

# **BAE Systems (Oman) Limited**

## **Annual Report and Financial Statements**

**31 December 2022**

Registered number: 03135337



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**Strategic Report**  
for the year ended 31 December 2022

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**Review of business and principal activities**

The principal activity of the Company is the continued provision of in-country support services to the Typhoon and Hawk aircraft, including the provision of aircraft spares, training and ground equipment. The provision of the Typhoon Support Services and additional spares and provisioning is currently being delivered through an Instruction to proceed dated 2nd July 2023 pending completion of a five year follow on support contract. Since the end of the 2022 financial year negotiations have commenced for the next five year Typhoon Support Services contract which is anticipated to cover the five year period from 1st January 2024. There has been a reduction in the number of employees due to the transition from the Availability Support Contract to a reduced scope Typhoon Support Services Contract.

**Key performance indicators**

Key financial performance indicators are shown below:

	<b>2022</b>	2021
	<b>£000</b>	£000
Order intake	<b>78,855</b>	809
Revenue	<b>83,769</b>	74,273
Operating profit	<b>11,108</b>	15,090

**Order intake** represents the value of funded orders received from customers in the year. It is a measure of in year performance and supports future years' sales performance. The 2022 order intake is for the extension of the in-country support services and provision of additional spares and provisioning, and ad hoc Hawk Aircraft spares and repairs orders associated with the Oman Hawk Enhanced Post Design Services Contract.

**Revenue** represents the amounts derived from the provision of goods and services. Revenue in 2022 has increased due to greater volume of spares and capability enhancement tasks.

**Operating profit** is used for internal performance analysis as a measure of operating profitability that is comparable over time. The profit in 2022 is aligned to the contract extension signed during the year. The year on year profit decrease is due to a margin improvement in 2021 resulting in a higher in year profit.

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

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**Principal risks and uncertainties**

The Company's principal risks are identified below.

**The Company is dependent on government defence spending**

*Defence spending*

*Description:* The Company's core businesses are primarily defence related, selling products and services directly and indirectly, mainly to the Omani government. Defence spending by governments can fluctuate depending on change of government policy, other political considerations, budgetary constraints, specific threats and movements in the international oil price. There have been constraints on government expenditure in the Company's principal market.

*Impact:* Lower defence spending by the Company's major customer could have a material adverse effect on the Company's future results and financial condition.

*Mitigation:* The Company has long-standing relationships and security arrangements with the Omani government. It is important that these relationships and arrangements are maintained.

*Contract timing and milestones:*

*Description:* The Company's profits and cash flows are dependent, to a significant extent, on the timing of, or failure to receive, award of defence contracts and the profile of cash receipts on its contracts.

*Impact:* The timing of, or failure to receive, awards and associated cash advances and milestone payments could materially affect the Company's profits and cash flows for the periods affected, thereby reducing cash available to meet the Company's cash allocation priorities.

*Mitigation:* The BAE Systems Group monitors a rolling forecast of its liquidity requirements to ensure that there is sufficient cash to meet its operational needs and maintain adequate headroom.

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

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**The Company operates in international markets**

*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 all 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 business in Oman could affect the Company's provision of capability to the 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. This will be mitigated further when the Typhoon Support contract is secured for a period of five years.

**Currency risk**

*Description:* The Company is exposed to volatility arising from movements in currency exchange rates, particularly in respect of the US Dollar, Euro and Omani Riyal.

*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:* In order to protect itself against currency fluctuations, the Company's policy is to hedge all material firm transactional exposures.

**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 which could have a negative impact on the Company's future results of operations and financial condition.

*Mitigation:* The Company continues to actively manage supplier lead times against demand requirements. The Company seeks to manage the inflation risk through its contracting arrangements, 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:* 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 it digitally transforms and the threat landscape evolves.

**The Company is subject to risk from a failure to comply with laws and regulations**

*Description:* The Company operates in a highly-regulated environment and is subject, without limitation, to regulations relating to import-export controls, money laundering, false accounting, anti-bribery and anti-boycott provisions. It is important that the Company maintains a culture in which it focuses on embedding responsible business behaviours and that all employees act in accordance with the requirements of the Company's policies, including the Code of Conduct, at all times.

Export restrictions could become more stringent and political factors or changing international circumstances could result in the Company being unable to obtain or maintain necessary export licences.

*Impact:* Failure by the Company, or its sales representatives, marketing advisers or others acting on its behalf, to comply with these regulations could result in fines and penalties and/or the suspension or debarment of the Company from government contracts or the suspension of the Company's export privileges, which could have a material adverse effect on the Company.

Reduced access to export markets could have a material adverse effect on the Company's future results and financial condition.

*Mitigation:* BAE Systems has a well-established legal and regulatory compliance structure aimed at ensuring adherence to regulatory requirements and identifying restrictions that could adversely impact the Company's activities. Internal and external market risk assessments form an important element of ongoing corporate development and training processes. A uniform global policy and process for the appointment of advisers engaged in business development is in effect.

BAE Systems continues to reinforce its ethics programme globally, driving the right behaviours by supporting employees in making ethical decisions and embedding responsible business practices. The Company has appointed an Ethics Officer for the Oman region during this financial period.

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

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**Section 172(1) statement**

This statement contains an overview of how the directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the UK's Companies Act 2006. That section requires a director of a company to act in the way 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 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 business of the Company and are also responsible for identifying and managing principal and emerging risks in the business. 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**

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. This includes continuing to focus on two-way communications, ensuring there are channels through which employees can express their views, feedback and any concerns, helping the Company 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 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 the processes and policies the directors have regard to the interests of the employees.

