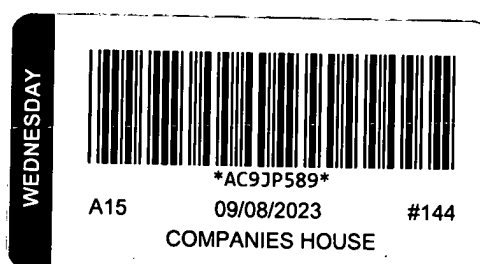


# **BAE Systems Applied Intelligence (International) Limited**

## **Annual Report and Financial Statements**

**31 December 2022**

Registered number: 06815164



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**BAE Systems Applied Intelligence (International) Limited**  
**Annual Report and Financial Statements**  
**31 December 2022**

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**Strategic Report**

for the year ended 31 December 2022

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**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:

	2022	2021
	£000	£000
Revenue	14,728	11,709
Operating loss	(421)	(151)

**Revenue** represents the amounts derived from the provision of goods and services. Revenue has increased in the year primarily due to the prior year being suppressed by a £4.3m revenue reversal on a fixed price contract.

**Operating loss** is used for internal performance analysis as a measure of operating profitability that is comparable over time. Operating profit/loss is similar to the previous year, costs have moved in line with revenue.

**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:* The risks of operating in some countries include: social and political changes impacting the business environment; economic downturns, political instability and civil disturbances; the imposition of restraints on the movement of capital; the introduction of burdensome taxes or tariffs; change of export control and other government policy and regulations in the UK and other relevant jurisdictions; and the inability to obtain or maintain the necessary export licences.

*Impact:* The occurrence of any such events could have a material adverse effect on the Company's future results and financial condition. The risk of the Company's inability to obtain and maintain the necessary export licences for its international business could affect the Company's provision of capability to the relevant country.

*Mitigation:* The Company's contracts are often long-term in nature and consequently, it may be able to mitigate these risks over the term of those contracts. Political risk insurance is held in respect of export contracts not structured on a government-to-government basis.

*Currency risk*

*Description:* The Company is exposed to volatility arising from movements in currency exchange rates. There has been volatility in currency exchange rates in the period.

*Impact:* Significant fluctuations in exchange rates to which the Company is exposed could have a material adverse effect on the Company's future results and financial condition.

*Mitigation:* The Company has established branches in various countries and it is the Company's policy to hedge material foreign transactions.

**Strategic Report (continued)**  
for the year ended 31 December 2022

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**Contract risk, execution and supply chain**

*Contract risk and execution*

*Description:* It is important that the Company maintains a culture in which it delivers on its projects within tight tolerances of quality, time and cost performance in a reliable, predictable and repeatable manner.

*Impact:* The inability of the Company to deliver on its contractual commitments, the loss, expiration, suspension, cancellation or termination of any of its large contracts or its failure to anticipate technical problems or estimate accurately and control costs on fixed-price contracts could have a material adverse effect on the Company's future results and financial condition.

*Mitigation:* The Company has, over a number of years, built a track record of very strong project management and technical delivery on the most complex and business critical programmes. Any failure to meet customer expectations and/or its contractual obligations could damage the Company's reputation in the marketplace. The Company manages this risk through rigorous bid approval controls, peer review of technical solutions and project plans and regular monitoring of high risk projects by project boards.

*Supply chain*

*Description:* The Company is dependent upon the delivery of 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. The external supply chain environment is very dynamic at this time, with both lead-time and availability issues, but also pricing pressures, including from inflationary increases in labour, energy and other key materials.

*Impact:* Some of the Company's suppliers or subcontractors may be impacted by the economic environment (including inflationary pressures) which could impair their ability to meet their obligations to the Company and to supply on satisfactory commercial terms. In some instances, the Company is dependent on one or a limited number of suppliers. If any of these suppliers or subcontractors fail to meet the Company's needs, the Company may not, in the short term, have readily available alternatives, thereby impacting its ability to complete its customer obligations satisfactorily and in a timely manner. The above events could have a negative impact on the Company's future results of operations and financial condition.

