BAE Systems (Operations) Ltd

Directors' report and financial statements

31 December 2012

Registered number 01996687

Contents

Directors' report

The directors present their report, together with the audited financial statements, for the year ended 31 December 2012

Principal activities and business review

The Company operates principally in the defence market It is divided into four principal reporting segments that reflect the management of the Company as noted below

Business overview

Defence budgets in the UK are expected to remain flat, but the recent stabilising of equipment and services requirements and the budget outlook has established a more predictable planning environment

In the military air sector, European Tranche 2 Typhoon deliveries have continued and international prospects for Typhoon remain good with the potential to extend production into the next decade The Company continues to deliver assemblies for the US-led F-35 Lightning II programme under Low-Rate Initial Production contracts

Defence remains a high priority in the Kingdom of Saudi Arabia The Company has a large involvement in the support of established Royal Saudi Air Force (RSAF) and Royal Saudi Navy programmes in the Kingdom

Deliveries of RSAF Typhoon aircraft recommenced in 2013, following a contract amendment to enable UK final assembly of the balance of 48 aircraft under the original contract for 72

Discussions to formalise Typhoon price escalation under the Salam programme remain ongoing An order was received in 2013 for the next five years of support, following on from the three-year agreement that formed part of the arrangements for initial entry into service of the Typhoon aircraft

Under the Saudi British Defence Co-operation Programme (SBDCP), orders totalling £3 4bn were awarded in 2012 for support through to 2016, including the provision of manpower, logistics and training to the RSAF In addition, a £1 6bn contract was awarded in May 2012 to support the RSAF's future aircrew training requirements involving the supply of, and initial support for, Hawk Advanced Jet Trainer and Pilatus training aircraft

Total Performance

The Company continues to build on the good progress in recent years to establish a Total Performance culture across its business operations Total Performance is not just about what the Company does, but how it is done Total Performance places emphasis on delivering shareholder value, meeting the needs of customers and, at all times, acting responsibly

In addition to delivering against its Financial Performance objectives, the Company sets targets for the achievement of non-financial performance measures, including Customer Focus, Programme Execution and Responsible Behaviour

The Company is committed to achieving and sustaining high standards of business conduct and continues to reinforce a culture of responsible behaviour Mandated policies and processes within the Operational Framework are updated routinely to ensure they reflect the Company's Responsible Trading Principles All employees receive training to help them apply the global Code of Conduct of BAE Systems plc and its subsidiaries (the Group), with mandatory refresher programmes undertaken during the year

The Company's people strategy of through-career capability development and emphasis on promoting high levels of employee engagement seeks to maximise the contribution that its workforce makes to a culture of Total Performance It enables every member of the team to fulfil their personal potential The success of this strategy is measured ultimately in the success of the business as a whole The Company has talented people who are committed to excellence, doing work that is truly inspired

The safety of our employees and those using our products is critical to our business and a fundamental responsibility Safety continues to be a priority for the Company, with businesses continuing to drive consistently high standards of safety

Principal Reporting Segments

Platforms & Services (UK)

Deliveries of Typhoon Tranche 2 aircraft to the four European partner nations totalled 46 in the year At the end of 2012, cumulative aircraft deliveries to the four nations were 169 of the contracted 236 The first ten Tranche 3 front fuselage sub-assemblies were manufactured during the year Manufacture of sub-assemblies continued in advance of recommencement of deliveries of Typhoon aircraft to Saudi Arabia in 2013

In December 2012, a £2 5bn contract was awarded for the supply of 12 Typhoon and eight Hawk aircraft, associated training, and support to the Royal Air Force of Oman

Directors' report *(continued)*

The business continues to support its UK and European customers' Typhoon and Tornado aircraft, and their operational commitments through availability-based service contracts and support operations Orders of £668m were received in the year, including a contract worth £446m for Typhoon support operations across Germany, Italy, Spain and the UK Support volumes on Tornado are expected to decline as the number of aircraft and flying hours reduce in advance of the out-of-service date of April 2019

Delivery of the first F-35 Lightning II aircraft was accepted by the UK MoD The business has delivered a further 42 production aircraft fuselage assemblies to Lockheed Martin Interim funding of £234m for the fifth and sixth Low-Rate Initial Production contracts was secured in the year and negotiations continue in respect of final funding

Support continues to be provided to operators of Hawk trainer aircraft around the world In partnership with Hindustan Aeronautics Limited, production of 66 Batch 1 Hawk aircraft has been completed in India Deliveries of materials and equipment in support of licence production of the 57 Batch 2 aircraft continue and aircraft assembly in India is ongoing The business has provided an initial response to a request for proposal for an additional 20 aircraft to India

Following the 2011 government-to-government Memorandum of Understanding, BAE Systems and Dassault Aviation have jointly secured a contract from the UK and French governments for a Future Combat Air System demonstration programme preparation phase to plan how to mature and demonstrate critical technology and operational aspects for an Unmanned Combat Air System

Platforms & Services (International)

Through the entry into service of Typhoon and the continued development of the in-country industrial base, the Company remains committed to developing a greater indigenous capability in Saudi Arabia

On the Salam programme, UK final assembly of the remaining 48 of the 72 Typhoon aircraft commenced and deliveries resumed in 2013 Work to expand the multi-role capabilities of the Royal Saudi Air Force (RSAF) Typhoon is progressing to schedule

The initial three-year Typhoon support contract finished at the end of June 2012 and two subsequent six-month extensions were secured A contract was awarded in 2013 for the next five years of support

Discussions on Typhoon price escalation with the Saudi Arabian government remain ongoing Negotiations are also ongoing for the provision of maintenance and upgrade facilities in-Kingdom, and further capability enhancement of the aircraft

