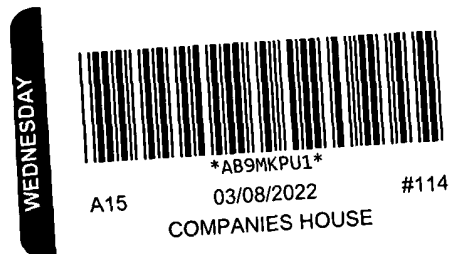


BAE Systems (Defence Systems) Limited

Annual Report and Financial Statements

31 December 2021

Registered number: 00236538



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Strategic Report
for the year ended 31 December 2021

Review of business and principal activities

BAE Systems (Defence Systems) Limited (the "Company") is a member of the BAE Systems plc Group ("BAE Systems Group" or "Group") of companies, and is principally engaged in the design, development and support of the Falcon mobile battlefield communication system for the UK Army and RAF.

Work on the Falcon contract will complete in 2022. In December 2020 the Company won a new UK Ministry of Defence contract with an order book of £29m which commenced in 2021 and is expected to last for five years.

Key performance indicators

Key financial performance indicators are shown below:

	2021	2020
	£000	£000
Order intake	4,035	38,195
Revenue	12,452	17,992
Profit before tax	10,049	7,377
Return on sales	81%	41%

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. It has reduced following a larger order received at the end of 2020.

Revenue represents the amounts derived from the provision of goods and services. It has reduced following the wind down of the Falcon contract, with some offset from the new MOD contract.

Profit before tax is used for internal performance analysis as a measure of operating profitability that is comparable over time. The increase has been driven by the movement in fair value of investments, sale of project materials and dividends received, offset by lower levels of trading in the year.

Return on sales this shows the percentage of profit as a function of sales. The large increase has been driven by the movement in fair value of investments, offset by lower levels of trading in the year.

Strategic Report (continued)
for the year ended 31 December 2021

Principal risks and uncertainties

The Company's principal risks are identified below:

The Company's sole customer is the UK Government. The Company is dependent on defence spending and terms of trade

The Company's core business is primarily defence-related and its sole customer is the UK government. Defence spending by governments can fluctuate depending on change of government policy, other political considerations, budgetary constraints, specific threats and movements in the international oil price. There have been constraints on government expenditure in the UK. Defence spending by governments has also been impacted by the COVID-19 outbreak due to the reprioritisation of funds.

The Company has long-standing relationships and security arrangements with the government of the UK and its agencies. It is important that these relationships and arrangements are maintained.

In the defence and security industries, governments can typically modify contracts at their convenience or terminate them at short notice. Governments also from time to time review their terms of trade and underlying policies and seek to impose such new terms and policies when entering into new contracts.

The Company's performance on its contracts with some government customers is subject to financial audits and other reviews which can result in adjustments to prices and costs.

Contract risk, execution and supply chain

It is important that the Company maintains a culture in which it delivers on its projects within tight tolerances of quality, time and cost performance in a reliable, predictable and repeatable manner. Actual costs may exceed the projected costs, including assumptions on future rates of inflation.

The Company is dependent upon the delivery of materials by suppliers and the assembly by subcontractors of components and subsystems used in its products in a timely and satisfactory manner, on satisfactory commercial terms and in full compliance with applicable terms and conditions.

The external supply chain environment is very dynamic at this time, with both lead-time and availability issues, but also fragility issues pricing pressures, including from inflationary increases in labour, energy and other key materials.

There may be a reduction in recoveries from external tenants

The lease for the Christchurch site is managed through the Company. There is a risk that a reduction in recoveries from external tenants will have an adverse effect on future cash flows.

The outbreak of contagious diseases may have a material adverse effect on the Company's business, financial condition and results of operations

Many people have contracted COVID-19 across the world and many deaths have occurred as a result of the COVID-19 pandemic. Although there has been an effective roll-out of vaccination programmes in certain countries, it is still not clear how long this pandemic will last or how enduring its long-term impact will be, or the further measures that will be taken by governments and others to seek to control this pandemic and its impact. The uncertainties surrounding the development of this pandemic make it difficult to predict the extent to which the Company may be affected.