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

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**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 close relationships with its customers, suppliers and industry partners which help us to create best-in-class, cost-effective equipment, goods, services and solutions.

Our largest customer is the Oman government. Strong and collaborative relationships with our principal government customers help us to identify our customers' requirements and to help position the Company as a trusted provider. The directors are in regular contact with the principal government customers of the Company and in particular the Oman Ministry of Defence and the Royal Air Force of Oman.

The Company, together with its procurement and supply chain function, works with its suppliers and their supply chains to provide equipment, goods and services that meet its customers' requirements. The Company's supplier relationships are often long-term due to the length of the product life-cycles and the directors meet with key suppliers and work with the BAE Systems Group's procurement function to develop deeper relationships with business in the supply chain and develop strategic relationships with key suppliers. The Group's procurement 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. Through the Operational Framework the Company implements the requirements of the 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. In particular, the Company is a major employer of UK sourced employees as well as Oman nationals and the directors recognise the significance of the Company in the local community.

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, the BAE Systems Group is committed to reducing the environmental impact of our operations and products, minimising our environmental footprint and, in turn, decreasing our operational costs. Through the Operational Framework the Company implements the requirements of the BAE Systems Group's Environmental Policy, which details our commitment to high standards of environmental management. In particular, the Company is supporting the Group's target of achieving net zero greenhouse gas emissions across the Group's operations (scope 1 and 2) by 2030 and its target of working towards a net zero value chain by 2050.

These activities form part of the Company's 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 pages 64-67 of BAE Systems plc's annual report 2022 (available at: [www.baesystems.com/reporting](http://www.baesystems.com/reporting)).

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

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**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/reporting](http://www.baesystems.com/reporting)) on pages 75-77.

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



**S D Wood**  
Director

Date: 26 September 2023

## **Directors' Report**

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### **Company registration**

BAE Systems (Oman) Limited is a private company, limited by shares and registered in England and Wales with the registered number 03135337.

### **Results and dividends**

The Company's profit for the financial year is £10,102k (2021: £13,337k). The directors propose a dividend of £11,386k (2021: £17,990k).

The dividend proposed per share is £5,645k (2021: £8,995k).

### **Looking forward**

The Company expects to continue trading and be in operational existence for the foreseeable future. Since the end of the 2022 financial year negotiations have commenced for the next five year Typhoon Support Services contract which is anticipated to cover the 5 year period from 1st January 2024 to 31st December 2028.

### **Post balance sheet events**

The provision of the Typhoon Support Services and additional spares and provisioning is currently being delivered through an Instruction to Proceed dated 2nd July 2023 pending completion of a five year follow on support contract. Negotiations for a five year Typhoon Support contract are ongoing.

### **Going concern**

The financial statements have been prepared on the going concern basis, which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. BAE Systems plc has indicated 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. The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other Group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

### **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 40-53 in the 2022 consolidated accounts of its ultimate parent, BAE Systems plc (available at [www.baesystems.com/investors](http://www.baesystems.com/investors)).

### **Overseas branch office**

The Company has an overseas branch office in Oman.

### **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)**

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**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:

S D Wood  
A K Gilchrist  
D Gaskell (appointed 18 December 2022)  
S C Underwood (resigned 18 December 2022)  
P S Inman (resigned 28 February 2023)

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

**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.

**Auditor**

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

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



**S D Wood**  
Director

Date: 26 September 2023

Registered office:  
BAE Systems (Oman) Limited  
Warwick House  
PO Box 87  
Farnborough Aerospace Centre  
Farnborough  
Hampshire  
GU14 6YU

## **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 (Oman) Limited

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### Report on the audit of the financial statements

#### Opinion

In our opinion the financial statements of BAE Systems (Oman) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement and the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 19.

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.

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

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

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

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### **Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)**

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

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

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 and margin recognition on long term contracts. The specific procedures we performed to respond to this risk included:

- examining external evidence to support contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence; and
- analysing historical contract performance and testing the underlying calculations used in contract assessments for accuracy and completeness.

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

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

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

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

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

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**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.



Douglas King FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor  
Manchester, United Kingdom

Date: 26 September 2023

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

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	Note	2022 £000	2021 £000
Revenue	3	83,769	74,273
Operating costs	4	(73,126)	(60,586)
<b>Operating profit</b>		<b>10,643</b>	13,687
Other operating income	5	465	1,403
<b>Operating profit</b>	4	<b>11,108</b>	15,090
Financial expense	6	(2)	(71)
<b>Profit before tax</b>		<b>11,106</b>	15,019
Tax	9	(1,004)	(1,682)
<b>Profit for the year</b>		<b>10,102</b>	13,337

The notes on pages 20 to 53 form part of these financial statements.

The results for 2022 and 2021 arise from continuing activities.

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

	<b>2022</b>	2021
	<b>£000</b>	£000
Profit for the year	<b>10,102</b>	13,337
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified to the Income Statement</b>		
Remeasurements on retirement benefit schemes	<b>1,712</b>	5,600
Tax on items that will not be reclassified to the Income Statement	<b>(428)</b>	(955)
	<b>1,284</b>	4,645
<b>Items that may be reclassified to the Income Statement</b>		
Fair value gains/(losses) arising on hedging instruments*	<b>240</b>	(224)
Cumulative fair values gain on hedging instruments reclassified to the income statement*	<b>(172)</b>	(1,147)
Tax on items that may be reclassified to the Income Statement*	<b>(17)</b>	248
	<b>51</b>	(1,123)
<b>Other comprehensive income net of tax</b>	<b>1,335</b>	3,522
<b>Total comprehensive income for the year</b>	<b>11,437</b>	16,859

The notes on pages 20 to 55 form part of these financial statements.