The business continues to support the operational capability of both the RSAF and Royal Saudi Naval Forces (RSNF) A £1 6bn contract was awarded in May 2012 to upgrade the RSAF's aircrew training aircraft, involving the supply of, and initial support for, Hawk Advanced Jet Trainer and Pilatus PC-21 training aircraft The business was also awarded orders totalling £3 4bn for support to the end of 2016, including the provision of manpower, logistics and training to the RSAF

Under the Tornado Sustainment Programme (TSP), the upgrade of the RSAF Tornado fleet is complete, with all of the contracted aircraft having been delivered back into the RSAF fleet Delivery of Storm Shadow missiles to the RSAF under the TSP is progressing in line with the agreed programme schedule

Work continues on the first ship re-fit on the minehunter mid-life update programme The ship is due to be handed back to the RSNF customer during the second half of 2013

Electronic Systems

This reporting segment provides safety critical flight control systems for the defence and commercial aerospace market, active inceptor systems, advanced displays for military aircraft, defence and civil aftermarket support and hybrid electric drive systems

HQ

This reporting segment is primarily involved in the in-service support of commercial aircraft and property management

Directors' report *(continued)*

Principal risks

The Company's principal risks are identified below

The Company is dependent on defence spending

The Company's core businesses are primarily defence-related, selling products and services directly and indirectly, mainly to the UK and Saudi Arabian governments Defence spending depends on a complex mix of political considerations, budgetary constraints, and the ability of the armed forces to meet specific threats and perform certain missions, and, as such, may be subject to significant fluctuations from year to year With constraints on government expenditure in a number of the Company's markets and countries in the Eurozone area experiencing serious financial difficulties, affordability continues to be a key focus for customers

The Company's largest customers are governments

Companies engaged in the supply of defence-related equipment and services to government agencies are subject to certain business risks particular to the defence industry These governments could modify contracts or terminate them at short notice and at their convenience In addition, the Company, as a government contractor, is subject to financial audits and other reviews by some of its governmental customers with respect to the performance of, and the accounting and general practices relating to, government contracts As a result of these audits and reviews, costs and prices under these contracts may be subject to adjustment

The Company operates in a global market.

The Company conducts business in a number of regions, including the Middle East, and, as a result, assumes certain risks associated with businesses with a broad geographical reach In some countries, these risks include, and are not limited to, the following political changes could lead to changes in the business environment in which the Company operates, economic downturns, political instability and civil disturbances could disrupt the Company's business activities, government regulations and administrative policies could change quickly and restraints on the movement of capital could be imposed, governments could expropriate the Company's assets, and burdensome taxes or tariffs could be introduced

The Company is dependent on the timing of award of defence contracts

The Company's profits and cash flows are dependent, to a significant extent, on the timing of award of defence contracts

The Company is dependent on a small number of large contracts

A significant proportion of the Company's revenue comes from a small number of large contracts Each of these contracts is typically worth or potentially worth over £1bn

The Company has fixed-price contracts

A significant portion of the Company's revenue is derived from fixed-price contracts An inherent risk in these fixed-price contracts is that actual performance costs may exceed the projected costs on which the fixed prices for such contracts are agreed These contracts can extend over many years and it can be difficult to predict the ultimate outturn costs associated with the terms on which they are based

The Company is dependent upon component availability, subcontractor performance and key suppliers

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, and in full compliance with applicable terms and conditions

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

The Company has contracts and operations in many parts of the world, operates in a highly regulated environment, and is subject to applicable laws and regulations of many jurisdictions These include, without limitation, regulations relating to import-export controls, money laundering, false accounting, anti-bribery and anti-boycott provisions Non-compliance could expose the Company to fines, penalties, suspension or debarment, which could have a material adverse effect on the Company From time to time, the Company is subject to government investigations relating to its operations

The Company's business is subject to significant competition

The Company is subject to competition from national and multi-national firms with substantial resources and capital, and many contracts are obtained through a competitive bidding process, including contracts where the Company is the current incumbent

Directors' report *(continued)*

The Company's ability to compete for contracts depends in particular on the strength of its intellectual property rights and technical knowhow, the effectiveness and innovation of its research and development programmes, its ability to offer better programme performance than its competitors at a lower cost to its customers, and the readiness of its facilities, equipment and personnel to undertake the programmes for which it competes

In some instances, governments direct to a single supplier all work for a particular programme, commonly known as sole source programmes Although governments have historically awarded certain programmes to the Company on a sole-source basis, they may in the future determine to open such programmes to a competitive bidding process Government contracts for defence and security-related products and services can, in certain countries, be awarded on the basis of home country preference

The Group has an aggregate funding deficit in the defined benefit pension schemes in which the Company participates

The Group operates certain defined benefit pension schemes At present, in aggregate, there is an actuarial deficit between the value of the projected liabilities of these schemes and the assets they hold

The Company is subject to export controls and other restrictions

A portion of the Company's sales is derived from the export of its products The export of defence and security products outside the jurisdictions in which they are produced is subject to licensing and export controls, and other restrictions No assurance can be given that the export controls to which the Company is subject will not become more restrictive, that new generations of the Company's products will not also be subject to similar or more stringent controls, or that political factors or changing international circumstances will not result in the Company being unable to obtain necessary export licences

The Company is exposed to volatility in currency exchange rates

The global nature of the Company's business means it is exposed to volatility in currency exchange rates in respect of foreign currency denominated transactions The Company is exposed to a number of foreign currencies, the most significant being the Euro and Saudi Riyal

The Company could be negatively impacted by information technology security threats

As a defence and aerospace company, the security threats faced by the Company include threats to its information technology infrastructure, unlawful attempts to gain access to its proprietary or classified information and the potential for business disruptions associated with information technology failures

Additional risks and uncertainties currently unknown to the Company, or which the Company currently deems immaterial, may also have an adverse effect on the business or financial condition of the Company