Areas of the Company's business that could be impacted include a decrease in spending by the Company's customer; an increase in taxation by governments; the failure to obtain awards for defence contracts; the failure of suppliers to deliver parts to the Company; the requirement for the Company or its suppliers to reduce site operational levels or close sites; the inability of the Company to meet contractual delivery requirements on time; the inability to adequately staff and manage the business; and an increase in the cost or lack of availability of funding.

Strategic Report (continued)
for the year ended 31 December 2021

If the Company were unable to obtain appropriate funding either internally or externally it could be forced to make reductions in spending, seek to extend payment terms with suppliers and/or suspend or curtail planned programmes. Any of the above could have a material adverse effect on the Company's business, financial condition and results of operations.

Since the outbreak of the COVID-19 coronavirus pandemic, the BAE Systems Group has taken a number of responsive measures including reducing site operational levels and introducing new cleaning regimes, safe working distance measures and protective equipment for its employees. The Group continues to build on the experience gained to date in dealing with the pandemic. This includes the use of safe working practices and the effective use of home working.

By taking these measured actions to build in resilience for a prolonged period of disruption, the Company has continued to deliver critical work for its customer and, where operations were impacted, ensured that site-critical workers have now been able to safely return to work where possible.

Support for the defence industry from the government has been strong around prioritisation of capabilities, cash flows, recognising the need to maintain a strong supply chain and working collaboratively to maintain critical defence and security programmes.

Section 172(1) statement

This statement contains an overview of how the directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the UK's Companies Act 2006. That section requires a director of a company to act in the way he considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to:

- a) the likely consequences of any decision in the long term,
- b) the interests of the Company's employees,
- c) the need to foster the Company's business relationships with suppliers, customers and others,
- d) the impact of the Company's operations on the community and the environment,
- e) the desirability of the Company maintaining a reputation for high standards of business conduct, and
- f) the need to act fairly as between members of the Company.

Decision making

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

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

Employees

The company has no employees.

Strategic Report (continued)
for the year ended 31 December 2021

Fostering business relationships with suppliers, customers and others

The directors recognise that fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the Company's success. The Company has close relationships with its customers, suppliers and industry partners which help us to create best-in-class, cost-effective equipment, goods, services and solutions.

Our only customer is the UK government. Strong and collaborative relationships with our principal customer help us to identify its requirements and to help position the Company as a trusted provider. The directors are in regular contact with the principal customer of the Company.

The Company, together with its procurement and supply chain function, works with its suppliers and their supply chains to provide equipment, goods and services that meet its customers' requirements. The Company's supplier relationships are often long-term due to the length of the product life-cycles and the directors meet with key suppliers and work with the BAE Systems Group's procurement function to develop deeper relationships with business in the supply chain and develop strategic relationships with key suppliers. The value of long-term supplier partnerships was shown during 2021, with the Group's long-term global supply agreements, put in place prior to the pandemic, being of particular assistance in maintain supply of critical components. A proactive approach was taken to manage supplier relationships with the Group working closely with suppliers to anticipate issues and take action where possible to ensure continuity of supply.

The community and the environment

The directors recognise the importance of leading a company that not only generates value for shareholders but also contributes to wider society. Through the Operational Framework the Company implements the requirements of the BAE Systems Group's Community Investment Policy, which looks to ensure that we build and nurture mutually beneficial relationships between our business, our people and local stakeholders. Giving back to the communities in which we operate, and to charities that have meaning to our business, is vitally important to our Company and our employees, allowing us to make a positive difference and have an impact where it counts.

We recognise that our operations have an impact on the environment – from the energy and resources we use, to the products we manufacture and the waste that we generate. As an organisation, the BAE Systems Group is committed to reducing the environmental impact of its operations and products, minimising its environmental footprint and, in turn, decreasing its operational costs.