The results for 2022 and 2021 arise from continuing activities.

\*Prior year comparatives have been re-presented to present amounts on matured hedging instruments recognised through profit and loss separately from those recognised on the balance sheet, within the year.

**Balance Sheet**  
as at 31 December 2022

	Note	2022 £000	2021 £000
<b>Non-current assets</b>			
Right-of-use assets	15	-	1,031
Intangible assets	10	-	26
Other financial assets	14	-	14
Trade and other receivables	12	6,126	-
Deferred tax assets	11	123	725
		<u>6,249</u>	<u>1,796</u>
<b>Current assets</b>			
Trade, other and contract receivables	12	44,679	63,265
Other financial assets	14	254	654
		<u>44,933</u>	<u>63,919</u>
<b>Total assets</b>		<u>51,182</u>	<u>65,715</u>

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

	Note	2022 £000	2021 £000
<b>Non-current liabilities</b>			
Retirement benefit obligations	16	-	(1,812)
<b>Current liabilities</b>			
Trade, other and contract payables	13	(35,802)	(39,740)
Lease liabilities	15	-	(1,067)
Other financial liabilities	14	-	(309)
Current tax	9	(804)	(1,528)
		<u>(36,606)</u>	<u>(42,644)</u>
<b>Total liabilities</b>		<u>(36,606)</u>	<u>(44,456)</u>
<b>Net assets</b>		<u>14,576</u>	<u>21,259</u>
<b>Capital and reserves</b>			
Issued share capital	17	-	-
Other reserves	17	190	269
Retained earnings		14,386	20,990
<b>Total equity</b>		<u>14,576</u>	<u>21,259</u>

Approved by the Board on 26 September 2023 and signed on its behalf by:



**S D Wood**  
Director

Registered number: 03135337

The notes on pages 20 to 55 form part of these financial statements.

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

	Issued share capital £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 January 2021	-	2,330	31,328	33,658
Profit for the year	-	-	13,337	13,337
Other comprehensive income for the year*	-	(1,123)	4,645	3,522
Dividends	-	-	(28,328)	(28,328)
Share-based payments	-	-	8	8
Cumulative fair value gain on hedging instruments reclassified to the balance sheet*	-	(938)	-	(938)
<b>At 31 December 2021</b>	<b>-</b>	<b>269</b>	<b>20,990</b>	<b>21,259</b>
Profit for the year	-	-	10,102	10,102
Other comprehensive income for the year	-	51	1,284	1,335
Dividends (see note 17)	-	-	(17,990)	(17,990)
Cumulative fair value gain on hedging instruments reclassified to the balance sheet	-	(130)	-	(130)
<b>At 31 December 2022</b>	<b>-</b>	<b>190</b>	<b>14,386</b>	<b>14,576</b>

The notes on pages 20 to 55 form part of these financial statements.

\*Prior year comparatives have been re-presented to present amounts on matured hedging instruments recognised through profit and loss separately from those recognised on the balance sheet, within the year.

An analysis of other reserves is provided in note 17.

## Notes to the Financial Statements

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### 1. General information

BAE Systems (Oman) Limited (the "Company") is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is BAE Systems plc. The address of the Company's registered office is shown on page 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 2.2.

### 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 IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- 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;
  - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
- 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; and
- 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.

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

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

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).

These financial statements have been prepared using the going concern basis of accounting. As discussed in the Director's Report (page 9).

**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:

Accounting policy	Description
Revenue and profit recognition	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. The Company's estimates and assumptions relating to revenue could be impacted by issues such as reduced productivity as a result of altered working practices to comply with health and safety, production delays and increased costs as a result of disruption to the supply chain or where there is uncertainty as to the recovery from customers of programme costs incurred. Material changes in these estimates could affect the profitability of individual contracts.
Deferred tax asset on retirement benefit obligations	The Company has recognised a deferred tax asset in respect of the deficits in its pension/retirement schemes. It is management's judgement that the Company will generate sufficient taxable profits to recover the net deferred tax asset recognised. This judgement requires the use of estimates of future taxable profits based on the Company's Integrated Business Plan. See note 11.

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**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

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Valuation of retirement benefit obligations

A number of actuarial assumptions are made in assessing the value of post-employment benefit obligations, including discount rate, inflation rate, and mortality assumptions. For each of the actuarial assumptions used there is a wide range of possible values and management estimates a point within that range that most appropriately reflects the Company's circumstances.

If estimates relating to these actuarial assumptions are no longer valid or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly.

Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macro-economic issues. The impact of estimates made with regard to mortality projections may also change.

Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions including the impact of climate change on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months.

Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgment is then required to determine the presentation of any tax payable in recovering the surplus.

Note 16 provides information on the key assumptions and analysis of their sensitivities.

**Critical accounting judgements**

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.

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### 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, Proceeds before Intended Use effective from 1 January 2022;
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract 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;
- Amendment to FRS 101 reduced disclosure framework, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IAS 1 and 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;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023.

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

**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 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 Statements of these branches are translated at average rates of exchange during the year. All resulting exchange differences are recognised in the foreign translation reserve.