*Mitigation:* The Company seeks to manage the inflation risk through its contracting arrangements on its major programmes, effective cost management and improved efficiency of the Company's own operations and through its long-term supplier agreements.

**Strategic Report (continued)**  
for the year ended 31 December 2022

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

*Description:* 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. Security breaches could materially damage the Company's business. Security matters are therefore carefully managed and are overseen at Board level, which ensures that the business systematically embeds rigorous security practice in its every day operations. The Company is investing to ensure its own security keeps pace with the evolving threat environment. The cyber security threats faced by the Company include: the potential for business disruptions due to an attack impacting the availability of its information technology and operational technology infrastructure and systems; unlawful attempts to gain access to both the Company's proprietary or classified information and that of its customers, partners and suppliers; and the potential for business disruptions and loss or compromise of classified, proprietary or personal information through an attack on the Company's supply chain.

*Impact:* Failure to combat these risks effectively could disrupt business operations, compromise the security of the Company's products and services, erode the Company's competitive advantage, harm staff and negatively impact the Company's reputation among its customers and the public, resulting in a negative impact on the Company's future results and financial condition.

*Mitigation:* It is critical that the Company's networks, as well as the products and services that it sells, are cyber resilient and the intellectual property and confidential information held and processed on them is appropriately secured.

The cyber risk is constantly reviewed through the Group's IT and Security functions and an agile, proactive approach to mitigating the risk is taken. The 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 we digitally transform and the threat landscape evolves.

**Strategic Report (continued)**  
for the year ended 31 December 2022

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

*Description:* The current recruitment market sees a strong demand for the best people. This has particularly been the case for people with advanced technical skills.

*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 the business plan and, accordingly, have a negative impact on the Company's future results and financial condition

*Mitigation:* The Company recognises that its employees are key to delivering its strategy and business plan. The Company focuses on developing the existing workforce and hiring talented people to meet current and future requirements, addressing the risk of a competitive recruitment market through a portfolio of measures, including a strengthened HR recruitment team, attractive staff reward schemes such as flexible benefits, and through new career development programmes.

In order to seek to maximise its talent pool, the Company is committed to creating a diverse and inclusive environment for its employees.

**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.

**Decision Making**

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

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

**Strategic Report (continued)**  
for the year ended 31 December 2022

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**Employees**

Employee engagement is a primary focus for the directors of the Company – connecting employees to the Company's and the BAE Systems Group's strategy and purpose, empowering them to contribute to improving business performance and creating an environment in which everyone 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 in-person and virtual meetings, engagement through the Group intranet, employee app, email, videos, podcasts, newsletters, leadership communications, virtual discussions, and briefings, and through our line managers who play a key role in keeping their teams connected and engaged. The Company recognises the importance of two-way communications, ensuring there are channels through which employees can express their views, feedback and any concerns, helping the Company understand employee sentiment on an ongoing basis and respond appropriately.

These engagement activities form part of the Company's implementation of the BAE Systems Group-wide employee engagement processes and policies which are described in the Employee Engagement section (on pages 32, 35 and 72) of BAE Systems plc's Annual Report 2022 (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)).

Pursuant to the Group's People Policy, directors and employees are required to contribute to creating an engaged and inclusive work 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, together with its procurement and 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 the directors meet with key suppliers and work with the BAE Systems Group's procurement function to ensure broader engagement with the supply chain, and develop strategic relationships with key suppliers.

**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 Company implements the requirements of BAE Systems Group's Community Investment Policy, which 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.

**Strategic Report (continued)**  
for the year ended 31 December 2022

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We recognise that our operations have an impact on the environment – from the energy and resources we use, to the waste that we generate. 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.

These 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 40-53 and 64-67 of BAE Systems plc's Annual Report 2022 (available at: [www.baesystems.com/investors](http://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 are described in BAE Systems plc's Annual Report 2022 (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)) on pages 75-77.

