

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
(Formerly Detica Limited)

Annual report and financial statements  
For the year ended 31 December 2014

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**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
**COMPANY INFORMATION**

Registered number: 01337451

**Directors**

M C Sutherland (Resigned: 25<sup>th</sup> September 2014)  
K B Taylor (Appointed: 3<sup>rd</sup> October 2014)  
B N Raychawdhuri  
N S Medley

**Secretary**

D S Parkes

**Auditors**

KPMG LLP  
15 Canada Square  
London  
E14 5GL

**Registered office**

Surrey Research Park  
Guildford  
Surrey  
GU2 7YP

# BAE SYSTEMS APPLIED INTELLIGENCE LIMITED

## STRATEGIC REPORT

Registered number: 01337451

The Directors present their Strategic report of the Company for the year ended 31 December 2014.

### Business review

Turnover for the year amounted to £258 million (2013: £223.9 million) and the profit for the year after taxation and exceptional items amounted to £8.8 million (2013: loss £6.7 million). Profit before investment income and expenses, interest, tax and exceptional items was £8.8 million (2013: loss £7.5 million).

Turnover grew year on year primarily due to the success of the organisation's Service Integration and Application Management (SIAM) offerings into Civil Government. Operating profit saw a marked improvement on the previous year, largely as a result of the improved performance of fellow wholly owned subsidiaries operating under the Applied Intelligence Group's pricing policy.

The Directors do not recommend payment of a final dividend in respect of the year ended 31 December 2014 (2013: £nil).

The Directors have a positive outlook for the year ahead with the Company having secured a place on the UK Government's MSDA framework and being well positioned to address demand in this area, combined with its continued investment in its Cyber products and ongoing growth in other areas. In particular, the Directors believe that there are significant opportunities for the Company to work closely with SliverSky, a US organisation acquired in December 2014 and forming part of the expanded Applied Intelligence Group.

During 2015 two BAE Systems Businesses have transferred into BAE Systems Applied Intelligence Ltd. The transfer of the Great Baddow operations from the Advanced Technology Centre of BAE Systems (Operations) Limited will drive growth and also provide additional skilled resources to deliver the R&D plans of the Company. The transfer of Enterprise IT Services from BAE Systems plc continues to support the Company in delivering current SIAM commitments.

### Strategy overview

BAE Systems Applied Intelligence ("Applied Intelligence") creates intelligent solutions with our clients to protect and enhance the connected world. The organisation solves costly, complex and critical business problems through a combination of software and hardware products and professional services, in four domains of expertise: cyber security, financial crime, communications intelligence and digital transformation.

Applied Intelligence's strategic priorities are to:

- Maintain leadership in the UK National Security and Critical National Infrastructure services market by reducing costs of delivery and leveraging close customer relationships;
- Grow in the international, large-scale security market by leveraging UK Government relationships with priority alliances;
- Outperform in adjacent commercial cyber / financial crime markets by leveraging Intellectual Property to create differentiated products and related solutions.

### Principal risks and uncertainties

The significant high level risks identified by the Board have not changed substantially over the last 12 months and are as follows:

#### *Global economic climate*

As with all technology businesses, Applied Intelligence is exposed to any downturn in technology spending that may result from instability in the global economy caused, for example, by rising commodity prices, acts of terrorism, significant pressure on selected government spending programmes or the European sovereign debt crisis.

We believe that the diversified markets covered by the business and, in particular, Applied Intelligence's focus on the counter threat agenda and intellectual property led solutions to provide clients with greater value for money, provide some mitigation against this risk. In addition, we maintain staff base flexibility in order that we can move resources to those sectors where demand is greatest.

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
**STRATEGIC REPORT (CONTINUED)**

Registered number: 01337451

*Recruitment market*

The current market sees a strong demand for the best people. This has been particularly the case for people with advanced technical skills and those with UK government clearances. We address the risk of a competitive recruitment market through a portfolio of measures, including a strengthened HR management team, attractive staff reward schemes such as flexible benefits, and through new career development programmes.

*Pricing pressure from off-shore providers*

Low-cost providers in off-shore locations continue to exert pressure on pricing in some sectors of the organisations markets. Applied Intelligence opened a UK delivery centre in Leeds back in 2011, followed by a similar centre in Poland and a larger global delivery centre in Malaysia during 2013 to provide more efficient and cost-effective offerings to our clients. Some of Applied Intelligence's work is unsuitable for off-shore resourcing for security reasons, which is a constraint the organisation have sought to address by investing in secure facilities in our UK locations.

