

BAE Systems Electronics Limited

Annual Report and Financial Statements

31 December 2021

Registered number: 00053403

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Directors' Report

Company registration

BAE Systems Electronics Limited (the Company) is a private company, limited by shares and registered in England and Wales with the registered number 00053403.

Results and dividends

The Company's profit for the financial year is £14,529k (2020 loss of £2,474k).

The directors propose a dividend of £20m for 2021 (2020: £55m).

Principal activities

The Company principally acts as an investment holding company and expects to continue as such for the foreseeable future.

Business Review

Within the year the company has made a profit of £14,529k due to an increase in income from subsidiaries and participating interests.

Looking forward

The Company will continue to act as an investment holding company for the foreseeable future.

Events after the reporting period

Since the Balance Sheet date, several countries in which we operate have announced or are making plans to increase spending to counter the elevated and evolving threat environment on multiple fronts. This has been determined to be a non-adjusting post balance sheet event. It is not currently possible for the Company to estimate the potential future financial impact of such changes.

Since the Balance Sheet date, there has been an increase globally in supply chain and inflationary pressures for businesses. This has been determined to be a non-adjusting post balance sheet event. The Company is currently mitigating the major financial impacts of this issue and seeks to continue to do so.

Going concern

The Financial Statements have been prepared on the going concern basis, notwithstanding net current liabilities of £1,317,082k (2020 £1,260,992k), which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. BAE Systems plc has indicated in writing that, for at least 12 months from the date of approval of these Financial Statements, it will continue to make available funds as are needed by the Company to meet its liabilities as they fall due and in particular will not seek repayment of amounts currently made available.

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.

Directors and their interests

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

B W Ierland (resigned 9 August 2021)
P S Inman (appointed 9 August 2021)
D I Armstrong

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.

Directors' Report *(continued)*

Disclosure of information to the 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 ought to have taken to make himself 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 2016.

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:



P S Inman
Director

24 June 2022
Registered office:
BAE Systems Electronics Limited
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 Financial Reporting Standard 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; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent Auditor's Report to the Members of BAE Systems Electronics Limited

Report on the audit of the Financial Statements

Opinion

In our opinion the Financial Statements of BAE Systems Electronics Limited (the Company):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 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 Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 16.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. 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 export controls, defence contracting and anti-bribery and corruption legislation.

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

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.

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

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 prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Use of our report

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



Jon Thomson FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
24 June 2022

Statement of Comprehensive Income
for the year ended 31 December

		2021	2020
	Notes	£'000	£'000
Operating costs	2	(3,949)	(308)
Other income	3	611	593
Operating (loss)/profit		(3,338)	285
Impairment of investments	4	(9,495)	(2,468)
Income from subsidiary undertakings and participating interests	5	27,769	-
Profit/(loss) before finance costs and tax		14,936	(2,183)
Financial income	11	329	426
Financial expense	11	(617)	(699)
Profit/(loss) before tax		14,648	(2,456)
Tax result	7	(119)	(18)
Profit/(loss) and total comprehensive income/(expense) for the year		14,529	(2,474)

The notes on pages 11 to 20 form part of these Financial Statements.

The results for 2021 and 2020 arise from continuing activities.

Balance Sheet
as at 31 December

	Notes	2021 £'000	2020 £'000
Non-current assets			
Investment property	9	3,777	3,986
Investments	10	298,345	307,840
Finance lease receivables	11	9,787	15,241
Amounts owed by BAE Systems plc Group companies	12	1,055,723	1,029,621
		1,367,632	1,356,688
Current assets			
Finance lease receivables	11	5,454	6,343
Prepayments and accrued income		45	3
Current tax		143	143
		5,642	6,489
Total assets		1,373,274	1,363,177
Non-current liabilities			
Deferred tax liabilities	8	(785)	(666)
Lease liabilities	11	(18,211)	(23,005)
		(18,996)	(23,671)
Current liabilities			
Lease liabilities	11	(7,421)	(6,359)
Amounts owed to BAE Systems plc Group companies	12	(1,314,095)	(1,259,933)
Trade and other payables		(170)	-
Accruals and deferred income		(138)	(289)
Provisions	13	(900)	(900)
		(1,322,724)	(1,267,481)
Total liabilities		(1,341,720)	(1,291,152)
Net assets		31,554	72,025
Capital and reserves			
Issued share capital	14	8,942	8,942
Retained earnings		22,612	63,083
Total equity		31,554	72,025