**Approved by the Board and signed on its behalf by:**



**D J Lawton**  
Director

Date: 27 July 2023

## **Directors' Report**

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### **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 loss for the financial year is £968k (2021: £149k loss). The directors do not propose a dividend for 2022 (2021: £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 £14,095k and has retained earnings of £3,326k. Additionally the Company participates in the BAE Systems plc group's centralised treasury arrangements and treasury activities, policies and procedures are managed by BAE Systems plc. The Company has adopted policies and procedures which are designed to reduce the financial risks faced by the Company. 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  
A G Jordan (resigned 28 January 2022)  
D R Smith (appointed 13 April 2022)

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.

### **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.

### **Post balance sheet events**

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

**Directors' Report (continued)**

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**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:**



**D J Lawton**  
Director

Date: 27 July 2023

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

**Directors' Responsibilities Statement**

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make 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.

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

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**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 2022 and of its loss 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 17.

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.

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

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

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

**Other information**

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

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

We have nothing to report in this regard.

**Responsibilities of directors**

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

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

We 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.

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

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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.

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 software licence agreements. The specific procedures we performed to respond to this risk included:

- assessing closing position of deferred revenue to ensure appropriate amount deferred in the year, and;
- assessing the terms of the licence to ensure appropriate recognition of revenue in line with the performance obligation.

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.

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

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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.

**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

27 July 2023

**BAE Systems Applied Intelligence (International) Limited**  
**Annual Report and Financial Statements**  
**31 December 2022**

**Income Statement**  
for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Revenue	3	14,728	11,709
Operating costs	4	(15,149)	(11,860)
<b>Operating loss</b>		<b>(421)</b>	<b>(151)</b>
Financial income	6	66	4
Financial expense	7	(7)	(2)
<b>Loss before tax</b>		<b>(362)</b>	<b>(149)</b>
Tax	8	(606)	-
<b>Loss for the financial year</b>		<b>(968)</b>	<b>(149)</b>

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

	2022 £000	2021 £000
Loss for the year	(968)	(149)
Fair value loss arising on hedging instruments during the year	-	(14)
Cumulative fair value loss on hedging instruments reclassified to the income statement	7	-
Exchange differences on retranslation of foreign branches	1,797	(70)
	<b>1,804</b>	<b>(84)</b>
<b>Total comprehensive income for the year</b>	<b>836</b>	<b>(233)</b>

The notes on pages 18 to 39 form part of these financial statements.

The results for 2022 and 2021 arise from continuing activities.

**BAE Systems Applied Intelligence (International) Limited**  
**Annual Report and Financial Statements**  
**31 December 2022**

**Balance Sheet**  
as at 31 December 2022

	Note	2022 £000	2021 £000
<b>Non-current assets</b>			
Right-of-use assets	9	-	82
Investments	11	78	1
		<u>78</u>	<u>83</u>
<b>Current assets</b>			
Trade, other and contract receivables	12	29,418	25,609
Other financial assets	13	-	12
Cash and cash equivalents		1,510	835
		<u>30,928</u>	<u>26,456</u>
<b>Total assets</b>		<u>31,006</u>	<u>26,539</u>
<b>Current liabilities</b>			
Trade and other payables	14	(12,349)	(10,834)
Lease liabilities	9	-	(65)
Other financial liabilities	13	-	(26)
Current tax		(1,228)	(638)
Provisions	15	(3,334)	(1,724)
<b>Total liabilities</b>		<u>(16,911)</u>	<u>(13,287)</u>
<b>Net assets</b>		<u>14,095</u>	<u>13,252</u>

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**BAE Systems Applied Intelligence (International) Limited**  
**Annual Report and Financial Statements**  
**31 December 2022**

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**Balance Sheet (continued)**  
as at 31 December 2022

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	Note	2022 £000	2021 £000
<b>Capital and reserves</b>			
Issued share capital	16	-	-
Share premium	16	10,000	10,000
Foreign exchange reserve	16	1,737	(60)
Other reserves	16	-	(14)
Retained earnings		2,358	3,326
<b>Total equity</b>		<u>14,095</u>	<u>13,252</u>

Approved by the Board on 27 July 2023 and signed on its behalf by:



**D J Lawton**  
Director

Registered number: 06815164

The notes on pages 18 to 39 form part of these financial statements.