*Delivery risk*

Applied Intelligence has, over many years, built a track record of very strong project management and technical delivery of the most complex and business-critical programmes. Any failure to meet client expectations and/or Applied Intelligence's contractual obligations could damage the organisations reputation in the marketplace. We manage this risk through rigorous bid approval controls, peer review of technical solutions and project plans and regular monitoring of high risk projects by project boards.

*Security*

Much of Applied Intelligence's work relies on its reputation for strong security, in particular that for the National Security community, where the Company is subject to particular rules applied by national governments. Security breaches could materially damage Applied Intelligence's business. Security matters are therefore carefully managed and are overseen by a Director-level Security Committee, which ensures that the business systematically embeds rigorous security practice in its everyday operations. Applied Intelligence is investing to ensure its own security keeps pace with the evolving threat environment.

Each of the identified risks is regularly reviewed and actively managed by the Board.

Financial instrument risks are dealt with in note 19 to the financial statements.

**Key Performance Indicators**

The directors consider turnover and operating profit/loss as the principal Key Performance Indicators (KPIs) to assess progress towards achieving the Company's strategy. This information for the current and prior periods is set out in the Company's Profit and Loss account on page 9.

Approved by the Board and signed on its behalf:



B N Raychawdhuri  
Director

25 June 2015

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2014.

**Principal activity**

The Company's principal activity is the provision of business and technology services, solutions and products.

On the 27 January 2014 the Company changed its name from Detica Limited to BAE Systems Applied Intelligence Limited.

**Going Concern**

The Company's business activities, strategy and principal risks which may affect its future development, performance and position are set out in the Strategic report. In addition the Directors' report and notes to the accounts include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Company had a positive cash balance at the end of the year, continues to have strong cashflows and the Company also participates in the BAE Systems plc group's centralised treasury arrangements. The Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the BAE Systems plc group to continue as a going concern or its ability to continue with the current banking arrangements.

The Company has considerable financial resources together with long standing relationships with a number of customers and suppliers across different geographic areas. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Directors**

The Directors in office at 31 December 2014 and who served during the period are listed on page 1.

**Indemnity insurance**

The Directors of the Company have been indemnified against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force during the year and continues to be in force as at the date of this report. Directors' and Officers' liability insurance has been purchased in order to minimise the potential impact of such proceedings.

**Political contributions**

The Company made no political contributions during the year ended 31 December 2014 (2013: £nil).

**Research and development (R&D)**

Most R&D undertaken by the Company is funded by clients and therefore does not qualify for separate disclosure as R&D within these financial statements. The notable exception is that incurred within the Company's NetReveal®, Electronic Systems and Cyber Businesses as set out in note 3 to the accounts.

**Disabled employees**

The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is the Company's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees, wherever appropriate.

**Employee involvement**

During the year, the policy of providing employees with information about the Company has been continued through the Company's intranet and through a staff newsletter, in which employees have also been encouraged to present their suggestions and views on the Company's performance.

Regular meetings are held between local management and employees to allow a free flow of information and ideas. Employees participate directly in the success of the business through the Company's bonus schemes and BAE Systems plc share option schemes.

**Directors' statement as to 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 as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Auditor**

KPMG LLP have indicated their willingness to be re-appointed as auditors of the Company and a resolution proposing their re-appointment will be put to the members.

**Authorisation of financial statements**

The financial statements of BAE Systems Applied Intelligence Limited for the year to 31 December 2014 were authorised for issue by the Board of Directors on 25 June 2015 and the balance sheet was signed on behalf of the Board by B N Raychawdhuri.

Approved by the Board and signed on its behalf:



B N Raychawdhuri  
Director

25 June 2015

**Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements**

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**

We have audited the financial statements of BAE Systems Applied Intelligence Limited for the year ended 31 December 2014 set out on pages 9 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

## **Respective responsibilities of Directors and Auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

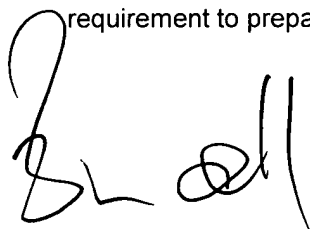
In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAE SYSTEMS APPLIED INTELLIGENCE LIMITED (CONTINUED)**