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

All the above activities form part of the Company's implementation of the BAE Systems Group-wide community and environment processes and policies and the BAE Systems Group's impacts thereon which are described in the "Environment" and "Social" sections (pages 38-47 and pages 58-63 respectively) of BAE Systems plc's Annual Report 2021 (available at: www.baesystems.com/investors).

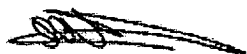
Maintaining a reputation for high standards of business conduct

The BAE Systems Group aims to be a recognised leader in business conduct which helps us to earn and maintain stakeholder trust and sustain business success. The directors consider it fundamental to maintain a culture focused on embedding responsible business behaviours. All employees of the Company are expected to act in accordance with the requirements of BAE Systems Group policies, including the Code of Conduct, at all times. As well as being the right thing to do, this reduces the risk of compliance failure and supports the Company in attracting and retaining high-calibre employees.

Strategic Report (continued)
for the year ended 31 December 2021

Detailed information on the BAE Systems Group-wide business conduct processes and policies are described in BAE Systems plc's Annual Report 2021 (available at: www.baesystems.com/investors) and in particular the "Governance and business conduct" section on pages 64-66.

Approved by the Board and signed on its behalf by:



J E Fothergill
Director

Date: 1 August 2022

Directors' Report

Company registration

BAE Systems (Defence Systems) Limited is a private company, limited by shares and registered in England and Wales with the registered number 00236538.

Results and dividends

The Company's profit for the financial year is £10,093k (2020: £7,349k profit). The directors do not propose a dividend for 2021 (2020: £nil).

Looking forward

In December 2020 the Company won a new UK Ministry of Defence contract with an order book of £29m which commenced in 2021 and is expected to last for five years.

Events after the reporting period

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. Owing to the uncertainty around supply chain and inflationary pressures, we have included this as a principal risk in the Strategic Report. The Company is currently mitigating the major financial impacts of these issues and seeks to continue to do so.

Going concern

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue operational existence for at least 12 months from the date of approval of the financial statements. Having undertaken these assessments, the directors consider that the Company will be able to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £29,159k, which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. BAE Systems plc has indicated that, for at least 12 months from the date of approval of these financial statements, it will continue to make available 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.

Energy and carbon reporting exemption

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed on pages 38–47 in the 2021 consolidated accounts of its ultimate parent, BAE Systems plc (available at www.baesystems.com/investors).

Directors and their interests

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

R Checkley
J E Fothergill

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 auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

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

Approved by the Board and signed on its behalf by:



J E Fothergill
Director

Date: 1 August 2022

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

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 101 ("FRS 101") Reduced Disclosure Framework.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems (Defence Systems) 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 Income Statement and Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 20.

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.

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. 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 2006 and the Corporation Tax Act 2010; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team, including relevant internal specialists such as tax, pensions and IT specialists, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the area with the greatest potential for fraud to be in relation to revenue and margin recognition on long term contracts. The specific procedures we performed to respond to this risk included:

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

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

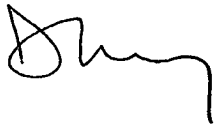
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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

Use of our report

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



Douglas King (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Manchester

M3 3HF

Date: 1 August 2022

Income Statement and Statement of Comprehensive Income
for the year ended 31 December 2021

	Note	2021 £000	2020 £000
Revenue	3	12,452	17,992
Operating costs	4	(14,073)	(14,051)
Other income	5	3,216	1,221
Operating profit		1,595	5,162
Dividends received		1,267	-
Fair value gain on equity investments at fair value through profit and loss	12	7,530	2,588
Financial expense	6	(343)	(373)
Profit before tax		10,049	7,377
Tax	9	44	(28)
Profit for the year		10,093	7,349
Total comprehensive income for the year		10,093	7,349

The notes on pages 17 to 37 form part of these financial statements.