**BAE Systems Applied Intelligence (International) Limited**  
**Annual Report and Financial Statements**  
**31 December 2022**

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

	Issued share capital £000	Share premium £000	Foreign Translation reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 January 2021	-	10,000	10	-	3,475	13,485
Loss for the year	-	-	-	-	(149)	(149)
Other comprehensive expense	-	-	-	(14)	-	(14)
Retranslation of net assets in foreign branches	-	-	(70)	-	-	(70)
<b>At 31 December 2021</b>	<b>-</b>	<b>10,000</b>	<b>(60)</b>	<b>(14)</b>	<b>3,326</b>	<b>13,252</b>
Loss for the year	-	-	-	-	(968)	(968)
Other comprehensive income	-	-	-	7	-	7
Retranslation of net assets in foreign branches	-	-	1,797	-	-	1,797
Cumulative fair value loss on hedging instruments transferred to the balance sheet	-	-	-	7	-	7
<b>At 31 December 2022</b>	<b>-</b>	<b>10,000</b>	<b>1,737</b>	<b>-</b>	<b>2,358</b>	<b>14,095</b>

The notes on pages 18 to 39 form part of these financial statements.

Translation reserve and other reserves are defined in note 16.

**Notes to the Financial Statements**

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**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 17. The address of the Company's registered office is shown on page 8.

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

- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, 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;

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

- 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.

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments).

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 £14,095k and has retained earnings of £3,326k. Additionally the Company participates in the BAE Systems plc group's centralised treasury arrangements and treasury activities, policies and procedures are managed by BAE Systems plc. The Company has adopted policies and procedures which are designed to reduce the financial risks faced by the Company. 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.

**Key sources of estimation uncertainty**

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

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

Accounting policy	Description
Contract loss provision	One particular contract operated by the company, for which a forward loss provision has been recorded previously, carries material completion risk. At 31 December 2022 the forward loss provision on this contract was £3,334k (2021: £1,724k). The year end position represents management's best estimate of the costs to complete the contract and revenue to be recognised. However, given the complexities of this contract this estimate could change materially in the next twelve months. Due to the nature of the contract and the range of potential outcomes, it is not practicable to provide a meaningful sensitivity disclosure.

**Critical accounting judgments**

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

**Changes in accounting policies**

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

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

- Amendments to IFRS 3: Business Combinations, effective from 1 January 2022;
- Amendments to IAS 16: Property, Plant and Equipment, effective from 1 January 2022;
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets, effective from 1 January 2022; and
- Annual Improvements to IFRS Standards 2018-2020 Cycle, effective from 1 January 2022.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2022. These are expected to be endorsed by the UK Endorsement Board and are not expected to have a material impact on the Company:

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendments to IFRS 17: Insurance Contracts, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2024 (not yet endorsed by the UK);
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1 January 2023 (not yet endorsed by the UK);
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023 (not yet endorsed by the UK); and
- Amendment to FRS 101 reduced disclosure framework, effective from 1 January 2023 (not yet

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.1 Basis of preparation (continued)

endorsed by the UK).

#### Significant accounting policies

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

#### 2.2 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.

#### *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.

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

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

*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.

*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

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

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

- 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.

**2.3 Foreign currencies**

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

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.4 Leases**

*The Company as lessee*

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

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

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

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

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

**2.5 Interest income and borrowing costs**

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

**2.6 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 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.

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.6 Property, plant and equipment (continued)**

*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.

*Impairment*

The carrying amounts of the Company's property, plant and equipment are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

**2.7 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.

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.8 Investments**

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

**2.9 Trade, other and contract receivables**

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

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

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

**2.10 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.

**2.11 Trade and other payables**

Trade and other payables are stated at amortised cost.