Going concern

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue operational existence for the foreseeable future For this reason they continue to adopt the going concern basis in preparing the accounts

Key performance indicators

Key financial performance indicators are shown below

	2012	2011
	£	£
Order intake	**7 1bn**	3 4bn
Turnover	**4 9bn**	5 4bn
Operating profit	**356m**	521m

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 Order intake increased reflecting the award of orders for continuing support of the operational capability and training of the Saudi armed forces to the end of 2016 and for training aircraft to the Royal Saudi Air Force under the Saudi British Defence Co-operation Programme (SBDCP)

Turnover represents the amounts derived from the provision of goods and services Turnover in 2012 was lower than 2011, reflecting no contractual aircraft deliveries on the Salam Typhoon programme in 2012 and the completion of South African Gripen aircraft deliveries in 2011

Operating profit is used for internal performance analysis as a measure of operating profitability that is comparable over time Operating profit includes additional pension contributions of £325m (2011 £49m) Excluding these additional pension contributions, return on sales increased, reflecting strong programme execution on the European Typhoon programme

Directors' report *(continued)*

Looking forward

Platforms & Services (UK) has a strong order backlog of long-term committed programmes and an enduring support business Sales are underpinned by military aircraft production on Typhoon, Hawk and F-35 Lightning II, and in-service support for existing and legacy combat and trainer aircraft There are significant opportunities to secure future Typhoon export contracts to Malaysia, the United Arab Emirates and Saudi Arabia

In the Kingdom of Saudi Arabia, the Company seeks to build upon its long-term presence through delivering current programmes and industrialisation, and developing new business in support of the Saudi military and security forces Following agreement of the training aircraft and support orders under the SBDCP in 2012, the focus turns towards mobilising activities on the next phases of these programmes

Directors and their interests

The directors who served during the year and at the date of this report were as follows

Mr K B Taylor
Mr B W Ierland
Mr I G King
Mr P J Lynas
Mr P R Earl
Mr G R Griffiths
Mr N G Whitehead

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

Overseas branch offices

The Company has overseas branch offices in India and Spain

Supplier payment policy

It is Company policy that suppliers should be paid in accordance with the payment terms and conditions stated in the applicable purchase order In the UK, the Company is a signatory to the government's Prompt Payment Code (see www promptpaymentcode org uk), under which it has undertaken to pay suppliers on time, give clear guidance on payment procedures and encourage the adoption of the code throughout its supply chain

The average number of days' credit provided in 2012 by suppliers was 30 days (2011 35 days)

Employees

Regular internal communication, including newsletters, management meetings and the intranet, keeps employees informed, involved and motivated

The Company has constructive relationships with trade unions, and regularly communicates and discusses business developments which impact the Company and its employees

The Company welcomes employees becoming shareholders in BAE Systems plc, and offers a number of employee share plans to support this

The Company is committed to giving full and fair consideration to applications for employment from disabled people who meet the requirements for roles, and making available training opportunities and appropriate accommodation to disabled people employed by the Company

In Saudi Arabia, the Saudisation programme is crucial to the long-term sustainability of the Company The Company remains committed to recruiting and training local nationals, with local employees currently filling 60% of positions in-Kingdom In 2012, the Company selected 24 high-potential people to participate in its Mustakbal Management Development Programme, which leads to Chartered Management Institute internationally recognised qualifications

Research and Development (R&D)

The Company's R&D activities cover a wide range of programmes, and include technological innovations and techniques to improve the manufacturing and service of products

Directors' report *(continued)*

Principal customers

The Company's most significant customers are the governments of the UK and Kingdom of Saudi Arabia Agreements between the governments of the UK and Kingdom of Saudi Arabia relating to defence co-operation programmes remain essential to the development of the Company's business in Saudi Arabia

Results and dividends

The Company's profit for the financial year is £357m (2011 £592m)

The results for 2011 include the benefit of an agreement with the UK tax authorities for £201m, addressing a number of items, including the interpretation of complex tax rules relating to research and development costs

During 2012, the Company paid a final dividend of £597m in respect of 2011

The directors propose a final dividend for 2012 of £360m

Auditors

KPMG Audit Plc, the auditors for the Company, have indicated their willingness to continue in office and a resolution proposing their re-appointment will be put to the AGM

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 auditors are unaware, and each director has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

On behalf of the Board

P J Lynas

Director

23 July 2013

Registered number 01996687

Registered office
BAE Systems (Operations) Limited
Warwick House
PO Box 87
Farnborough Aerospace Centre
FARNBOROUGH
Hampshire
GU14 6YU
United Kingdom

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Independent auditor's report to the members of BAE Systems (Operations) Limited

We have audited the financial statements of BAE Systems (Operations) Limited for the year ended 31 December 2012 set out on pages 11 to 28 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities in respect of the directors' report and the financial statements set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www frc org uk/auditscopeukprivate

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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

Paul Sawdon (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
KPMG Audit Plc
15 Canada Square
London
E14 5GL
23 July 2013

Profit and loss account
for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Turnover	2	**4,932**	5,360
Turnover – Continuing	*2*	***4,932***	*5,352*
Turnover – Discontinued[1]	*2*	*-*	*8*
Operating costs	3	**(4,576)**	(4,839)
Operating profit	3	**356**	521
Operating profit – Continuing	*3*	***356***	*530*
Operating loss – Discontinued[1]	*3*	*-*	*(9)*
Income from subsidiary undertakings and participating interests		**9**	5
Profit on disposal of businesses		**-**	11
Profit on disposal of fixed assets		**2**	16
Profit on ordinary activities before interest and taxation		**367**	553
Interest receivable and similar income	4	**-**	5
Interest payable and similar charges	5	**(37)**	(38)
Profit on ordinary activities before taxation		**330**	520
Taxation	7	**27**	72
Profit for the financial year		**357**	592

