	6	149	66
Financial expense	7	(1)	(7)
Profit/(loss) before tax		761	(362)
Tax	8	31	(606)
Profit/(loss) for the financial year		792	(968)

Statement of Comprehensive Income
for the year ended 31 December 2023

	2023 £000	2022 £000
Profit/(loss) for the year	792	(968)
Other comprehensive income:		
Items that may be reclassified to the Income Statement:		
Cumulative fair value loss on hedging instruments reclassified to the income statement	-	7
Fair value gain arising on hedging instruments during the year	3	-
Tax on items that may be reclassified to the income statement	(1)	-
Exchange differences on retranslation of foreign branches	(969)	1,797
Other comprehensive (expense)/income net of tax	(967)	1,804
Total comprehensive (expense)/income for the year	(175)	836

The notes on pages 19 to 38 form part of these financial statements.

The results for 2023 and 2022 arise from continuing activities.

BAE Systems Applied Intelligence (International) Limited
Annual Report and Financial Statements
31 December 2023

Balance Sheet
as at 31 December 2023

	Note	2023 £000	2022 £000
Non-current assets			
Investments	9	78	78
Current assets			
Trade, contract and other receivables	11	27,923	29,418
Other financial assets	12	3	-
Cash and cash equivalents		3,096	1,510
		<u>31,022</u>	<u>30,928</u>
Total assets		<u>31,100</u>	<u>31,006</u>
Non-current liabilities			
Deferred tax liabilities		(3)	-
Current liabilities			
Trade, contract and other payables	13	(15,594)	(12,349)
Current tax		(4)	(1,228)
Provisions	14	(1,573)	(3,334)
		<u>(17,174)</u>	<u>(16,911)</u>
Total liabilities		<u>(17,174)</u>	<u>(16,911)</u>
Net assets		<u>13,926</u>	<u>14,095</u>

BAE Systems Applied Intelligence (International) Limited
Annual Report and Financial Statements
31 December 2023

Balance Sheet (continued)
as at 31 December 2023

	Note	2023 £000	2022 £000
Capital and reserves			
Issued share capital	15	-	-
Share premium	15	10,000	10,000
Foreign exchange reserve	15	768	1,737
Other reserves	15	8	-
Retained earnings		3,150	2,358
Total equity		<u>13,926</u>	<u>14,095</u>

Approved by the Board on 24 June 2024 and signed on its behalf by:



B Martin
Director

Registered number: 06815164

The notes on pages 19 to 38 form part of these financial statements.

BAE Systems Applied Intelligence (International) Limited
Annual Report and Financial Statements
31 December 2023

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

	Share premium £000	Foreign Translation reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 January 2022	10,000	(60)	(14)	3,326	13,252
Loss for the year	-	-	-	(968)	(968)
Other comprehensive income for the year	-	1,797	7	-	1,804
Cumulative fair value loss on hedging instruments transferred to the balance sheet	-	-	7	-	7
At 31 December 2022	10,000	1,737	-	2,358	14,095
Profit for the year	-	-	-	792	792
Other comprehensive (expense)/income for the year	-	(969)	2	-	(967)
Cumulative fair value loss on hedging instruments transferred to the balance sheet	-	-	6	-	6
At 31 December 2023	10,000	768	8	3,150	13,926

The notes on pages 19 to 38 form part of these financial statements.

Translation reserve and other reserves are defined in note 15.

Notes to the Financial Statements

1. General information

BAE Systems Applied Intelligence (International) Limited is a private company, limited by shares, and is registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party disclosed in note 16. The address of the Company's registered office is shown on page 9.

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 and, unless otherwise stated, rounded to the nearest thousand.

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

2. Accounting policies

2.1 Basis of preparation

These financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework". The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative financial 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 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 : Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements;
 - 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 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

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

These financial statements have been prepared using the going concern basis of accounting. As discussed in the Director's Report (page 8).

Key sources of estimation uncertainty

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

Critical accounting judgments

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

Changes in accounting policies

Several standards, interpretations and amendments to existing standards became effective on 1 January 2023, none of which had a material impact on the Company. The following standards, interpretations and amendments to existing standards became effective on 1 January 2023 and have not had a material impact on the Company:

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

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

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Material accounting policies

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

2.2 Revenue and profit recognition

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

The Company accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Company's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired.

The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks, which are reliant on the knowledge and experience of the Company's project managers, engineers, and finance and commercial professionals. Material changes in these estimates could affect the profitability of individual contracts. Revenue and cost estimates are reviewed and updated at least quarterly, and more frequently as determined by events or circumstances.

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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Revenue and profit recognition (continued)

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.