**2.3 Revenue and profit recognition**

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

*Performance obligations*

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

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.3 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. The Company's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price either as a result of UK Ministry of Defence contracting rules which prohibit the inclusion of financing in the sales price or negotiations on competitive international export contracts which do not make allowance for the cash payment profile.

##### *Revenue and profit recognition*

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

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs;
- 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.

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

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

*Revenue and profit recognition (continued)*

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

*Outstanding commitments*

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

*Contract modifications*

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

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

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

*Costs to obtain a contract*

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

*Costs to fulfil a contract*

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

## 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 Intangible assets

Intangible assets are carried at cost or valuation, less accumulated amortisation and impairment losses.

##### *Software*

Software includes:

- Software development costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, which are recognised as intangible assets. Company-funded expenditure associated with enhancing or maintaining computer software programs for sale is recognised as an expense as incurred

##### *Amortisation*

Amortisation on intangible assets, is charged to the Income Statement on a straight-line basis over their estimated useful lives.

The estimated useful lives are as follows:

Software - 2 to 5 years

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.6 Impairment**

The carrying amounts of the Company's intangible assets (excluding goodwill), property, plant and equipment, right-of-use assets, investment property and equity accounted investments are reviewed at each Balance Sheet date to determine whether there is any indication of impairment as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated. 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 goodwill is not reversed. An impairment loss in respect of other intangible assets, property, plant and equipment, investment property and right-of-use assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount.

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

**2.7 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.

**2.8 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.

**2.9 Trade, other and contract payables**

Trade and other payables are stated at amortised cost.

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.10 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)**

**2.11 Retirement benefits**

*Defined contribution pension schemes*

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

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

*Defined benefit pension schemes*

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

The retirement benefit surpluses and obligations recognised in the Company's Balance Sheet represents the fair value of scheme assets, less the present value of the defined benefit obligations calculated using a number of actuarial assumptions as set out on page 48. The bid values of scheme assets are not intended to be realised in the short term and may be subject to significant change before they are realised. The present values of scheme liabilities are derived from cash flow projections over long periods and are, therefore, inherently uncertain.

The Company participates in a number of group and multi-employer schemes administered by its ultimate parent company, BAE Systems plc. A share of the IAS 19 Employee Benefits, pension deficit has been allocated to all participating employers. This allocation is based on the relative payroll contributions of active members which is consistent with prior years. Whilst this methodology is intended to reflect a reasonable estimate of the share of the deficit, it may not accurately reflect the obligations of the participating employers. Gains and losses resulting from changes to the relative payroll contributions of active members year on year are included within actual return on assets and actuarial gains and losses for the disclosures in respect of changes in the fair value of scheme assets and changes in the present value of defined benefit obligations, respectively.

In the event that an employer who participates in BAE Systems plc's pension schemes fails or cannot be compelled to fulfil its obligations as a participating employer, the remaining participating employers are obliged to collectively take on its obligations. The Company considers the likelihood of this event arising as remote.

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.12 Tax

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

##### *Current tax*

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

##### *Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for 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 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.

### 3. Revenue

Revenue by customer location

	2022 £000	2021 £000
Middle East	<u>83,769</u>	<u>74,273</u>

**Notes to the Financial Statements**

**4. Operating costs**

	<b>2022</b>	2021
	<b>£000</b>	£000
Inventory recognised as an expense	<b>67,424</b>	52,585
Staff costs (note 7)	<b>3,387</b>	4,656
Depreciation right-of-use assets (see note 16)	<b>1,031</b>	2,049
Amortisation of intangible assets (see note 11)	<b>26</b>	58
Other operating charges	<b>1,258</b>	1,238
	<b>73,126</b>	60,586
	<b>73,126</b>	60,586

The remuneration of the auditor for the year ended 31 December 2022 for auditing of the financial statements was £12,500 (2021: £10,000) and £nil (2021: £nil) in respect of non-audit work.

**5. Other income**

	<b>2022</b>	2021
	<b>£000</b>	£000
FX gain	<b>465</b>	1,403
	<b>465</b>	1,403
	<b>465</b>	1,403

**6. Financial expense**

	<b>2022</b>	2021
	<b>£000</b>	£000
Interest expense on lease liabilities (note 15)	<b>2</b>	71
	<b>2</b>	71
	<b>2</b>	71

**Notes to the Financial Statements**

**7. Employees**

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

	<b>2022</b>	2021
	<b>No.</b>	No.
Administration	17	25
Engineering	8	12
Maintenance	25	38
Operations	17	25
	<u>67</u>	<u>100</u>

The aggregate staff costs of Company employees were as follows:

	<b>2022</b>	2021
	<b>£000</b>	£000
Wages and salaries	3,319	4,259
Social security costs	36	44
Cost of defined benefit pension scheme (note 16)	-	282
Cost of defined contribution pension scheme (note 16)	32	63
Share-based payments	-	8
	<u>3,387</u>	<u>4,656</u>

**Notes to the Financial Statements**

**8. Directors' remuneration**

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

	<b>2022</b>	2021
	<b>£000</b>	£000
Directors' remuneration	<b>58</b>	39
Company contributions to defined benefit pension schemes	<b>5</b>	4
Compensation for loss of office	<b>5</b>	-
	<b>68</b>	43

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

	<b>2022</b>	2021
	<b>Number of directors</b>	Number of directors
Defined benefit schemes	<b>3</b>	3

	<b>2022</b>	2021
	<b>Number of directors</b>	Number of directors
Number of directors who exercised share options	<b>2</b>	1
Number of directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	<b>2</b>	2