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

**2.12 Provisions**

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

*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

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2. Accounting policies (continued)

2.13 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**

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**2. Accounting policies (continued)**

**2.14 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

	<b>2022</b>	2021
	<b>£000</b>	£000
Fixed price	8,731	3,478
Periodic service provision	3,695	1,731
Maintenance & software support	1,449	4,926
Licences	640	987
Other	27	110
Intercompany	186	477
	<u>14,728</u>	<u>11,709</u>

Revenue by customer location:

	<b>2022</b>	2021
	<b>£000</b>	£000
Europe	4,160	4,033
North America	262	90
Rest of World	10,306	7,586
	<u>14,728</u>	<u>11,709</u>

**4. Operating costs**

	<b>2022</b>	2021
	<b>£000</b>	£000
Inventory recognised as an expense	113	144
Staff costs (note 5)	2,181	1,911
Depreciation of right of use assets (note 9)	70	49
Intercompany operating cost	2,889	3,551
Lease and sublease expense	63	68
Other operating charges	9,833	6,137
	<u>15,149</u>	<u>11,860</u>

The remuneration of the auditor for the year ended 31 December 2022 for auditing of the financial statements was £89k (2021: £73k) and £nil (2021: £nil) in respect of non-audit work.

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**BAE Systems Applied Intelligence (International) Limited**  
**Annual Report and Financial Statements**  
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**Notes to the Financial Statements**

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**5. Employees**

The monthly average number of Company employees was 17 (2021: 20). All employees worked in the engineering sector. The aggregate staff costs of Company employees were as follows:

	<b>2022</b>	2021
	<b>£000</b>	£000
Wages and salaries	2,179	1,911
Social security costs	2	-
	<u>2,181</u>	<u>1,911</u>

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.

**6. Financial income**

	<b>2022</b>	2021
	<b>£000</b>	£000
Interest income	66	4
	<u>66</u>	<u>4</u>

**7. Financial expense**

	<b>2022</b>	2021
	<b>£000</b>	£000
Tax interest	2	-
Interest expense on lease liabilities (note 9)	5	2
	<u>7</u>	<u>2</u>

**Notes to the Financial Statements**

**8. Tax**

**Tax expense**

	2022	2021
	£000	£000
<b>Current tax</b>		
Overseas:		
Current tax	4	-
Adjustments in respect of prior years	602	-
	606	-
<b>Tax expense</b>	606	-

**Reconciliation of tax expense**

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

	2022	2021
	£000	£000
<b>Loss before tax</b>	362	149
	362	149
UK corporation tax rate	19.00%	19.00%
Expected tax expense on profit	(69)	(28)
Expenses not tax effected	12	1
Property, plant and equipment	(2)	-
Provisions and accruals	76	52
Imputed interest income	59	45
Effect of tax rates in foreign jurisdictions	606	-
Losses received from fellow group companies	(76)	(70)
	606	-
<b>Tax expense</b>	606	-

**Notes to the Financial Statements**

**8. Tax (continued)**

The deferred tax assets which have not been recognised in the financial statements comprise:

	<b>2022</b>	2021
	<b>£000</b>	£000
Property, plant and equipment	10	12
Provisions and accruals	127	82
Deferred tax asset	<u>137</u>	<u>94</u>

The deferred tax asset has not been recognised because there is insufficient evidence of future taxable profits to support its recoverability.

In 2021, the Government announced that the UK corporation tax rate would increase to 25% with effect from 1 April 2023. The tax rate applying to the unrecognised deferred tax asset is 25% (2021 25%) on the basis that any deferred tax assets or liabilities released or settled are likely to reverse after April 2023.

**9. Leases**

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

	<u>2022</u>	<u>2021</u>
	<b>Land and buildings</b>	Land and buildings
	<b>£000</b>	£000
Opening NBV	82	131
Modifications	(12)	-
Depreciation expense for the year	(70)	(49)
Net book value	<u>-</u>	<u>82</u>

**Notes to the Financial Statements**

**9. Leases (continued)**

**Lease liabilities**

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

	<b>2022</b>	2021
	<b>£000</b>	£000
Payments due:		
Within one year	-	65
	-	65
	-	65

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2022, amounted to £65k (2021: 65k).