1 The Regional Aircraft Asset Management business

The notes on pages 14 to 28 form part of the financial statements

No note of historical cost profits has been prepared as the historical cost profits and losses are not materially different to those detailed in the above profit and loss account

The Company has no recognised gains or losses in the current or preceding year in addition to the amounts disclosed in the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented

Balance sheet
as at 31 December 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Intangible assets	9	**36**	40
Tangible assets	10	**294**	360
Investments	11	**16**	16
		346	416
Current assets			
Stocks	12	**417**	517
Debtors due within one year	13	**7,624**	7,007
Debtors due after one year	13	**54**	114
Cash at bank and in hand		**47**	55
		8,142	7,693
Creditors amounts falling due within one year	14	**(6,608)**	(5,938)
Net current assets		**1,534**	1,755
Total assets less current liabilities		**1,880**	2,171
Creditors amounts falling due after one year	14	**(177)**	(99)
Provisions for liabilities and charges	15	**(144)**	(274)
Net assets		**1,559**	1,798
Capital and reserves			
Called up share capital	17	**1,008**	1,008
Share premium account	18	**25**	25
Non-distributable reserve	18	**26**	28
Profit and loss account	18	**500**	737
Equity shareholders' funds		**1,559**	1,798

Approved by the Board on 23 July 2013 and signed on its behalf by

P J Lynas
Director

Registered number 01996687

Reconciliation of movements in equity shareholders' funds

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Profit for the financial year		**357**	592
Adjustment in respect of employee share schemes	21	**1**	3
Dividends paid	8	**(597)**	(489)
Net (reduction) / increase in shareholders' funds		**(239)**	106
Opening equity shareholders' funds		**1,798**	1,692
Closing equity shareholders' funds		**1,559**	1,798

Notes to the accounts

1 Accounting policies

Basis of preparation
The financial statements have been prepared on the historical cost basis in accordance with applicable accounting standards in the United Kingdom, modified to include the revaluation of certain land and buildings The going concern basis has been applied in these accounts

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

Cash flow statement
BAE Systems (Operations) Limited is a wholly owned subsidiary of BAE Systems plc and, consequently, the Company is exempt under the terms of Financial Reporting Standard (FRS) 1 'Cash flow statements', from the requirement to publish its own cash flow statement, as its cash flows are included within the consolidated cash flow statement of BAE Systems plc

Turnover and profit recognition
Turnover comprises the value of work completed, goods supplied or services rendered during the year, net of value added tax

Long-term contracts
Turnover is recognised when the Company can reliably estimate the outcome of a long-term contract and has obtained the right to consideration in exchange for its performance This is usually when title passes or a separately identifiable phase (milestone) of a contract or development has been completed

No profit is recognised on contracts until the outcome of the contract can be reliably estimated Profit is calculated by reference to reliable estimates of contract revenue and forecast costs after making suitable allowances for technical and other risks related to performance milestones yet to be achieved Profit is recognised progressively as risks have been mitigated or retired When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense

Goods supplied and services rendered
Sales of goods and the provision of services not under a long-term contract are recognised in the profit and loss account when the significant risks and rewards of ownership have been transferred to the buyer and revenue and costs can be reliably measured

Profit is recognised at the time of sale

Goodwill
On the acquisition of a business, fair values are attributed to the net assets/liabilities acquired Goodwill represents the difference between the purchase consideration and the fair values Positive goodwill arising on such acquisitions is capitalised in the financial statements as an intangible asset and amortised on a straight-line basis over its useful economic life To date all goodwill capitalised has been assessed as having a 20-year estimated useful economic life

Impairment reviews are undertaken at the end of the first full financial year following each acquisition and in subsequent years if events or changes in circumstance indicate that such a review is necessary

On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated including any remaining capitalised goodwill

Research and development
Company funded revenue expenditure on research and development is written off as incurred and charged to the profit and loss account, except where supported under contract

Foreign currencies
Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction or, where forward cover contracts have been arranged, at the contracted rates Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date or at a contracted rate if applicable and any exchange differences arising are taken to the profit and loss account

Tangible fixed assets
Depreciation is provided on a straight-line basis, to write off the cost or valuation of tangible fixed assets over their estimated useful economic lives to the estimated residual value using the following rates

Buildings	- up to 50 years, or the lease term if shorter
Research equipment	- 8 years
Computing equipment, motor vehicles and short life works equipment	- 3 to 5 years
Other equipment	-10 to 15 years, or the project life if shorter

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

Impairment reviews are undertaken if there are indications that the carrying values may not be recoverable

Notes to the accounts (*continued*)

1 Accounting policies (*continued*)

Leases
Rental payments under operating leases are charged to the profit and loss account on a straight-line basis in arriving at operating profit

Prior to the disposal of its Regional Aircraft Asset Management business in 2011, assets held by the Company for leasing out under operating leases were included in tangible fixed assets at cost less depreciation Rental income from aircraft operating leases was also recognised in sales as the receipts fell due

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

Stocks
Stocks are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value

Long-term contract balances are stated at cost less provision for anticipated losses Appropriate provisions for any losses are made in the year in which they are first foreseen The amount of profit attributable to the stage of completion of a long-term contract is arrived at by reference to the estimated overall profitability of the contract

Cash received on customers' account and customer stage payments
Amounts received from customers in accordance with the terms of contracts which specify payments in advance of delivery are credited, as progress payments, against any expenditure incurred upon stocks or work in progress for the particular contract Any unexpended balance is held in creditors as customer stage payments or, if the amounts are subject to advance payment guarantees unrelated to company performance, as cash received on customers' account

Tax
The charge for taxation is based on the profit for the year and takes account of taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred tax is recognised on an undiscounted basis in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date where there is an obligation to pay more tax, or a right to pay less tax, in the future

