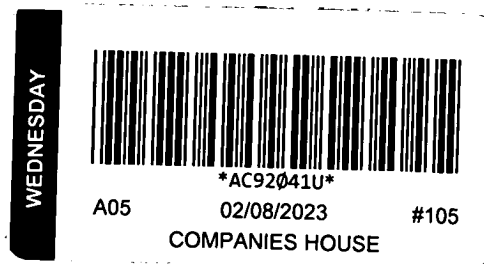


BAE Systems (Funding Two) Limited

Annual Report and Financial Statements

31 December 2022

Registered number: 04333003



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Directors' Report

Company registration

BAE Systems (Funding Two) Limited ("the Company") is a private company, limited by shares and registered in England and Wales with registered number 04333003.

Small companies' exemption

Pursuant to section 414(B) of the Companies Act 2006, the Company has taken advantage of the exemption from presenting a Strategic Report. Furthermore this Directors' Report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption per Section 415A of the Companies Act 2006.

Review of business

The Company holds investments in companies which are partly funded by loan notes bearing interest at floating rates. The interest payable on the loan notes is sufficiently covered by income from the investments. There has been no change during the year in investments held.

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flow risks are discussed in detail within the BAE Systems plc Group accounts.

Results and dividends

The Company's profit for the financial year is \$141,144k (2021: \$268,167k) which includes \$150,000k (2021: \$140,000k) relating to dividend income from the Company's investment in BAE Systems (Funding Three) Ltd. 2021 profit included a \$128,768k one-off tax adjustment arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company regime. Financial instrument activity in 2021 related to the hedging of corporation tax liabilities which were payable in sterling. The directors propose a final dividend of \$150,000k for 2022 (2021 \$300,000k). The dividend proposed per share is \$0.0405 (2021: \$0.0510).

Looking forward

Following the settlement of the interest bearing loan notes on 25 January 2023 the only outstanding activity relates to a non interest bearing receivable from BAE Systems Plc. The directors do not expect any change in operations for the foreseeable future.

Going concern

The Company and its ultimate parent entity BAE Systems plc continue to conduct ongoing risk assessments in relation to their business operations and liquidity. The directors consider that the Company will be able to continue in operational existence for the foreseeable future. Notwithstanding the reduction in activity the Company still expects to receive income from investments and may be required for future activities. For these reasons they continue to adopt the going concern basis in preparing the financial statements.

Directors and their interests

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

R Patara

A H Kennedy

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 he/she ought to have taken to make himself/herself 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

R Patara
Director



12 July 2023

Registered office:

Warwick House,
PO Box 87
Farnborough Aerospace Centre
Farnborough,
Hampshire, GU14 6YU
United Kingdom

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent Auditor's Report to the Members of BAE Systems (Funding Two) Limited

Report on the audit of the financial statements.

Opinion

In our opinion the financial statements of BAE Systems (Funding Two) Ltd (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;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 12.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

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.

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

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

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

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and 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. These included anti-bribery and corruption legislation.

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has 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 directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of BAE Systems (Funding Two) Limited
(continued)

Use of our report

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



Mark Love ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
12 July 2023

Income Statement

for the year ended 31 December 2022

	Notes	2022 \$'000	2021 \$'000
Income from subsidiary companies		150,000	140,000
Profit before finance costs and tax		150,000	140,000
Financial income	2	-	4,090
Financial expense	3	(8,856)	(4,691)
Profit before tax		141,144	139,399
Tax Credit/(Expense)	5	-	128,768
Profit for the year		141,144	268,167

Statement of Comprehensive Income

for the year ended 31 December 2022

	Notes	2022 \$'000	2021 \$'000
Profit for the year		141,144	268,167
Other comprehensive income:			
Items that may be classified to income Statement:			
Amounts credited/(charged) to hedging reserve		-	(4,595)
Tax on items that may be reclassified to the Income Statement	5	-	873
Total other comprehensive income for the year (net of tax)		-	(3,722)
Total comprehensive income for the year		141,144	264,445

The notes on pages 9 to 14 form part of the financial statements.

The results for 2022 and 2021 arise from continuing activities.