Revenue and profit recognition

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

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

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

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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Revenue and profit recognition (continued)

Software licences

The Company sells software licences either separately or together with other goods and services, including computer hardware and implementation, hosting and support. Revenue recognition in respect of software licences sold as part of a bundle of goods and services is considered separately when the licence is determined to be a separate performance obligation. Software licences either represent a right to access the Company's intellectual property as it exists throughout the licence period or a right to use the Company's intellectual property as it exists at the point in time at which the licence is granted. Revenue in respect of right to access licences is recognised over the licence term or, in relation to perpetual licences, over the related customer relationship, and revenue in respect of right to use licences is recognised up front on delivery to the customer. A software licence is considered to be a right to access the Company's intellectual property as it exists throughout the licence period if all of the following criteria are satisfied:

- the contract requires, or the customer reasonably expects, that the Company will undertake activities that significantly affect the intellectual property; and
- the licence directly exposes the customer to the effects of those activities; and
- those activities do not result in the transfer of a good or service to the customer.

Contract modifications

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

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

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

Costs to obtain a contract

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

Costs to fulfil a contract

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.3 Foreign currencies

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

The assets and liabilities of foreign currency branches are translated at the exchange rates ruling at the Balance Sheet date. The Income Statement transactions of these branches are translated at the spot rate on the day of the transaction. All resulting exchange differences are recognised in the foreign translation reserve.

2.4 Interest income and borrowing costs

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

2.5 Property, plant and equipment

Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, testing costs and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided, normally on a straight-line basis, to write off the cost of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Buildings	- the lease term
Computer equipment, ancillary equipment and electronic test equipment	- 3 to 5 years

No depreciation is provided on freehold land and assets in the course of construction.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each Balance Sheet date.

Notes to the Financial Statements

2. Accounting policies (continued)

2.6 Impairment

The carrying amounts of the Company's intangible and tangible 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 goodwill and 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 other intangible assets, property, plant and equipment, investment property and equity accounted investments 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.

2.7 Investments

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

2.8 Trade, contract and other receivables

Trade and other receivables are stated at their cost less provision for expected credit losses. The Company measures a provision for expected credit losses at an amount equal to the 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.

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

2.9 Cash and cash equivalents

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.10 Trade, contract and other payables

Trade, contract 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.

2.11 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.

Contract loss

The Company holds provisions for expected contractual 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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.12 Financial instruments

Derivative financial instruments and hedging activities

The international nature of the Company's business means that 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.

The Company aims to achieve hedge accounting treatment for all derivatives that hedge material foreign currency exposures.

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. Fair values are estimated by discounting expected future cash flows.

Fair value through profit or loss

Gains and losses on derivative financial instruments that are not designated as cash flow hedges are recognised 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 reclassified from the hedging reserve into the cost of the underlying transaction and recognised in 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 immediately. The Company treats the foreign currency basis element of the designated foreign exchange derivative hedging instrument as a cost of hedging and as such it is excluded from the hedge designation.

Notes to the Financial Statements

2. Accounting policies (continued)

2.13 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 other comprehensive income.

Current tax

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

Deferred tax

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

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

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

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

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

3. Revenue

Revenue by reporting segment

	2023 £000	2022 £000
Fixed price	9,538	8,731
Periodic service provision	4,138	3,695
Maintenance & software support	1,582	1,449
Licences	707	640
Other	10	27
Intercompany	26	186
	16,001	14,728
	16,001	14,728

Revenue by customer location:

	2023 £000	2022 £000
Europe	6,623	4,160
North America	10	262
Rest of World	9,368	10,306
	16,001	14,728
	16,001	14,728

4. Operating costs

	2023 £000	2022 £000
Inventory recognised as an expense	49	113
Staff costs (note 5)	2,638	2,181
Depreciation of right of use assets	-	70
Intercompany operating cost	6,942	2,889
Lease and sublease expense	102	63
Other operating charges	5,657	9,833
	15,388	15,149
	15,388	15,149

The remuneration of the auditor for the year ended 31 December 2023 for auditing of the financial statements was £89k (2022: £89k) and £nil (2022: £nil) in respect of non-audit work.

Notes to the Financial Statements

5. Employees

The monthly average number of Company employees was 18 (2022: 17). The aggregate staff costs of Company employees were as follows:

	2023	2022
	£000	£000
Wages and salaries	2,638	2,179
Social security costs	-	2
	<u>2,638</u>	<u>2,181</u>

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

6. Financial income

	2023	2022
	£000	£000
Interest income	149	66
	<u>149</u>	<u>66</u>

7. Financial expense

	2023	2022
	£000	£000
Tax interest	-	2
Interest expense	1	-
Interest expense on lease liabilities	-	5
	<u>1</u>	<u>7</u>

Notes to the Financial Statements

8. Tax

Tax expense

	2023	2022
	£000	£000
Current tax		
Overseas:		
Current tax	(3)	4
Adjustments in respect of prior years	(28)	602
	(31)	606
Tax (income)/expense	(31)	606

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 reconciliation below to reflect this change (2022: 19.0%).