Pensions
The Company contributes to Group pension schemes operated in the UK that provide benefits based on final pensionable salary Details of the principal schemes, including the value of the deficit that exists for the schemes and the financial assumptions used are contained in the consolidated accounts of the Group The total deficit of the UK defined benefit pension schemes at 31 December 2012 was £3 6bn The two largest schemes, the BAE Systems Pension Scheme and the BAE Systems 2000 Pension Plan, have deficit recovery plans agreed with the trustees that run until 2026 In aggregate these two schemes represent 87% of the total UK deficit As permitted by FRS 17 'Retirement benefits', the schemes are accounted for as defined contribution schemes, as the employer cannot identify its share of the underlying assets and liabilities of the schemes

Share options
BAE Systems plc issues equity-settled share options to employees of the Company In accordance with the requirements of FRS 20 'Share-based payments', the Company has recognised a charge for the equity-settled share options issued to its employees

Equity-settled share options are measured at fair value at the date of grant using an option pricing model The fair value is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will actually vest

Financial instruments
The financial statements of BAE Systems (Operations) Limited do not apply FRS 26 – 'Financial Instruments Recognition and Measurement' as the Company is a wholly owned subsidiary of BAE Systems plc, and consequently it is exempt from presenting disclosures under FRS 29 – 'Financial Instruments Disclosures' Further, full equivalent disclosures are presented on a group basis within the consolidated financial statements

Notes to the accounts (*continued*)

2 Segmental analysis

Turnover by reporting segment

	Continuing 2012	Discontinued 2012	Total 2012
	£m	£m	£m
Electronic Systems	241	–	241
Platforms & Services (UK)	3,017	–	3,017
Platforms & Services (International)	2,019	–	2,019
HQ	71	–	71
	5,348	–	5,348
Intra-Company	(416)	–	(416)
	4,932	–	4,932

	Continuing 2011	Discontinued 2011	Total 2011
	£m	£m	£m
Electronic Systems	225	–	225
Platforms & Services (UK)	3,684	–	3,684
Platforms & Services (International)	1,619	–	1,619
HQ	58	8	66
	5,586	8	5,594
Intra-Company	(234)	–	(234)
	5,352	8	5,360

Turnover by geographical destination

	Continuing 2012	Discontinued 2012	Total 2012
	£m	£m	£m
United Kingdom	591	–	591
Rest of Europe	1,443	–	1,443
Middle East	2,290	–	2,290
USA and Canada	412	–	412
Asia and Pacific	142	–	142
Africa, Central and South America	54	–	54
	4,932	–	4,932

	Continuing 2011	Discontinued 2011	Total 2011
	£m	£m	£m
United Kingdom	869	–	869
Rest of Europe	1,478	8	1,486
Middle East	2,239	–	2,239
USA and Canada	423	–	423
Asia and Pacific	55	–	55
Africa, Central and South America	288	–	288
	5,352	8	5,360

Rental income from aircraft operating leases included in discontinued turnover is £nil (2011 £8m)

Notes to the accounts (*continued*)

3 Operating costs

	2012 Continuing £m	2012 Discontinued £m	2012 Total £m
Raw materials and other bought in stock	**2,813**	**–**	**2,813**
Change in stocks of finished goods and work in progress	**(253)**	**–**	**(253)**
Staff costs (note 6)	**1,371**	**–**	**1,371**
Depreciation, amortisation and impairment	**55**	**–**	**55**
Other operating charges	**616**	**–**	**616**
Other operating income	**(26)**	**–**	**(26)**
Operating costs	**4,576**	**–**	**4,576**
Operating profit	**356**	**–**	**356**
Income from subsidiary undertakings and participating interests	**9**	**–**	**9**
Profit on disposal of fixed assets	**2**	**–**	**2**
Profit on ordinary activities before interest and taxation	**367**	**–**	**367**

	2011 Continuing £m	2011 Discontinued £m	2011 Total £m
Raw materials and other bought in stock	2,747	–	2,747
Change in stocks of finished goods and work in progress	246	–	246
Staff costs (note 6)	1,187	2	1,189
Depreciation, amortisation and impairment	58	4	62
Other operating charges	605	11	616
Other operating income	(21)	–	(21)
Operating costs	4,822	17	4,839
Operating profit / (loss)	530	(9)	521
Income from subsidiary undertakings and participating interests	5	–	5
Profit on disposal of businesses	–	11	11
Profit on disposal of fixed assets	16	–	16
Profit on ordinary activities before interest and taxation	551	2	553

Included within the above analysis are the following expenses

	2012 Continuing £m	2012 Discontinued £m	2011 Continuing £m	2011 Discontinued £m
Operating lease charges	**14**	**–**	14	–

The remuneration of the auditors for the year ended 31 December 2012 for statutory audit work was £0 8m (2011 £0 8m) and £nil (2011 £nil) in respect of non-audit work

Research and development expenditure, including amounts funded under customer contracts, was £420m (2011 £398m)

Notes to the accounts (*continued*)

4 Interest receivable and similar income

	2012 £m	2011 £m
Interest receivable	–	2
Foreign exchange gains	–	3
	–	5

5 Interest payable and similar charges

	2012 £m	2011 £m
Fees[1]	–	30
Interest payable to associated group undertakings	2	–
Foreign exchange losses	15	–
Net present value adjustments	20	8
	37	38

1 Fees payable in 2011 include £28m in respect of the early redemption of debt held by the Group in June 2011 in connection with the disposal of the Regional Aircraft Asset Management business in July 2011

6 Employees

The average number of employees was as follows	Continuing 2012	Discontinued 2012	Total 2012
Electronic Systems	1,386	–	1,386
Platforms & Services (UK)	12,463	–	12,463
Platforms & Services (International)	4,869	–	4,869
HQ	334	–	334
	19,052	–	19,052