Balance Sheet
as at 31 December 2022

	Notes	2022 \$'000	2021 \$'000
Non-current assets			
Investments	6	3,010,000	3,010,000
Trade and other receivables	7	1,242,031	1,242,031
		4,252,031	4,252,031
Current assets			
Trade and other receivables	7	153,664	312,480
		153,664	312,480
Total assets		4,405,695	4,564,511
Current liabilities			
Trade and other payables	8	(310,050)	(310,010)
Current tax	5	-	-
		(310,050)	(310,010)
Total liabilities		(310,050)	(310,010)
Net assets		4,095,645	4,254,501
Capital and reserves			
Issued share capital	9	3,701,000	3,701,000
Other reserves	9	241,032	241,032
Retained earnings		153,613	312,469
Total equity		4,095,645	4,254,501

Approved by the Board on 12 July 2023 and signed on its behalf by:



R Patara
Director

Registered number: 04333003

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

	Notes	Issued share capital	Other reserves ¹	Retained earnings	Total equity
		\$'000	\$'000	\$'000	\$'000
At 1 January 2021		3,701,000	244,754	44,302	3,990,056
Profit for the year		-	-	268,167	268,167
Other comprehensive income		-	(4,595)	-	(4,595)
Taxation in respect of items of other comprehensive income	5	-	873	-	873
Ordinary share dividends	9	-	-	-	-
At 31 December 2021		3,701,000	241,032	312,469	4,254,501
Profit for the year		-	-	141,144	141,144
Other comprehensive income		-	-	-	-
Taxation in respect of items of other comprehensive income	5	-	-	-	-
Ordinary share dividends	9	-	-	(300,000)	(300,000)
At 31 December 2022		3,701,000	241,032	153,613	4,095,645

¹ The non-distributable portion of Other reserves is \$241,031,278 (2021: \$241,031,278). See Note 9 on page 14 for further information.

Notes to the Financial Statements

1 General information and accounting policies

BAE Systems (Funding Two) Limited (the "Company") is a private company, limited by shares and registered in England and Wales with the registered number 04333003. Its ultimate parent company and controlling party is BAE Systems plc. The address of the Company's registered office is shown on page 1. The principal activity of the Company is set out in the Directors' report on page 1.

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

Basis of preparation

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

- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of International Accounting Standards ("IAS") 1 Presentation of Financial Statements;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures; 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.

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

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

These financial statements have been prepared using the going concern basis of accounting for reason explained in the Directors' Report on page 1.

Changes in accounting policies

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 Accounting 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 either have been, or are expected to be endorsed by the UK Endorsement Board and are not expected to have a material impact on the Company:

- IFRS 17 Insurance Contracts, 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.

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.

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

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.

Notes to the Financial Statements (*continued*)

1 General information and accounting policies (*continued*)

Investments

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

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

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

Impairment losses are recognised in the Income Statement.

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

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

Financial income and expense

Financial income and expense are recognised in the Income Statement in the period in which they are incurred.

Dividends

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

Foreign currencies

The financial statements are prepared in US Dollars since this is the primary currency in which transactions are denominated. 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 rate ruling at the Balance Sheet date. These exchange differences are recognised in the Income Statement.

Financial instruments

Derivative financial instruments and hedging activities

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

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

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the Balance Sheet date. The fair values are estimated by discounting expected future cash flows.

The Company has applied the IFRS 9 general hedge accounting requirements from the date of initial application on 1 January 2018.

Fair value through profit or loss

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

Cash flow hedges

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

Trade, other receivables

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

The Company writes off a 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.

Trade and other payables

Trade and other payables are stated at amortised cost.

Notes to the Financial Statements (continued)

1 General information and accounting policies (continued)

Tax

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

Current tax

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

Deferred tax

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

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to corporate income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

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

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

The directors consider that there were no critical accounting judgements in applying the Company's accounting policies and that there are no key sources of estimation uncertainty.

2 Financial income

	2022 \$'000	2021 \$'000
Interest income	-	-
Gain on remeasurement of financial instruments at fair value through profit or loss	-	4,090
Foreign exchange gains	-	-
Financial income	-	4,090

3 Financial expense

	2022 \$'000	2021 \$'000
Interest expense ¹	(8,856)	(3,698)
Loss on remeasurement of financial instruments at fair value through profit or loss	-	-
Foreign exchange losses	-	(993)
Financial expense	(8,856)	(4,691)

¹ Derived from inter-company transactions.

Notes to the Financial Statements (continued)

4 Employees

The Company had no employees during the year (2021: nil).

None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by BAE Systems plc or other Group companies and were remunerated through those companies.

The directors did not provide any material qualifying services to the Company.

5 Tax

	2022 \$'000	2021 \$'000
Current tax		
Current tax	-	-
Adjustments in respect of prior years	-	128,768
Tax credit/(charge)	-	128,768

Reconciliation of tax charge

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

	2022 \$'000	2021 \$'000
Profit before tax	141,144	139,399
UK corporation tax rate	19.00%	19.00%
Expected tax (expense) on profit	(26,817)	(26,486)
Income not subject to tax	28,500	26,569
Imputed interest (income)	(4,013)	(5,045)
Losses received from fellow group companies free of charge	2,330	4,962
Adjustments in respect of prior years ¹	-	128,768
Tax charge	-	128,768

¹ Adjustment includes the result of agreements reached relating to the exposure identified in 2019 arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company regime.