Approved by the Board on 24 June 2022 and signed on its behalf by:



P S Inman
Director

Registered number: 00053403

Statement of Changes in Equity
for the year ended 31 December

	Notes	Issued share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2020		8,942	65,557	74,499
Total comprehensive expense		-	(2,474)	(2,474)
At 31 December 2020		8,942	63,083	72,025
Total comprehensive income		-	14,529	14,529
Ordinary share dividends	14	-	(55,000)	(55,000)
At 31 December 2021		8,942	22,612	31,554

Notes to the Financial Statements

1 Accounting policies

BAE Systems Electronics Limited (the Company) is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate parent company and controlling party is BAE Systems plc. The address of the Company's registered office is shown on page 3. The principal activity of the Company is set out in the Directors' Report on page 2.

These Financial Statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless otherwise stated, rounded to the nearest thousand.

Basis of preparation

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

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirement in paragraph 38 of International Accounting Standard (IAS) 1 Presentation of Financial Statements, to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16 Property, Plant and Equipment; paragraph 118(e) of IAS 38 Intangible Assets; and paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

The Company has prepared its Financial Statements on a going concern basis.

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

The Financial Statements have been prepared under the historical cost convention, and have been prepared using the going concern basis of accounting.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements under FRS 101 requires the use of accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The directors consider that there are no critical accounting judgements in applying the Company's accounting policies and that there are no key sources of estimation uncertainty.

Changes in accounting policies

There are no amendments to existing standards, or interpretations that became effective on 1 January 2021 and have had a material impact on the Company.

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 Accounting policies (*continued*)

Investment property

Cost

Land and buildings that are held to earn rentals or for capital appreciation, including those held as right-of-use assets, are classified as investment property. The Company measures investment property at its cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided, on a straight-line basis, to write off the cost of investment property over its estimated useful life of up to 50 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Balance Sheet date.

Impairment

The carrying amounts of the Company's investment property are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. Where an indication of impairment exists, an impairment exercise is performed. If the carrying value exceeds the recoverable amount (being the higher of the fair value less cost of disposal, and the value in use), then the carrying value is impaired to the recoverable amount.

If the recoverable amount exceeds the carrying amount in future periods, impairment losses are reversed to the extent that the revised carrying value does not exceed the cost less accumulated depreciation value should no impairment have been recognised.

Leases

The Company as lessee

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

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

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs. Right-of-use assets that are held for the purpose of earning rental income are presented as investment property (see note 9). The carrying amounts of the Company's right-of-use assets and investment property are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

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

The Company as lessor

Leases in which the Company is lessor are classified as finance leases or operating leases. If the lease transfers substantially all of the risks and rewards of ownership to the lessee, the lease is classified as a finance lease. All other leases are classified as operating leases.

A sublease where the Company is an intermediate lessor is classified as a finance lease when it transfers substantially all of the risks and rewards of the right-of-use asset arising from the head lease.

Lease income under operating leases is recognised in the Income Statement on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as a receivable discounted at the interest rate implicit in the lease. Finance lease income is recognised in the Income Statement over the lease term to produce a constant periodic rate of interest on the receivable.

Dividends

Dividends received and receivable are credited to profit or loss. Equity dividends paid on ordinary share capital are recognised as a liability in the period in which they are declared.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Investments

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

Fixed asset investments in preference shares are held at fair value through profit or loss.

The carrying amounts of the Company's investments are reviewed at each Balance Sheet date to determine the assets' recoverable amount as required by IAS 36 Impairment of Assets. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

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 if no impairment loss had been recognised.

Trade and 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.

Tax

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

Current tax

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

Deferred tax

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

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

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

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

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

Provisions

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

Notes to the Financial Statements (continued)

2 Operating costs

	Notes	2021 £'000	2020 £'000
Management recharges from other BAE Systems plc Group companies		207	205
Depreciation	9	83	83
Impairment of investment property	9	126	-
Other		3,533	20
Operating costs		3,949	308

The auditor's remuneration of £26,775 (2020 £25,500) in respect of auditing the financial statements and £nil (2020 £nil) in respect of non-audit work has been borne by BAE Systems plc, the ultimate parent company and has not been recharged to BAE Systems Electronics Limited.

3 Other income

	2021 £'000	2020 £'000
Operating lease income	611	593
Other income	611	593

4 Impairment of investments

	2021 £'000	2020 £'000
Impairment of investments	9,495	2,468

In 2021, the Company recognised an impairment charge of £9,495k (2020 £2,468k) against its investment in a subsidiary company, BAE Systems Integrated System Technologies Limited, due to the reduction in the net assets of that company.