**Amounts recognised in the Income Statement**

	<b>2022</b>	2021
	<b>£000</b>	£000
<b>Included in operating costs:</b>		
Depreciation on right-of-use assets	70	49
	70	49
	70	49
<b>Included in net finance costs:</b>		
Interest expense on lease liabilities	5	2
	5	2
	5	2

**Notes to the Financial Statements**

**10. Property, plant and equipment**

	Computer equipment £000
<b>Cost or valuation</b>	
At 1 January 22 and 31 December 2022	12
<b>Depreciation</b>	
At 1 January 22 and 31 December 2022	12
<b>Net book value</b>	
<b>At 31 December 2022</b>	-
	-
At 31 December 2021	-

**11. Investments**

	Investments in subsidiary companies £000
<b>Carrying value</b>	
<b>At 1 January 2022</b>	1
Additions	77
<b>At 31 December 2022</b>	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% (2021: 6.0%) (adjusted for risks specific to the market in which the cash-generating unit operates), have been used in discounting these projected risk-adjusted cash flows.

**Notes to the Financial Statements**

**11. Investments (continued)**

**Subsidiary undertakings and participating interests at 31 December 2022**

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2022 is disclosed below. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned directly by the Company, have a financial year end of 31 December.

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%

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

	2022 £000	2021 £000
Trade receivables	966	5,201
Amounts owed by BAE Systems plc subsidiaries	3,443	1,551
Amounts owed by BAE Systems plc	20,165	18,485
Prepayments	88	61
Contract receivables	4,661	151
Other receivables	95	160
	<b>29,418</b>	<b>25,609</b>

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

**Notes to the Financial Statements**

**13. Financial instruments**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
<b>Financial assets</b>		
<b>Current</b>		
Cash flow hedges – foreign exchange contracts	-	12
	<u>          </u>	<u>          </u>
<b>Financial liabilities</b>		
<b>Current</b>		
Cash flow hedges – foreign exchange contracts	-	(26)
	<u>          </u>	<u>          </u>

**14. Trade and other payables**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
<b>Current</b>		
Contract liabilities	5,555	6,645
Trade payables	42	2
Amounts owed to BAE Systems plc subsidiaries	5,172	3,237
Other taxes and social security costs	-	42
Accruals	1,316	815
Other payables	264	93
	<u>          </u>	<u>          </u>
	<b>12,349</b>	<b>10,834</b>
	<u>          </u>	<u>          </u>

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

**Notes to the Financial Statements**

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**15. Provisions**

	Contract loss £000
Non-current	-
Current	1,724
	<hr/>
At 1 January 2022	1,724
Created	3,892
Utilised in year	(2,282)
	<hr/>
<b>At 31 December 2022</b>	<b>3,334</b>
<b>Represented by:</b>	
Non-current	-
Current	3,334
	<hr/>
	<b>3,334</b>
	<hr/> <hr/>

**Contract loss**

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

**Notes to the Financial Statements**

**16. Share capital and other reserves**

**Share capital**

	<b>£1 Ordinary shares</b>	<b>Nominal value £</b>
<b>Authorised, Issued and fully paid</b>	<b>3</b>	<b>3</b>
At 1 January 2021, 31 December 2021 and 31 December 2022	3	3

**Other reserves**

	Share premium £000	Translation reserves £000	Hedging reserve £000
<b>At 1 January 2021</b>	10,000	10	-
Retranslation of net assets on foreign branches	-	(70)	-
Amounts debited to hedging reserve	-	-	(14)
<b>At 31 December 2021</b>	10,000	(60)	(14)
Retranslation of net assets on foreign branches	-	1,797	-
Amounts credited to hedging reserve	-	-	14
<b>At 31 December 2022</b>	10,000	1,737	-

*Hedging reserve*

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

*Translation reserve*

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

**Notes to the Financial Statements**

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