**Notes to the Financial Statements**

**9. Tax**

	2022 £000	2021 £000
<b>Current tax</b>		
UK:		
Current tax	(804)	(1,528)
Double tax relief	804	1,528
	-	-
Overseas:		
Current tax	(804)	(1,528)
Adjustments in respect of prior years	-	(47)
	(804)	(1,575)
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(200)	(270)
Adjustments in respect of prior years	-	76
Tax rate adjustment <sup>1</sup>	-	87
	(200)	(107)
<b>Tax result</b>	<b>(1,004)</b>	<b>(1,682)</b>

**Notes to the Financial Statements**

**9. Tax (continued)**

**Reconciliation of tax result**

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

	<b>2022</b>	2021
	<b>£000</b>	£000
<b>Result before taxation</b>	<b>11,106</b>	15,019
UK corporation tax rate	<b>19.00%</b>	<b>19.00%</b>
Expected tax (expense)/income on result	<b>(2,110)</b>	(2,854)
Property, plant and equipment	<b>(1)</b>	-
Provisions	<b>(5)</b>	-
Pensions	<b>(42)</b>	-
Imputed interest income	<b>(134)</b>	(327)
Losses received from/ (surrendered to) fellow group companies	<b>1,287</b>	1,392
Adjustments in respect of prior years	-	29
Tax rate adjustment <sup>1</sup>	-	87
Other	<b>1</b>	(9)
<b>Tax result</b>	<b>(1,004)</b>	<b>(1,682)</b>

<sup>1</sup>The Government announced in 2021 that from 1 April 2023 the UK corporation tax rate would increase from 19% to 25%. The deferred tax asset at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse. The resulting tax rate adjustment has been partly recorded in the Income Statement, and partly in the Statement of Comprehensive Income.

**Notes to the Financial Statements**

**9. Tax (continued)**

**Tax recognised in other comprehensive income**

	2022			2021		
	Before tax £000	Tax benefit/ (expense) £000	Net of tax £000	Before tax £000	Tax benefit/ (expense) £000	Net of tax £000
<b>Items that will not be reclassified to the income statement:</b>						
Remeasurements on retirement benefit schemes	1,712	(428)	1,284	5,600	(1,064)	4,536
Tax rate adjustment <sup>1</sup>	-	-	-	-	109	109
<b>Items that may be reclassified to the income statement:</b>						
Fair value gain/(loss) arising on hedging instruments during the period	240	(60)	180	(224)	42	(182)
Cumulative fair value (gain)/loss on hedging instruments reclassified to the income statement	(172)	43	(129)	(1,147)	218	(929)
Tax rate adjustment <sup>1</sup>	-	-	-	-	(12)	(12)
	<b>1,780</b>	<b>(445)</b>	<b>1,335</b>	<b>4,229</b>	<b>(707)</b>	<b>3,522</b>

**Notes to the Financial Statements**

**9. Tax (continued)**

	2022			2021		
	Other reserves £000	Retained earnings £000	Total £000	Other reserves £000	Retained earnings £000	Total £000
<b>Deferred tax</b>						
Financial instruments	(17)	-	(17)	260	-	260
Retirement benefit schemes	-	(428)	(428)	-	(1,064)	(1,064)
Tax rate adjustment <sup>1</sup>	-	-	-	(12)	109	97
<b>Tax on other comprehensive income</b>	<b>(17)</b>	<b>(428)</b>	<b>(445)</b>	<b>248</b>	<b>(955)</b>	<b>(707)</b>

\*Prior year comparatives have been re-presented to present amounts on matured hedging instruments recognised through profit and loss separately from those recognised on the balance sheet, within the year.

**Notes to the Financial Statements**

**10. Intangible assets**

	Software £000
<b>Cost</b>	
At 1 January 2022	251
<b>At 31 December 2022</b>	<b>251</b>
<b>Amortisation</b>	
At 1 January 2022	225
Amortisation charge	26
<b>At 31 December 2022</b>	<b>251</b>
<b>Net book value</b>	
<b>At 31 December 2022</b>	<b>-</b>
At 31 December 2021	26

**11. Deferred tax**

**Deferred tax assets/(liabilities)**

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000
Property, plant and equipment	16	19	-	-	16	19
Provisions and accruals	18	38	-	-	18	38
Retirement benefit schemes, deficits	-	453	-	-	-	453
Retirement benefit schemes, additional contributions	153	305	-	-	153	305
Financial instruments	-	-	(64)	(90)	(64)	(90)
	<b>187</b>	<b>815</b>	<b>(64)</b>	<b>(90)</b>	<b>123</b>	<b>725</b>
<b>Deferred tax assets/(liabilities)</b>	<b>187</b>	<b>815</b>	<b>(64)</b>	<b>(90)</b>	<b>123</b>	<b>725</b>

**Notes to the Financial Statements**

**11. Deferred tax (continued)**

**Movement in temporary differences during the year**

	At 1 January 2022 £000	Recognised in income £000	Recognised in equity £000	At 31 December 2022 £000
Property, plant and equipment	19	(3)	-	16
Provisions and accruals	38	(20)	-	18
Retirement benefit schemes:				
Deficits	453	(25)	(428)	-
Additional contributions	305	(152)	-	153
Financial instruments	(90)	-	26	(64)
	<u>725</u>	<u>(200)</u>	<u>(402)</u>	<u>123</u>