	Continuing 2011	Discontinued 2011	Total 2011
Electronic Systems	1,367	–	1,367
Platforms & Services (UK)	14,293	–	14,293
Platforms & Services (International)	4,819	–	4,819
HQ	350	38	388
	20,829	38	20,867

Notes to the accounts (*continued*)

6 Employees (*continued*)

The aggregate payroll costs of the employees were as follows	Continuing 2012 £m	Discontinued 2012 £m	Total 2012 £m
Wages and salaries	868	–	868
Social security costs	59	–	59
Additional pension contributions[1]	325	–	325
Other pension costs	118	–	118
Cost of employee share schemes (note 21)	1	–	1
Staff Costs	**1,371**	**–**	**1,371**

	Continuing 2011 £m	Discontinued 2011 £m	Total 2011 £m
Wages and salaries	937	2	939
Social security costs	66	–	66
Additional pension contributions[1]	49	–	49
Other pension costs	132	–	132
Cost of employee share schemes (note 21)	3	–	3
Staff Costs	1,187	2	1,189

1 The increase in additional pension contributions in 2012 reflects an additional charge due to Group pension scheme deficit funding payments made during the year

None of the directors received any emoluments from the Company during the year All directors who served during the year were employed by BAE Systems plc and were remunerated through that company

7 Taxation

	2012 £m	2011 £m
Current tax		
Current tax charge for the year	–	(130)
Double tax relief	–	2
Overseas tax	(1)	(2)
Adjustments in respect of prior years	39	245
	38	115
Deferred tax		
Origination and reversal of timing differences	(8)	(11)
Adjustments in respect of prior years	2	(27)
Tax rate adjustment[1]	(5)	(5)
	(11)	(43)
Tax on the results for the year	27	72

1 Under the Finance Act 2012, the main rate of UK corporation tax was reduced from 25% to 24% with effect from 1 April 2012 and from 24% to 23% with effect from 1 April 2013 The tax rate change to 23% was substantively enacted by the balance sheet date and therefore the effect of the rate reduction on the deferred tax asset as at 31 December 2012 has been included in the figures above

The Chancellor has also announced further reductions in the main rate of UK corporation tax to 21% with effect from 1 April 2014 and to 20% from 1 April 2015 The effect of these changes would be an additional reduction in the deferred tax asset of approximately £7m These adjustments have not been reflected in the figures above as the tax rate changes were not substantively enacted at the balance sheet date

Notes to the accounts (*continued*)

7 Tax (*continued*)

The current tax credıt for the year dıffers from the standard rate of corporatıon tax ın the UK of 24 5% (2011 26 5%) The dıfferences are explaıned below

	2012 £m	2011 £m
Profit on ordınary actıvıtıes before taxatıon	**330**	520
Tax on profit at UK rate of 24 5% (2011 26 5%)	**(81)**	(138)
Income/(expenses) not tax effected	**5**	(32)
Research & development tax credıts	**12**	22
Accelerated capıtal allowances	**(1)**	4
Pensıons/retırement plans addıtıonal contrıbutıons	**(3)**	1
Share based payments	**4**	4
Group losses receıved	**57**	9
Adjustments ın respect of prıor years	**39**	17
Prıor year benefit of UK tax agreement[1]	**–**	228
Provısıons	**13**	8
Other	**(7)**	(8)
Current tax credıt for the year	**38**	115

1 Reflects the benefit of an agreement with the UK tax authorıtıes addressıng a number of ıtems, ıncludıng the ınterpretatıon of complex tax rules relatıng to research and development tax credıts The benefit to current tax ıs offset by a deferred tax charge of £27m ın respect of prıor years

The Company has not ıncurred a UK corporatıon tax charge on ıts profit for the year The taxable profit has been covered by the surrender of losses from other Group companıes, ıncludıng those arısıng on export shıp contracts

8 Equıty dividends

	2012 £m	2011 £m
Fınal for 'A' and 'B' ordınary shares paıd	**597**	489
	597	489

The dırectors propose a final dıvıdend for 2012 of £360m

Notes to the accounts (*continued*)

9 Intangible assets

	Goodwill £m	Development costs £m	Total £m
Cost			
At 1 January 2012	88	1	89
Additions	–	2	2
At 31 December 2012	**88**	**3**	**91**
Amortisation			
At 1 January 2012	49	–	49
Amortisation charge	5	1	6
At 31 December 2012	**54**	**1**	**55**
Net book value			
At 31 December 2012	**34**	**2**	**36**
At 31 December 2011	39	1	40

10 Tangible assets

Cost or valuation	Land and buildings £m	Plant and equipment £m	Total £m
At 1 January 2012	400	809	1,209
Additions	2	45	47
Disposals	(71)	(19)	(90)
Reclassification between categories	(37)	37	–
At 31 December 2012	**294**	**872**	**1,166**
Depreciation and impairment			
At 1 January 2012	183	666	849
Depreciation charge for the year	17	32	49
Impairments	–	–	–
Disposals	(8)	(18)	(26)
Reclassification between categories	(8)	8	–
At 31 December 2012	**184**	**688**	**872**
Net book value			
At 31 December 2012	**110**	**184**	**294**
At 31 December 2011	217	143	360
Non-depreciated assets			
Assets under the course of construction	–	21	21
Land	24	–	24
	24	**21**	**45**
Net book value of			
Freehold land and buildings	110	–	110
Purchased software	–	7	7
Plant and machinery	–	150	150
Fixtures, fittings and equipment	–	27	27
	110	**184**	**294**

Notes to the accounts (*continued*)