Balance Sheet
as at 31 December 2021

	Note	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	11	2,042	1,677
Investment property	13	12,294	12,969
Investments	12	31,972	24,442
Other receivables	15	90,011	88,744
Deferred tax assets	14	292	248
		<u>136,611</u>	<u>128,080</u>
Current assets			
Trade, other and contract receivables	15	2,779	6,610
		<u>139,390</u>	<u>134,690</u>
Non-current liabilities			
Lease liabilities	10	(13,358)	(12,990)
Provisions	17	(233)	(167)
		<u>(13,591)</u>	<u>(13,157)</u>
Current liabilities			
Trade and other payables	16	(28,741)	(34,895)
Lease liabilities	10	(1,688)	(1,274)
Provisions	17	(1,509)	(1,596)
		<u>(31,938)</u>	<u>(37,765)</u>
Total liabilities		<u>(45,529)</u>	<u>(50,922)</u>
Net assets		<u><u>93,861</u></u>	<u><u>83,768</u></u>

Balance Sheet (continued)
as at 31 December 2021

	Note	2021 £000	2020 £000
Capital and reserves			
Issued share capital	18	1,009	1,009
Other reserves		81,035	81,035
Retained earnings		11,817	1,724
Total equity		93,861	83,768

Approved by the Board on 1 August 2022 and signed on its behalf by:



J E Fothergill
Director

Registered number: 00236538

The notes on pages 17 to 37 form part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2021

	Issued share capital	Other reserves	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 January 2020	1,009	81,035	(5,625)	76,419
Profit and other comprehensive income for the year	-	-	7,349	7,349
At 31 December 2020	1,009	81,035	1,724	83,768
Profit and other comprehensive income for the year	-	-	10,093	10,093
At 31 December 2021	1,009	81,035	11,817	93,861

The notes on pages 17 to 37 form part of these financial statements.

Other reserves relates to unrealised gains arising on the sale of investments in prior for exchange of shares in Group companies.

Notes to the Financial Statements

1. General information

BAE Systems (Defence Systems) Limited is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is disclosed in note 20. The address of the Company's registered office is shown on page 7.

The principal activity of the Company is set out in the Strategic Report on page 1. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless otherwise stated, rounded to the nearest thousand.

2. Accounting policies

2.1 Basis of preparation

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

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets; 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 paragraph 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

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

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

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

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

These financial statements have been prepared using the going concern basis of accounting.

Critical accounting policies

There were no significant accounting policies that are considered by the directors to be critical because of the level of complexity, judgement or estimation involved in their application and their impact on the financial statements.

Judgements made in applying accounting policies

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

Key sources of estimation uncertainty

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

Fair value investment property assessment - the carrying value of the Company's investment properties (see note 13) are reviewed at each Balance Sheet date to determine whether there is any indication of impairment as required by IAS 36 Impairment of Assets. The Company considers a range of estimates and assumptions which each carry an inherent uncertainty. These include assumptions on discounted cashflows and considerations surrounding the future prospects for the UK property market which remain uncertain given various developing macroeconomic factors, such as inflationary pressures and increased costs of living, and their overall impact on the UK economy. Were inflation to increase costs by 10% over the next 5 years without a corresponding increases in sales price then this would result in an impairment of £3.2m to the net book value of the investment property.

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies

The following standards, interpretations and amendments to existing standards became effective on 1 January 2021 and have not had a material impact on the Company:

- Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform (Phase 2); and
- Amendments to IFRS 4 Insurance Contracts: deferral of IFRS9.

The following amendments to existing standards have been issued and became effective in the year as a response to the COVID-19 pandemic, but did not have a material impact on the Company:

- Amendment to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond June 2021, effective from 1 April 2021 and adopted by the UK Secretary of State for Business, Energy and Industrial Strategy on 21 May 2021.

Significant accounting policies

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

2.2 Revenue and profit recognition

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

Performance obligations

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

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Company's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are typically no observable

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Revenue and profit recognition (continued)

stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Company's pricing principles. Whilst payment terms vary from contract to contract, on many of the Company's contracts, an element of the transaction price is received in advance of delivery. The Company therefore has significant contract liabilities. The Company's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price either as a result of UK Ministry of Defence contracting rules which prohibit the inclusion of financing in the sales price or negotiations on competitive international export contracts which do not make allowance for the cash payment profile.

Revenue and profit recognition

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

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs;
- Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date.