	At 1 January 2021 £000	Recognised in income £000	Recognised in equity £000	At 31 December 2021 £000
Property, plant and equipment	16	3	-	19
Provisions and accruals	86	(48)	-	38
Retirement benefit schemes:				
Deficits	1,427	(19)	(955)	453
Additional contributions	348	(43)	-	305
Financial instruments	(547)	-	457	(90)
	<u>1,330</u>	<u>(107)</u>	<u>(498)</u>	<u>725</u>

**Notes to the Financial Statements**

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

	2022 £000	2021 £000
<b>Non-current</b>		
Amounts owed by BAE Systems plc	6,126	-
	6,126	-
<b>Current</b>		
Trade debtors	16,757	6,853
Amounts owed by BAE Systems plc subsidiaries	59	290
Amounts owed by BAE Systems plc	23,590	51,968
Other debtors	4,135	-
Prepayments	81	117
Amounts recoverable on long term contracts	57	4,037
	44,679	63,265

Non-current amounts owed by BAE Systems plc and its subsidiaries are payable on demand and are not expected to be settled in the Company's usual operating cycle of 12 months or less.

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

**Notes to the Financial Statements**

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

	<b>2022</b>	2021
	<b>£000</b>	£000
<b>Current</b>		
Contract liabilities	<b>22,623</b>	29,381
Trade payables	<b>692</b>	489
Amounts owed to BAE Systems plc subsidiaries	<b>2,880</b>	19
Amounts owed to BAE Systems plc	<b>4,625</b>	4,615
End of service benefits	<b>360</b>	398
Other payables	<b>3,760</b>	2,851
Accruals	<b>862</b>	1,987
	<b>35,802</b>	39,740

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

For the Company, the payment of an end of service gratuity is required to be provided for as a statutory obligation for its Oman branch. The gratuity is calculated based on the employee's basic salary and length of service. The Company recognises the cost as an expense in the Income Statement.

Notes to the Financial Statements

14. Financial instruments

	2022 £000	2021 £000
<b>Financial assets</b>		
<b>Non-current</b>		
Cash flow hedges – foreign exchange contracts	-	14
<b>Current</b>		
Cash flow hedges – foreign exchange contracts	254	654
<b>Financial liabilities</b>		
<b>Current</b>		
Cash flow hedges – foreign exchange contracts	-	(309)

15. Leases

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

	2022		
	Land and buildings £000	Plant and machinery £000	Total £000
Opening NBV	992	39	1,031
Depreciation expense for the year	(992)	(39)	(1,031)
Net book value	-	-	-
	-	-	-
	2021		
	Land and buildings £000	Plant and machinery £000	Total £000
Opening NBV	2,976	104	3,080
Depreciation expense for the year	(1,984)	(65)	(2,049)
Net book value	992	39	1,031
	992	39	1,031

**Notes to the Financial Statements**

**15. 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>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
Payments due:		
Within one year	-	1,067
	-	1,067
	-	1,067

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2022, amounted to £990k (2021: £1,942k).

**Amounts recognised in the Income Statement**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
<b>Included in operating costs:</b>		
Depreciation on right-of-use assets	1,031	2,049
	1,031	2,049
	1,031	2,049
<b>Included in net finance costs:</b>		
Interest expense on lease liabilities	2	71
	2	71
	2	71

**Notes to the Financial Statements**

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**16. Retirement benefit obligations**

**Background**

BAE Systems plc operates pension schemes for qualifying employees in the UK, US and other countries. The principal schemes in the UK are funded defined benefit schemes and the assets are held in separate trustee-administered funds. The allocation of each Company's share of the pension deficit is based on the relative payroll contributions of active members, as outlined on page 30.

At 31 December 2022, the weighted average durations of the UK defined benefit pension obligations was 13 years (2021 17 years).

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

The split of the defined benefit pension liability on a funding basis between active, deferred and pensioner members for the most significant schemes (based on the size of the closing net deficit/surplus) is set out below:

		Active %	Deferred %	Pensioner %
Main	Scheme	28	21	51
(merged) <sup>1</sup>				

1. Source: 31 March 2021 actuarial valuation reports.

**Regulatory framework**

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

## Notes to the Financial Statements

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### 16. Retirement benefit obligations (continued)

#### **Benefits**

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

A UK High Court judgment was delivered on 26 October 2018 concerning gender equalisation for the effect of Guaranteed Minimum Pensions (GMPs) for occupational pension schemes. A further UK High Court judgment was delivered on 20 November 2020 which rules that past cash-equivalent transfer values needed to account for gender equalisation for the effect of GMPs. In 2018 and 2020, a non-recurring past service cost was included in the income statement to reflect the expectation that the impact of GMP equalisation would increase the pension deficit in the balance sheet. In 2022, an allowance was included within the pension deficit which is a consistent proportion of the UK liabilities as applied in prior years and reflects the updated UK IAS 19 valuations as at 31 December 2022.

#### **Funding**

##### **Introduction**

Disclosures in respect of pension funding provided below reflect the pension schemes as a whole. Disclosures in respect of pension accounting under IAS 19 are provided on pages 48.

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

For funding valuation purposes, pension scheme assets are included at market value at the valuation date, whilst the liabilities are measured on an actuarial funding basis using the projected unit credit method and discounted to their present value based on prudent assumptions set by the trustees following consultation with scheme actuaries.

The funding valuations are performed by professional qualified independent actuaries and include assumptions which differ from the actuarial assumptions used for IAS 19 accounting purposes shown on page 48. The purpose of the funding valuations is to design funding plans which ensure that the schemes have sufficient funds available to meet future benefit payments.