Reconciliation of tax expense

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

	2023	2022
	£000	£000
Profit before tax	761	362
	23.52%	19.00%
UK corporation tax rate		
Expected tax expense on profit	179	(69)
Expenses not tax effected	13	12
Property, plant and equipment	-	(2)
Provisions and accruals	-	76
Imputed interest income	256	59
Effect of tax rates in foreign jurisdictions	(31)	606
Losses received from fellow group companies	(448)	(76)
	(31)	606
Tax (income)/expense	(31)	606

Notes to the Financial Statements

9. Investments

	Investments in subsidiary companies £000
Cost and carrying value	
At 1 January 2023 and 31 December 2023	78

During the year, management conducted an impairment review of the investments held by the Company. As a result of this review, no impairment charges were recognised. Additions in the year relate to BAE Systems Applied Intelligence Integrated Computer Solutions (Kuwait) SPC a new entity acquired in the year.

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 8.0% (2022: 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.

Subsidiary undertakings and participating interests at 31 December 2023

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2023 is disclosed below. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned directly by the Company, have a financial year end of 31 December.

Company name	Class of shares held	Proportion of class (%)
BAE Systems Applied Intelligence (Japan) KK <i>Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo, 107-6024, Japan</i>	Ordinary shares	100%
BAE Systems Applied Intelligence (Malaysia) Sdn Bhd <i>c/o Level 25, Menara Hong Leong, No.6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia</i>	Ordinary shares	0.0001%
BAE Systems Applied Intelligence Integrated Computer Solutions (Kuwait) (S.P.C.) <i>Al Hamra Tower, Office Number 3503, 35th floor, East Maqwa, Kuwait City, Kuwait</i>	Ordinary shares	100%

Notes to the Financial Statements

10. Deferred taxation

Deferred tax liabilities

	Deferred tax liabilities	
	2023 £000	2022 £000
Financial instruments	(3)	-
Deferred tax liabilities	(3)	-
	(3)	-

Movement in temporary differences during the year

	At 1 January 2023 £000	Recognised in equity £000	At 31 December 2023 £000
Financial instruments	-	(3)	(3)
	-	(3)	(3)
	-	(3)	(3)

Notes to the Financial Statements

11. Trade, contract and other receivables

	2023	2022
	£000	£000
Trade receivables	603	966
Amounts owed by BAE Systems plc subsidiaries	4,034	3,443
Amounts owed by BAE Systems plc	22,348	20,165
Prepayments	146	88
Contract receivables	645	4,661
Other receivables	147	95
	27,923	29,418

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

12. Other financial assets

	2023	2022
	£000	£000
Financial assets		
Current		
Cash flow hedges – foreign exchange contracts	3	-
	3	-

Notes to the Financial Statements

13. Trade, contract and other payables

	2023 £000	2022 £000
Current		
Contract liabilities	8,934	5,555
Trade payables	189	42
Amounts owed to BAE Systems plc subsidiaries	5,003	5,172
Amounts owed to BAE Systems plc	195	-
Other taxes and social security costs	26	-
Accruals	1,235	1,316
Other payables	12	264
	15,594	12,349
	15,594	12,349

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

14. Provisions

	Contract loss £000
Non-current	-
Current	3,334
	3,334
At 1 January 2023	3,334
Utilised	(1,761)
	1,573
At 31 December 2023	1,573
Represented by:	
Non-current	-
Current	1,573
	1,573
	1,573

Contract loss

This provision relates to the loss provision on an overseas contract due to a material completion risk.

Notes to the Financial Statements

15. Share capital and other reserves

Share capital

	£1 Ordinary shares	Nominal value £
Authorised, Issued and fully paid		
At 1 January 2022, 31 December 2022 and 31 December 2023	<u>3</u>	<u>3</u>

Other reserves

	Translation reserves £000	Hedging reserve £000
At 1 January 2022	(60)	(14)
Retranslation of net assets on foreign branches	1,797	-
Amounts credited to hedging reserve (net of tax)	-	14
At 31 December 2022	<u>1,737</u>	<u>-</u>
Retranslation of net assets on foreign branches	(969)	-
Amounts credited to hedging reserve (net of tax)	-	8
At 31 December 2023	<u>768</u>	<u>8</u>

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the results and financial position of foreign operations.

Hedging reserve

The hedging 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

16. Controlling parties

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

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