The Company has determined that most of its contracts satisfy the over-time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs (typically services or support contracts) or the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date (typically development or production contracts).

For each performance obligation to be recognised over time, the Company recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Company has determined that this method faithfully depicts the Company's performance in transferring control of the goods and services to the customer.

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

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

Contract modifications

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Revenue and profit recognition (continued)

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

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

Costs to obtain a contract

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

Costs to fulfil a contract

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

2.3 Leases

The Company as lessee

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

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

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

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

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.4 Property, plant and equipment

Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided, normally on a straight-line basis, to write off the cost of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Buildings	- up to 50 years, or the lease term if shorter
Plant and machinery	- 10 years,

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

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each Balance Sheet date.

Impairment

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

2.5 Investments

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

Equity investments in companies over which the Company does not have control or significant influence are measured at fair value through profit and loss.

Notes to the Financial Statements

2. Accounting policies (continued)

2.6 Impairment

The carrying amounts of the Company's intangible assets (excluding goodwill), property, plant and equipment, right-of-use assets, investment property and equity accounted investments are reviewed at each Balance Sheet date to determine whether there is any indication of impairment as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, impairment testing is performed annually.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the Income Statement.

An impairment loss in respect of goodwill is not reversed. An impairment loss in respect of other intangible assets, property, plant and equipment, investment property and right-of-use assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount.

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

2.7 Investment property

Cost

Land and buildings that are leased to BAE Systems plc Group or non-BAE Systems plc Group entities 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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.8 Trade, other and contract 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.

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

2.9 Trade and other payables

Trade and other payables are stated at amortised cost.

2.10 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.

Legal, contractual and environmental

The Company holds provisions for expected legal, contractual and environmental costs that it expects to incur over an extended period. Management exercises judgement to determine the amount of these provisions. Provision is made for known issues based on past experience of similar items and other known factors. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount, being the single most likely amount in a range of possible outcomes.

Other

Other provisions include provisions for onerous contracts, which are recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Notes to the Financial Statements

2. Accounting policies (continued)

2.11 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 corporate income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Notes to the Financial Statements

3. Revenue

Revenue by reporting segment

	2021	2020
	£000	£000
Long term contracts	12,452	17,992
	12,452	17,992

Revenue by customer location:

	2021	2020
	£000	£000
United Kingdom	12,452	17,992
	12,452	17,992

4. Operating Costs

	2021	2020
	£000	£000
Raw materials, subcontracts and other bought-in items used	8,684	9,297
Depreciation, amortisation and impairment (note 11 and note 13)	2,925	730
Other operating charges	2,464	4,024
	14,073	14,051

The remuneration of the auditor for the year ended 31 December 2021 for auditing of the financial statements was £5,000 (2020 £5,000) and £nil (2020 £nil) in respect of non-audit work and was borne by fellow group undertaking, BAE Systems (Operations) Limited and not recharged.

5. Other income

	2021	2020
	£000	£000
Operating lease income (note 10)	1,499	1,221
Project materials sold to fellow Group company	1,717	-
	3,216	1,221

Notes to the Financial Statements

6. Financial expense

	2021	2020
	£000	£000
Net present value adjustments	4	-
Interest expense on lease liabilities (note 10)	339	373
	<u>343</u>	<u>373</u>

7. Employees

The monthly average number of Company employees was nil (2020 nil).

8. Directors' remuneration

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

	2021	2020
	£000	£000
Directors' remuneration	32	49
Company contributions to defined benefit pension schemes	7	11
	<u>39</u>	<u>60</u>

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

	2021	2020
	Number of	Number of
	directors	directors
Defined benefit schemes	2	2

Notes to the Financial Statements

9. Tax

The Company has not provided for current tax for the year as any taxable profits will be covered by the surrender of losses from fellow group companies, in respect of which no payment will be made.