Notes to the Financial Statements

16. Retirement benefit obligations (continued)

**Valuations**

Funding valuations of the UK defined benefit schemes are performed every three years. Following the accelerated payment in 2021 of the remaining sponsor deficit reduction contributions under the previously agreed deficit recovery plan, BAE Systems plc and the Trustees agreed to carry out an early triennial funding valuation for the Main Scheme as at 31 March 2021, this valuation was concluded and signed off on 30 June 2022.

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

	Main Scheme as at 31 March 2021 £bn
Market value of assets	22.9
Present value of liabilities	(22.9)
Funding (deficit)/surplus	-
Percentage of accrued benefits covered by the assets at the valuation date	100%

The valuations in 2021 were determined using the following mortality assumptions:

Life expectancy of a male currently aged 65 (years)	86 – 89
Life expectancy of a female currently aged 65 (years)	87 – 90
Life expectancy of a male currently aged 45 (years)	88 – 91
Life expectancy of a female currently aged 45 (years)	90 – 93

As part of the process of the Main Scheme's 2021 valuation, the Trustees and BAE Systems plc agreed to update the methodology to use a cash flow matching strategy, such that assets are invested with the aim of the expected income directly matching the expected benefit payments of the Scheme. The cash flow matching strategy aims to manage risk through a defined amount of risk buffer assets, which equate to the agreed prudence margin in the valuation. The risk buffer assets are measured over time to assure the Scheme is sufficiently funded. The asset portfolio is currently invested in a selection of bonds designed to match the pension payments for current pensioners, as well as a mix of growth seeking assets aimed to generate returns for the pension payments for future pensioners. Over time, assets from the return seeking portfolio will be realised to purchase additional, lower risk assets to match the increasing current pensioner portfolio.

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

## Notes to the Financial Statements

### 16. Retirement benefit obligations (continued)

#### Valuations (continued)

Under IAS 19, the discount rate for accounting purposes is based on third-party AA corporate bond yields whereas, for funding valuation purposes, the discount rate is based on a prudent level of expected returns from the broader and mixed types of investments reflected in the schemes' investment strategies.

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

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

#### Contributions

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

The total Company contributions made to the defined benefit schemes in the year ended 31 December 2022 were £0.1m (2021 £0.4m).

#### IAS 19 Accounting

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

#### Principal actuarial assumptions

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

	2022	2021	2020
<b>Financial assumptions</b>			
Discount rate – past service (%)	4.8	1.4	2.1
Discount rate – future service (%)	4.8	1.6	2.2
Retail Prices Index (RPI) inflation (%)	3.0	2.7	2.8
Rate of increase in salaries (%)	3.0	2.7	2.8
Rate of increase in deferred pensions (%)	2.3/3.0	2.0/2.7	2.0/2.8
Rate of increase in pensions in payment (%)	1.7 – 3.6	1.6 – 3.6	1.5 – 3.6
<b>Demographic assumptions</b>			
Life expectancy of a male currently aged 65 (years)	86 – 89	86 – 89	86 – 88
Life expectancy of a female currently aged 65 (years)	88 – 90	88 – 90	88 – 90
Life expectancy of a male currently aged 45 (years)	87 – 90	86 – 90	87 – 89
Life expectancy of a female currently aged 45 (years)	89 – 91	89 – 91	89 – 91

#### Discount rate

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

## Notes to the Financial Statements

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### 16. Retirement benefit obligations (continued)

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

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

As a consequence of RPI reform announcements the Company has reviewed its approach to setting inflation assumptions. The inflation risk premium deduction has been set at 0.55% per annum (2021 0.55%) and the CPI assumption has been set at 0.7% per annum (2021 0.7%) lower than RPI. The resulting RPI assumption is 3.0% per annum and the CPI assumption is 2.3% per annum. The 0.7% per annum RPI-CPI differential is a weighted average of a 1% per annum differential pre-2030 and 0.1% per annum differential post-2030; this reflects the anticipated change to the RPI index from 2030.

#### *Rate of increase in salaries*

The rate of increase in salaries for the UK schemes is assumed to be RPI inflation of 3.0% (2021 3.1%), plus a promotional scale.

#### *Rate of increase in deferred pensions*

The rate of increase in deferred pensions for the UK schemes is based on CPI inflation of 2.3% (2021 CPI inflation of 2.4%), with the exception of the legacy 2000 Plan, which is based on RPI inflation of 3.0% (2021 RPI inflation of 3.1%). For all UK schemes, the rate of increase in deferred pensions is subject to inflation caps.

#### *Rate of increase in pensions in payment*

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

#### *Life expectancy*

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

In addition, to allow for future improvements in longevity, the Continuous Mortality Investigation 2021 tables (published by the Institute of Actuaries) have been used (in 2021, the Continuous Mortality Investigation 2020 tables were used), with an assumed long-term rate of future annual mortality improvements of 1.0% per annum (2021 1.0%), an initial rate adjustment parameter ('A') of 0.25% (2021 0.25%) in conjunction with a smoothing parameter ('S<sub>k</sub>') of 7 for all members (2021 7). The Group has chosen to apply a weighting to the 2020 data in recognition of the abnormal excess deaths as a result of COVID-19. No further adjustments have been made to improvements expected in future years. The impacts of COVID-19 will continue to be monitored and assessed at future reporting dates.

The disclosures below are in respect of the Company's share of the IAS 19 deficit using the allocation methodology outlined on page 30.