Tax recognised in other comprehensive income

	Before tax \$'000	2022 Tax benefit/ (expense) \$'000	Net of tax \$'000	Before tax \$'000	2021 Tax benefit/ (expense) \$'000	Net of Tax \$'000
Items that may be reclassified to the Income Statement:						
Amounts (charged)/credited to Hedging reserves	-	-	-	(4,595)	873	(3,722)
	-	-	-	(4,595)	873	(3,722)
	Other reserves \$'000	2022 Retained earnings \$'000	Total \$'000	Other reserves \$'000	2021 Retained earnings \$'000	Total \$'000
Deferred tax						
Financial instruments	-	-	-	873	-	873
Tax on other comprehensive income	-	-	-	873	-	873

Notes to the Financial Statements (continued)

6 Investments

Carrying value	\$'000
At 1 January 2022 and 31 December 2022	3,010,000

Subsidiary undertakings at 31 December 2022

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

Company name	Class of shares held	Proportion of class (%)
BAE Systems (Funding Four) Unlimited Company	Ordinary shares of \$1	100%
Riverside One, Sir John Rogerson's Quay, Dublin D02 X576, Ireland		
Provides treasury services to the BAE Systems plc Group.		
BAE Systems (Funding Three) Limited	Ordinary shares of \$1	100%
Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire, GU14 6YU, United Kingdom		
Provides treasury services to the BAE Systems plc Group.		

7 Trade and other receivables

	2022	2021
	\$'000	\$'000
Non-current		
Amounts owed by BAE Systems plc ¹	1,242,031	1,242,031
Current		
Amounts owed by BAE Systems plc ¹	153,664	312,480
Trade and other receivables	1,395,695	1,554,511

¹ Balance arising from normal trading activities with BAE Systems plc and are unsecured, non interest bearing and repayable on demand.

8 Trade and other payables

	2022	2021
	\$'000	\$'000
Current		
Amounts owed to subsidiaries ¹	(310,000)	(310,000)
Accruals – amounts owed to subsidiaries	(50)	(10)
Trade and other payables	(310,050)	(310,010)

¹ Comprises two unsecured loan notes bearing an interest rate linked to 3 month LIBOR plus a margin repayable on demand or no later than 2023.

Notes to the Financial Statements (continued)

9 Share capital and other reserves

Share capital	Number of \$1 ordinary shares	Nominal value \$
Issued and fully paid		
At 1 January and 31 December 2022	3,701,000,100	3,701,000,100
Equity dividends	2022	2021
	\$'000	\$'000
Final dividend for ordinary shares paid in respect of previous years	(300,000)	-
Equity dividends	(300,000)	-

The directors propose a final dividend of \$150,000,000 for 2022 (2021: \$300,000,000).

Other reserves	Hedging reserves \$'000	Other reserves \$'000	Total \$'000
At 1 January 2021	3,722	241,032	244,754
Amounts debited to hedging reserve	(3,722)	-	(3,722)
At 31 December 2021	-	241,032	241,032
At 31 December 2022	-	241,032	241,032

Other reserves reflects the accretion of the difference between the nominal value of the shares subscribed for by BAE Systems Holdings Inc. on 24 June 2002 and the final subscription price paid in instalments. This reserve is non-distributable. BAE Systems Holdings Inc. is a previous shareholder and all the shares in the Company have been held by BAE Systems (Holdings) Limited since 2005.

10 Auditor's remuneration

The remuneration of the auditor for the year ended 31 December 2022 for auditing the financial statements was \$5,412 (2021: \$5,120) and \$nil (2021: \$nil) in respect of non-audit work has been borne by BAE Systems plc, the ultimate parent company.

11 Events after the reporting period

On 19 January 2023 the Company carried out a capital reduction cancelling and extinguishing 2,700,000,000 of issued shares of \$1.00 each in the Company each of which was fully paid up crediting the Company's retained earnings. On 25 January 2023 the Company received a dividend of \$2,700,000,000.00 from BAE Systems (Funding Four) Unlimited Company. Consequently the Company's investment in BAE Systems (Funding Four) Unlimited Company was written down by \$2,700,000,000.00 to \$10,000,001.00. Also on 25 January 2023 the Company declared and paid an interim dividend of \$2,700,000,000.00.

12 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