Tax expense

	2021	2020
	£000	£000
Deferred tax		
Origination and reversal of temporary differences	(9)	(68)
Tax rate adjustment ¹	53	32
Adjustments in respect of prior years	-	8
Tax income/(expense)	44	(28)

Reconciliation of tax expense

The following reconciles the expected tax (expense) using the UK corporation tax rate, to the reported tax income/(expense):

	2021	2020
	£000	£000
Profit before tax	7,377	5,969
UK corporation tax rate	19.00%	19.00%
Expected tax (expense) on profit	(1,909)	(1,402)
Expenses not tax effected	(23)	(3)
Income not subject to tax	241	-
Imputed interest income	(216)	(117)
Investment fair value adjustment	1,431	492
Losses received from fellow group companies	466	961
Adjustments in respect of prior years	-	8
Tax rate adjustment ¹	53	32
Other	1	1
Tax credit/(expense)	44	(28)

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 asset at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse. The resulting tax rate adjustment has been recorded in the Income Statement.

Notes to the Financial Statements

10. Leases

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

	31 December 2021	31 December 2020
	Investment Property £000	Investment Property £000
Additions during the year	2,118	58
Depreciation expense for the year	(1,450)	(1,212)
Impairment (charge)/reversal for the year	(1,343)	537
Net book value	12,294	12,969

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	2,086	1,613
Between one and five years	7,392	6,451
Later than five years	7,366	8,064
	16,844	16,128
Reconciliation to Balance Sheet:		
Undiscounted lease liability	16,844	16,128
Impact of discounting	(1,798)	(1,864)
Total discounted lease liability	15,046	14,264

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2021, amounted to £1,613k (2020: £1,613k).

Notes to the Financial Statements

10. Leases (continued)

Amounts recognised in the Income Statement

	2021	2020
	£000	£000
Included in operating costs:		
Depreciation on right-of-use assets	1,450	1,212
Impairment charge/(reversal) for the year	1,343	(537)
	<u>2,793</u>	<u>675</u>
Included in other income:		
Operating lease income from subleasing right-of-use assets	1,499	1,221
	<u>1,499</u>	<u>1,221</u>
Included in net finance costs:		
Interest expense on lease liabilities	339	373
	<u>339</u>	<u>373</u>

Notes to the Financial Statements

11. Property, plant and equipment

	Long term lease-hold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost or valuation				
At 1 January 2021	1,312	592	61	1,965
Additions	470	-	27	497
Transfers between classes	(147)	147	-	-
At 31 December 2021	1,635	739	88	2,462
Depreciation				
At 1 January 2021	38	201	49	288
Depreciation charge for the year	75	53	4	132
At 31 December 2021	113	254	53	420
Net book value				
At 31 December 2021	1,522	485	35	2,042
At 31 December 2020	1,274	391	12	1,677

Capital commitments

Capital expenditure contracted for but not provided for in full in the financial statements is £130k (2020 £620k).

Notes to the Financial Statements

12. Investments

	Subsidiary companies £000	Investments at fair value £000	Total £000
Value			
At 1 January 2021	-	24,442	24,442
Fair value movement	-	7,530	7,530
At 31 December 2021	-	31,972	31,972

Net book value

At the reporting date, management estimated the fair value of the investments held at fair value by the Company. As a result a fair value gain of £7,530k in respect of BAE Systems Electronics Limited were recognised.

Subsidiary undertakings and participating interests 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. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned directly by the Company.

Company name	Class of shares held	Proportion of class (%)
British Aerospace (Malaysia) Sdn Bhd <i>Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3 Bangsar South, No 8, Jalan Kerinchi, 59200, Kuala Lumpur Malaysia</i>	Ordinary shares of RM1	100%
British Aerospace (Far East) Limited <i>Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong</i>	Ordinary shares of HKD1	100%
Both the above companies have the financial year end 30 September.		
BAE Systems Electronics Limited <i>Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6YU, United Kingdom</i>	Ordinary shares of £0.50	2.3%
The above company has the financial year end 31 December.		