5 Income from subsidiary undertakings and participating interests

	2021 £'000	2020 £'000
Dividends received from AMSH B.V.	27,769	-
Income from subsidiary undertakings and participating interests	27,769	-

Notes to the Financial Statements (continued)

6 Directors and employees

The Company had no employees during the year (2020 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 and were remunerated through that company (2020 same).

The directors did not provide any material qualifying services to the Company (2020 same).

7 Tax

	2021 £'000	2020 £'000
Deferred tax		
Origination and reversal of timing differences	54	53
Adjustments in respect of prior years	-	5
Tax rate adjustment ¹	(173)	(76)
Tax result	(119)	(18)

No provision for current tax is required. The Company has surrendered its tax losses to fellow group companies free of charge.

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

	2021 £'000	2020 £'000
Profit/(loss) before tax	14,648	(2,456)
UK corporation tax rate	19.00%	19.00%
Expected tax income/(expense) on (loss)/profit	(2,783)	467
Exempt income from participating interests	5,276	-
Expenses not tax effected	-	(3)
Impairment of investments	(1,804)	(469)
Property, plant and equipment	-	-
Imputed interest expense	874	473
Adjustments in respect of prior years	-	5
Other	2	1
Losses surrendered to fellow group companies	(1,511)	(416)
Tax rate adjustment ¹	(173)	(76)
Tax result	(119)	(18)

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

Notes to the Financial Statements (continued)

8 Deferred tax

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Lease liabilities	-	-	(795)	(683)	(795)	(683)
Property, plant and equipment	3	3	-	-	3	3
Other	7	14	-	-	7	14
Deferred tax assets/(liabilities)	10	17	(795)	(683)	(785)	(666)
Set off of tax	(10)	(17)	10	17	-	-
Net balance at 31 December	-	-	(785)	(666)	(785)	(666)

Movement in temporary differences during the year

	At 1 January 2021 £'000	Recognised in income £'000	At 31 December 2021 £'000
Lease liabilities	(683)	(112)	(795)
Property, plant and equipment	3	-	3
Other	14	(7)	7
	(666)	(119)	(785)

9 Investment property

	£'000
Cost	
At 1 January 2021	5,181
Additions	-
At 31 December 2021	5,181
Depreciation and impairment	
At 1 January 2021	1,195
Depreciation	83
Impairment	126
At 31 December 2021	1,404
Net book value	
At 31 December 2021	3,777
At 31 December 2020	3,986
Fair value	
At 31 December 2021	3,777
At 31 December 2020	3,986

Investment property held relates to assets purchased under leases, and therefore the fair value has been approximated to be equivalent to the carrying value of the asset.

Notes to the Financial Statements (continued)

10 Investments

	£'000
Cost	
At 1 January and 31 December 2021	1,613,415
Impairment	
At 1 January 2021	1,305,575
Charge for the year (note 4)	9,495
At 31 December 2021	1,315,070
Net book value	
At 31 December 2021	298,345
At 31 December 2020	307,840

During the year, management conducted an impairment review of the investments held by the Company. As a result of this review, an impairment of £9,495k was charged against the Company's investment in BAE Systems Integrated System Technologies Limited. Details regarding the impairment are provided in note 4.

The recoverable amount of each investment is based on value in use estimated using either the net assets of the Company, or the risk-adjusted future cash flow projections from the five-year Integrated Business Plan (IBP) and a terminal value based on the projections for the final year of that plan, with growth rate assumptions of 2% applied for each significant investment. The IBP process includes the use of historical experience, available government spending data and the Group's order backlog, as well as the impact of evolving issues such as COVID-19, climate change and Brexit. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital and adjusted for risks specific to the market in which the company operates, have been used in discounting these projected risk-adjusted cash flows.

Subsidiary undertakings and significant holdings at 31 December 2021

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2021 is disclosed below. 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 nominal value held
AMSH B.V. Coolsingel 61, 7 th Floor – right, 3012 AB Rotterdam, Netherlands	'B' ordinary shares of €4.50	50%
BAE Systems (Projects) Limited Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6YU, United Kingdom	Ordinary shares of £1	100%
BAE Systems Avionics Singapore Pte Limited One Marina Boulevard, #28-00, Singapore 018989, Singapore	Ordinary shares of SGD1	100%
BAE Systems Integrated System Technologies Limited Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6YU, United Kingdom	Ordinary shares of £1	100%
Flight Control System Management GmbH PO Box 801109, 81663 Munich, Germany	Ordinary shares of €0.51	33.3%

Notes to the Financial Statements (continued)

11 Leases

The Company leases land and buildings under non-cancellable lease arrangements. The leases have varying terms, including escalation clauses, renewal rights and purchase options. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations.