10 Tangible assets (*continued*)

Land and buildings comprise

- freehold and long leasehold land and buildings, excluding certain overseas properties, revalued at 30 June 1996 The majority of the Company's operational properties were valued on a depreciated replacement basis, owing to their specialisation, with the remainder on an existing use value basis Other non-operational properties were valued on the basis of open market value, and
- additions subsequent to 30 June 1996 at cost

Following the adoption in 2000 of Financial Reporting Standard 15 'Tangible fixed assets' (FRS 15) the Company has elected that no further revaluation of land and buildings will be undertaken for statutory reporting purposes

Analysis of cost or valuation of land and buildings	**2012** **£m**
Land and buildings	
At valuation	**179**
At cost	**115**
	294

If land and buildings had not been revalued, the following would have been included in the balance sheet

	2012 **£m**
Historical cost	**227**
Depreciation	**(143)**
Net book value	
At 31 December 2012	**84**
At 31 December 2011	189

The depreciation charge for the year, based on the historical cost, would have been £47m (2011 £49m)

Capital commitments

Capital expenditure for tangible fixed assets contracted for but not provided for in full in the accounts comprised £10m (2011 £13m)

Notes to the accounts (*continued*)

11 Investments

Carrying value	**£m**
At 1 January 2012 and 31 December 2012	16

Subsidiary undertakings and participating interests at 31 December 2012

Company name	Class of shares	Total number of shares in issue	Proportion of class of shares held (%)	Equity interest held (%)
BAE Systems (Aviation Services) Limited	Ordinary shares of £1	2,000	50	50
BAE Systems (Kazakhstan) Limited	Ordinary shares of £1	2	100	100
Cardprize Limited	Ordinary shares of £1	1	100	100
Cemmnt Hub Limited – Company limited by guarantee	–	-	-	25
CFMS Limited – Company limited by guarantee	–	-	-	16 66
Corda Limited	Ordinary shares of £1	2,000	99 95	99 95
Gripen International KB - Partnership	–	-	-	50
IFS Defence Ltd	'A' Ordinary shares of £1	7,500	60	45
Defence Strategy & Solutions LLP – Partnership	–	-	-	19
Draig Aviation Holdings (Ireland) Limited	Ordinary shares of €1	2	100	100
Systems 2001 Asset Trust Funding Limited	Ordinary shares of £1	2	100	100

12 Stocks

Carrying value	**2012 £m**	2011 £m
Long-term contract balances	**4,827**	4,547
Less attributable progress payments	**(4,488)**	(4,115)
	339	432
Short-term work in progress	**14**	31
Raw materials and consumables	**50**	44
Finished goods and goods for resale	**14**	10
	417	517

Notes to the accounts (*continued*)

13 Debtors

	2012 £m	2011 £m
Amounts due within one year		
Trade debtors	**274**	235
Amounts owed by group subsidiaries	**6,997**	6,329
Amounts owed by group joint ventures (note 20)	**144**	208
Other debtors	**173**	177
Prepayments and accrued income	**36**	58
	7,624	7,007
Amounts due after one year		
Other debtors	**–**	49
Deferred tax (note 16)	**54**	65
	54	114
Total debtors	**7,678**	7,121

14 Creditors

	2012 £m	2011 £m
Falling due within one year		
Trade creditors	**214**	191
Customer stage payments		
Long-term contracts	**2,704**	2,616
Others	**3**	8
Amounts owed to group subsidiaries	**2,817**	2,222
Amounts owed to group joint ventures (note 20)	**3**	2
Corporation tax	**292**	452
Other taxes and social security costs	**14**	15
Other creditors	**174**	119
Accruals and deferred income	**387**	313
	6,608	5,938
Falling due after one year		
Customer stage payments long-term contracts	**79**	18
Other creditors	**98**	81
	177	99
Total creditors	**6,785**	6,037

Notes to the accounts (*continued*)

15 Provisions for liabilities and charges

	Contracts and other £m	Reorganisations - continuing operations £m	Total £m
At 1 January 2012	116	158	274
Created	40	6	46
Released	(13)	(44)	(57)
Utilised	(29)	(81)	(110)
Transfer to stocks (long-term contract balances)	(9)	–	(9)
At 31 December 2012	**105**	**39**	**144**

Contracts and other

In respect of ongoing contracts, appropriate provisions are made for any losses in the year in which they are first foreseen The associated outflows are estimated to occur over the period of the contract, normally between one and five years

Other provisions include warranties and after-sales service, legal costs, insurance and environmental commitments

Reorganisations - continuing operations

The costs associated with reorganisation programmes are supported by detailed plans and based on previous experience as well as other known factors Such costs are generally incurred within one to three years There is limited volatility around the timing and amount of the ultimate outflows related to these provisions

Notes to the accounts (*continued*)

16 Deferred tax

	2012 £m	2011 £m
Accelerated capital allowances	12	24
Pensions/retirement plans additional contributions	5	2
Share based payments	1	1
Provisions and accruals	36	38
Deferred tax asset	54	65
Asset at 1 January	65	108
Deferred tax charge in profit and loss account for year		
- ordinary	(6)	(38)
- rate adjustment[1]	(5)	(5)
Deferred tax asset at 31 December	54	65
This asset is included within		
Debtors (note 13)	54	65

1 Under the Finance Act 2012, the main rate of UK corporation tax was reduced from 25% to 24% with effect from 1 April 2012 and from 24% to 23% with effect from 1 April 2013 The tax rate change to 23% was substantively enacted by the balance sheet date and therefore the effect of the rate reduction on the deferred tax asset as at 31 December 2012 has been included in the figures above

The Chancellor has also announced further reductions in the main rate of UK corporation tax to 21% with effect from 1 April 2014 and to 20% from 1 April 2015 The effect of these changes would be an additional reduction in the deferred tax asset of approximately £7m These adjustments have not been reflected in the figures above as the tax rate changes were not substantively enacted at the balance sheet date