Notes to the Financial Statements

13. Investment property

	Investment property £000
Cost	
At 1 January 2021	17,288
Additions	2,118
At 31 December 2021	19,406
Depreciation and impairment	
At 1 January 2021	4,319
Depreciation charge for the year	1,450
Impairment charge	1,343
At 31 December 2021	7,112
Net book value	
At 31 December 2021	12,294
At 31 December 2020	12,969
Fair Value	
At 31 December 2021	12,294
At 31 December 2020	12,969

The fair values above are based on and reflect current market values as prepared by in-house professionals who have the appropriate professional qualifications and recent experience of valuing properties in the location and of the type being valued.

During the year, management conducted an impairment review of the investment property held by the Company. As a result of this review, the investment property's value in use was seen to deteriorate and impairment charges of £1,343k identified.

Notes to the Financial Statements

14. Deferred taxation

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2021	2020	2021	2020	2021	2020
	£000	£000	£000	£000	£000	£000
Property, plant and equipment	88	95	-	-	88	95
Provisions and accruals	377	304	-	-	377	304
Other items	-	-	(173)	(151)	(173)	(151)
	<u>465</u>	<u>399</u>	<u>(173)</u>	<u>(151)</u>	<u>292</u>	<u>248</u>
Deferred tax assets/(liabilities)	465	399	(173)	(151)	292	248
Set off of tax	(173)	(151)	173	151	-	-
	<u>292</u>	<u>248</u>	<u>-</u>	<u>-</u>	<u>292</u>	<u>248</u>
Net deferred tax assets/(liabilities)	292	248	-	-	292	248

Movement in temporary differences during the year

	At 1 January 2021 £000	Recognised in income £000	At 31 December 2021 £000
Property, plant and equipment	95	(7)	88
Provisions and accruals	304	73	377
Other	(151)	(22)	(173)
	<u>248</u>	<u>44</u>	<u>292</u>

	At 1 January 2020 £000	Recognised in income £000	At 31 December 2020 £000
Property, plant and equipment	85	10	95
Provisions and accruals	338	(34)	304
Other	(147)	(4)	(151)
	<u>276</u>	<u>(28)</u>	<u>248</u>

Notes to the Financial Statements

15. Trade, other and contract receivables

	2021	2020
	£000	£000
Non-current		
Amounts owed by BAE Systems plc and its subsidiaries	90,011	88,744
	90,011	88,744
Current		
Amounts owed by BAE Systems plc and its subsidiaries	910	2,433
Prepayments	235	77
Contract receivables	1,507	4,089
Other debtors	81	11
VAT debtor	46	-
	2,779	6,610

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

16. Trade and other payables

	2021	2020
	£000	£000
Current		
Payments received on account	129	-
Trade payables	23	393
Amounts owed to BAE Systems plc and its subsidiaries	27,701	32,999
Accruals	473	498
Deferred income	355	295
Other payables	60	710
	28,741	34,895

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

Notes to the Financial Statements

17. Provisions

	Legal, contractual and environmental £000	Other £000	Total £000
Non-current	167	-	167
Current	1,500	96	1,596
At 1 January 2021	1,667	96	1,763
Created	66	-	66
Utilised in year	-	(87)	(87)
At 31 December 2021	1,733	9	1,742
Represented by:			
Non-current	233	-	233
Current	1,500	9	1,509
	1,733	9	1,742

Legal, contractual and environmental

Reflecting the inherent uncertainty within many legal proceedings, the timing and amount of the outflows could differ significantly from the amount provided. The Company continues to hold a £1.5m provision in respect of the legal fees relating to overseas activities.

Other

There are no individually significant provisions included within other provisions.

18. Share capital

	£1 Ordinary shares	Nominal value £000
Authorised		
At 1 January 2020, 31 December 2020 and 31 December 2021	26,100,000	-
Issued and fully paid		
At 1 January 2020, 31 December 2020 and 31 December 2021	1,009,297	1,009

Notes to the Financial Statements

19. Events after the reporting period

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. Owing to the uncertainty around supply chain and inflationary pressures, we have included this as a principal risk in the Strategic Report. The Company is currently mitigating the major financial impacts of these issues and seeks to continue to do so.

20. Controlling parties

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

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

6 Carlton Gardens
London
SW1Y 5AD

Website: www.baesystems.com