Notes to the Financial Statements

16. Retirement benefit obligations (continued)

*Summary of movements in retirement benefit obligations*

	<i>£m</i>
Company's share of IAS 19 deficit at 1 January 2022	(1.8)
Actual return on assets excluding amounts included in net interest expense	(22.5)
Decrease in liabilities due to changes in assumptions and experience	24.2
Contributions in excess of service cost	0.1
<b>Company's share of IAS 19 deficit at 31 December 2022</b>	<b>(0.0)</b>

During the year the Company changed how employees were remunerated, so that employees are now remunerated through another BAE Systems Group company and BAE Systems (Oman) Ltd is recharged for the employee costs including pension contributions. In line with Group policy, the pension liability now sits with another group company, and the Company's share of the IAS 19 deficit at 31 December 2022 is nil.

*Amounts recognised in the Balance Sheet*

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Present value of funded obligations	-	(24.2)
Fair value of scheme assets	-	22.4
<b>Company's share of IAS 19 deficit, net</b>	<b>-</b>	<b>(1.8)</b>
Represented by:		
Retirement benefit surpluses	-	-
Retirement benefit obligations	-	(1.8)
	-	(1.8)

Notes to the Financial Statements

16. Retirement benefit obligations (continued)

*Changes in the fair value of scheme assets*

	£m
Company's share of the value of scheme assets at 1 January 2021	41.6
<i>Interest income</i>	0.3
<i>Actual return on assets excluding amounts included in interest income</i>	(19.0)
Actual return on assets	(18.7)
<i>Contributions by employer</i>	0.4
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	-
Total contributions by employer	0.4
Benefits paid	(0.9)
Company's share of the value of scheme assets at 31 December 2021	22.4
<i>Interest income</i>	-
<i>Actual return on assets excluding amounts included in interest income</i>	(22.5)
Actual return on assets	(22.5)
<i>Contributions by employer</i>	0.1
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	-
Total contributions by employer	0.1
Benefits paid	-
<b>Company's share of the value of scheme assets at 31 December 2022</b>	<b>-</b>

Notes to the Financial Statements

16. Retirement benefit obligations (continued)

*Assets of defined benefit pension schemes*

	2022			2021		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:						
UK	-	-	-	1.1	-	1.1
Overseas	-	-	-	3.0	-	3.0
Pooled investment vehicles <sup>1</sup>	-	-	-	0.2	7.1	7.3
Fixed interest securities:						
UK gilts	-	-	-	0.7	-	0.7
UK corporates	-	-	-	1.3	2.8	4.1
Overseas government	-	-	-	0.1	-	0.1
Overseas corporates	-	-	-	0.9	-	0.9
Index-linked securities:						
UK gilts	-	-	-	2.2	-	2.2
UK corporates	-	-	-	-	1.1	1.1
Property <sup>2</sup>	-	-	-	-	1.7	1.7
Derivatives <sup>3</sup>	-	-	-	-	(0.6)	(0.6)
Cash:						
Sterling	-	-	-	0.8	-	0.8
Foreign currency	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Company total</b>	-	-	-	10.3	12.1	22.4

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

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

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

Notes to the Financial Statements

16. Retirement benefit obligations (continued)

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

	£m
Company's share of the defined benefit obligations at 1 January 2021	(49.1)
<i>Current service cost</i>	(0.3)
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	-
Total current service cost	(0.3)
Actuarial gain due to changes in assumptions and experience	24.6
Interest expense	(0.3)
Benefits paid	0.9
Company's share of the defined benefit obligations at 31 December 2021	(24.2)
<i>Current service cost</i>	-
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	-
Total current service cost	-
Actuarial gain due to changes in assumptions and experience	24.2
Interest expense	-
Benefits paid	-
<b>Company's share of the defined benefit obligations at 31 December 2022</b>	<b>-</b>

*Amounts recognised in the Income Statement*

	2022 £m	2021 £m
<b>Included in operating costs:</b>		
Current service cost	-	(0.3)
Past service cost – plan amendments	-	-
	-	(0.3)
<b>Included in finance costs:</b>		
Net interest expense on retirement benefit obligations	-	-

The Company incurred a charge of £32,000 (2021 £63,000) in relation to defined contribution schemes for employees.

Notes to the Financial Statements

17. Share capital and other reserves

Share capital

	£1 Ordinary shares	Nominal value £
<b>Issued and fully paid</b>		
At 1 January 2021, 31 December 2021 and 31 December 2022	<u>2</u>	<u>2</u>

Other reserves

		Hedging reserve £000
<b>At 1 January 2021</b>		2,330
Amounts debited to hedging reserve (net of tax)		(2,061)
<b>At 31 December 2021</b>		<u>269</u>
Amounts debited to hedging reserve (net of tax)		(79)
<b>At 31 December 2022</b>		<u>190</u>

*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.

18. Dividends

	2022 £000	2021 £000
Final dividend of £8,995k (2021: £14,164k) per ordinary share proposed and paid during the year relating to the previous year's results	<u>17,990</u>	<u>28,328</u>

The directors are proposing a final dividend of £5,645k (2021: £8,995k) per share totalling £11,386k (2021: £17,990k).

This dividend has not been accrued in the Balance Sheet.

**Notes to the Financial Statements**

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**19. Controlling parties**

The immediate parent company is BAE Systems (Holdings) Limited and the ultimate controlling party is BAE Systems plc, which is both the smallest and largest parent company preparing group financial statements. Both companies are incorporated in the United Kingdom and registered in England and Wales.

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

6 Carlton Gardens  
London  
SW1Y 5AD  
Website: [www.baesystems.com](http://www.baesystems.com)