No significant potential liability to tax is expected to arise if properties included at valuation in the accounts were realised at their revalued amounts and in respect of rolled over capital gains (2011 £nil)

17 Share capital

	£1 'A' Ordinary shares '000	£1 'B' Ordinary shares '000	Nominal value £m
Issued and fully paid			
At 1 January and 31 December 2012	1,007,340	180	1,008

The 'A' and 'B' Ordinary shares rank pari passu in all respects

Notes to the accounts (*continued*)

18 Reserves

	Share premium account £m	Revaluation reserve (non-distributable) £m	Profit and loss reserve £m
At 1 January 2012	25	28	737
Adjustment in respect of employee share schemes	–	–	1
Profit for the financial year	–	–	357
Transfer to profit and loss reserve	–	(2)	2
Dividend paid	–	–	(597)
At 31 December 2012	**25**	**26**	**500**

19 Foreign exchange contracts

The Company has derivative financial instruments that it has not recognised at fair value These consist of contracts to buy and sell Australian Dollars, Euros, Saudi Arabian Riyals, South African Rand, Swedish Krona, Danish Krone, Canadian Dollars, Swiss Francs, Bahraini Dinars, US Dollars, Norwegian Krone and Omani Rials at agreed future dates at agreed future exchange rates At 31 December 2012, the Company had 1,398 such contracts (2011 1,379) The 1,398 contracts held at 31 December 2012 commit the Company to buy and sell Australian Dollars, Euros, Saudi Arabian Riyals, South African Rand, Swedish Krona, Danish Krone, Canadian Dollars, Swiss Francs, Bahraini Dinars, US Dollars, Norwegian Krone and Omani Rials at various dates between 2013 and 2022 for a total net payment of £1,975m relating to net foreign currency purchases under the Company's operational contracts If these same contracts had been entered into on 31 December 2012, the Company would have been committed to buy and sell Australian Dollars, Euros, Saudi Arabian Riyals, South African Rand, Swedish Krona, Danish Krone, Canadian Dollars, Swiss Francs, Bahraini Dinars, US Dollars, Norwegian Krone and Omani Rials for a net payment of £1,931m

The 1,379 contracts held at 31 December 2011 commit the Company to buy and sell Australian Dollars, Euros, Saudi Arabian Riyals, South African Rand, Swedish Krona, Danish Krone, Canadian Dollars, Singapore Dollars, Swiss Francs, Bahraini Dinars and US Dollars at various dates between 2012 and 2017 for a total net payment of £1,321m relating to net foreign currency purchases under the Company's operational contracts If these same contracts had been entered into on 31 December 2011, the Company would have been committed to buy and sell Australian Dollars, Euros, Saudi Arabian Riyals, South African Rand, Swedish Krona, Singapore Dollars, Swiss Francs and US Dollars for a net payment of £1,277m

20 Related party transactions

As the Company is a wholly owned subsidiary of BAE Systems plc, the Company has taken advantage of the exemption contained in FRS 8 'Related Party Disclosures', and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the Group

Related party transactions for the year ended 31 December 2012 were as follows

	Amounts owed to related party		Amounts owed by related party		Sales to related party		Purchases from related party	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Eurofighter Jagdflugzeug GmbH	**3**	2	**125**	194	**1,324**	1,352	–	–
Gripen International KB	–	–	**17**	10	–	–	–	–
Panavia Aircraft GmbH	–	–	**1**	4	**35**	34	**65**	98
Advanced Electronics Company Limited	–	–	–	–	–	–	**19**	153
MBDA SAS	–	–	**1**	–	**2**	1	**166**	64
	3	2	**144**	208	**1,361**	1,387	**250**	315

Notes to the accounts (*continued*)

21 Employee share schemes

Awards over shares of the ultimate parent undertaking, BAE Systems plc, have been granted to employees of the company under various schemes Details of the terms and conditions of each share plan are given in the Remuneration Report of the BAE Systems plc Annual Report 2012

	Share Matching Plan (SMP)		Performance Share Plan (PSP)	
	2012	2011	**2012**	2011
	Number of shares '000	Number of shares '000	**Number of shares '000**	Number of shares '000
Outstanding at 1 January	**2,755**	2,100	**5,452**	4,570
Transferred during the year	**(418)**	–	**(822)**	–
Granted during the year	**738**	1,025	**902**	1,907
Exercised during the year	**(356)**	(213)	**(406)**	(336)
Lapsed during the year	**(572)**	(157)	**(1,465)**	(689)
Outstanding at 31 December	**2,147**	2,755	**3,661**	5,452
Weighted average remaining life (years)	**1**	1	**5**	5
Weighted average fair value of options granted (£)	**3 01**	3 37	**2 35**	2 61
Expense recognised for the year (£m)	**–**	1	**1**	2

The exercise price for the SMP and PSP is £nil (2011 £nil)

Details of options granted in the year

The fair value of equity-settled options granted in the year have been measured using the weighted average inputs below and the following valuation models

SMP – Dividend valuation model
PSP – Monte Carlo

	2012	2011
Range of share price at date of grant (£)	**3 01 – 3 29**	2 64 – 3 37
Expected option life (years)	**3 – 10**	3 – 4
Volatility	**24%**	25% – 32%
Risk free interest rate	**0 3% – 0 5%**	0 8% – 1 4%

Volatility was calculated with reference to the Group's weekly share price volatility, after allowing for dividends and stock splits, for the greater of 30 weeks or for the period until vest date

The average share price in the year was £3 10 (2011 £3 04)

22 Ultimate parent undertaking

The ultimate parent company is BAE Systems plc, a company incorporated in Great Britain and registered in England and Wales

The consolidated accounts of BAE Systems plc are available to the public and may be obtained from

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