Lease liabilities

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

	2021 £'000	2020 £'000
Payments due:		
Within one year	(7,920)	(6,940)
Between one and five years	(14,356)	(19,359)
Later than five years	(9,295)	(9,515)
Total undiscounted gross payments	(31,571)	(35,814)
Deduct: Impact of discounting	5,939	6,450
Finance lease liabilities	(25,632)	(29,364)

The total cash outflow for leases in the year ended 31 December 2021 amounted to £7,858k (2020 £6,939k).

Amounts recognised in the Income Statement

	2021 £'000	2020 £'000
Included in other income:		
Operating lease income from subleasing investment property	611	593
	611	593
Included in finance income/(expense):		
Interest income on finance lease receivables	329	426
Interest expense on lease liabilities	(617)	(699)

Operating leases

The Company is party to operating leases in which it is the lessor, primarily relating to investment property. Under the terms of the lease agreements, no contingent rents are receivable. The leases have varying terms including escalation clauses and renewal rights. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations.

A maturity analysis of the future undiscounted lease receipts from operating leases in which the Company is lessor is presented in the table below.

	2021 £'000	2020 £'000
Receipts due:		
Within one year	111	182
Between one and two years	-	111
	111	293

Notes to the Financial Statements (continued)

11 Leases (continued)

Finance lease receivables

A maturity analysis of the future undiscounted lease receipts from finance leases in which the Company is lessor is presented in the table below.

	2021 £'000	2020 £'000
Receipts due:		
Within one year	5,684	6,672
Between one and two years	5,684	5,684
Between two and three years	4,263	5,684
Between three and four years	-	4,263
Total undiscounted gross receipts	15,631	22,303
Deduct: Impact of discounting	(390)	(719)
Finance lease receivables	15,241	21,584

12 Amounts owed by/to BAE Systems plc Group companies

Amounts owed by BAE Systems plc Group companies

	2021 £'000	2020 £'000
Non-current		
Amounts owed by BAE Systems plc	645,127	617,358
Amounts owed by BAE Systems plc subsidiaries	191,219	192,926
Amounts owed by subsidiaries	219,377	219,337
Amounts owed by BAE Systems plc Group companies	1,055,723	1,029,621

Amounts owed to BAE Systems plc Group companies

	2021 £'000	2020 £'000
Current		
Amounts owed to BAE Systems plc subsidiaries	1,314,095	1,259,933
Amounts owed to BAE Systems plc Group companies	1,314,095	1,259,933

All amounts due to and from BAE Systems plc Group companies are interest free and payable on demand.

Notes to the Financial Statements (continued)

13 Provisions

	£'000
At 1 January 2021 and 31 December 2021	900
Represented by:	
Non-current	-
Current	900
	900

The provision at 31 December 2021 relates to a contractual liability which arose on the historical sale of a property.

While the timing of the outflows is uncertain, the Company expects the residual provision to be utilised over a period of approximately one year.

14 Share capital

Share Capital	Ordinary shares of 50p each	
	Number of shares	Nominal value £'000
Authorised		
At 1 January 2020, 31 December 2020 and 31 December 2021	18,000,000	9,000
Issued and fully paid		
At 1 January 2020, 31 December 2020 and 31 December 2021	17,883,631	8,942

Equity dividends

Equity dividends of £55m was paid in 2021 (2020 nil).

The directors propose a dividend of £20m, 111.83p per ordinary share, to be paid in respect of 2021 (2020 £55m).

15 Events after the reporting period

Since the Balance Sheet date, several countries in which we operate have announced or are making plans to increase spending to counter the elevated and evolving threat environment on multiple fronts. This has been determined to be a non-adjusting post balance sheet event. It is not currently possible for the Company to estimate the potential future financial impact of such changes.

Since the Balance Sheet date, there has been an increase globally in supply chain and inflationary pressures for businesses. This has been determined to be a non-adjusting post balance sheet event. The Company is currently mitigating the major financial impacts of this issue and seeks to continue to do so.

16 Controlling parties

The immediate parent company is Meslink Limited and the ultimate and 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