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



**Mike Barradell (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants

15 Canada Square  
London  
E14 5GL

25 June 2015

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2014

Registered number: 01337451

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
<b>Turnover</b>	2	<b>258,040</b>	223,946
Operating costs – normal		<b>(249,211)</b>	(231,400)
Operating costs – exceptional	3a	<b>(180)</b>	(394)
Operating costs	3	<b>(249,391)</b>	(231,794)
<b>Operating profit/(loss)</b>	3	<b>8,649</b>	(7,848)
Finance costs		<b>(55)</b>	(67)
Income from shares in group undertakings		<b>9,230</b>	-
Amounts written off investments		<b>(9,300)</b>	-
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>8,524</b>	(7,915)
Tax credit on profit on ordinary activities	6	<b>280</b>	1,256
<b>Profit/(loss) on ordinary activities after taxation</b>		<b>8,804</b>	(6,659)

All amounts relate to continuing operations.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
for the year ended 31 December 2014

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit/(loss) on ordinary activities after taxation		<b>8,804</b>	(6,659)
Foreign currency exchange gain on revaluation	15	-	3
<b>Total recognised gains/(losses) relating to the year</b>		<b>8,804</b>	(6,656)

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED****BALANCE SHEET**

as at 31 December 2014

		31 December 2014 £'000	31 December 2013 £'000
	Notes		
<b>Fixed assets</b>			
Intangible assets	7	-	-
Tangible assets	8	55,671	46,746
Investments	9	754	9,873
		<b>56,425</b>	<b>56,619</b>
<b>Current assets</b>			
Stock	10	12,425	11,173
Debtors	11	143,906	93,271
Cash in bank and in hand		5,334	514
		<b>161,665</b>	<b>104,958</b>
Creditors: amounts falling due within one year	12	(175,632)	(127,730)
<b>Net current liabilities</b>		<b>(13,967)</b>	<b>(22,772)</b>
<b>Total assets less current liabilities</b>		<b>42,458</b>	<b>33,847</b>
<b>Provisions for liabilities</b>	13	(361)	(702)
<b>Net assets</b>		<b>42,097</b>	<b>33,145</b>
<b>Capital and reserves</b>			
Called-up share capital	14	125	125
Share premium	15	587	587
Capital redemption reserve	15	31	31
Other reserves	15	10,445	10,297
Translation reserve	15	-	-
Profit and loss reserve	15	30,909	22,105
<b>Equity shareholder's funds</b>	15	<b>42,097</b>	<b>33,145</b>

The notes on pages 11 to 26 form part of these financial statements.

These financial statements were approved by the Board of Directors on 25 June 2015 and were signed on its behalf by:



B N Raychawdhuri  
Director

Registered No: 01337451

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Registered number: 01337451

for the year ended 31 December 2014

## **1. Accounting policies**

### **Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Practice (UK GAAP). The principal accounting policies have been applied consistently throughout the year and the preceding period.

### **Changes in accounting policy**

A new financial reporting framework in the UK was effective on 1 January 2015. As a result, BAE Systems Applied Intelligence Limited has adopted FRS 101 Reduced Disclosure Framework for the year ending 31 December 2015. Whilst management is in the process of reviewing the impact that this new framework will have on the Company, it is likely that it will have a material impact because the Company will be allocated a share of the deficit in the BAE Systems Group UK pension schemes in which it participates.

### **Consolidation**

The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiaries are included in the consolidated financial statements of its ultimate parent undertaking BAE Systems plc, a company incorporated in the United Kingdom. The financial statements present information about the Company as an individual undertaking and not about its Group.

### **Cash flow statement**

Under FRS 1 - Cashflow Statements (FRS 1) (revised) the Company is exempt from the requirement to prepare a cashflow statement on the grounds that the ultimate parent undertaking (BAE Systems plc) includes the Company in its own published consolidated financial statements.

### **Financial instruments**

As the Company is a wholly owned subsidiary of BAE Systems plc, it is exempt from presenting Financial Reporting Standard 29 'Financial Instruments: Disclosures' (FRS 29), as full equivalent disclosures are presented on a Group basis within consolidated financial statements.

### **Related party transactions**

In relation to transactions with other group entities, the Company has taken advantage of the subsidiary undertaking exemption under Financial Reporting Standard 8 'Related Party Disclosures'.

for the year ended 31 December 2014

## **1. Accounting policies (continued)**

### **Turnover**

Turnover derived from professional fees billed to clients on a time and materials or fixed-price basis represents the value of work completed, including attributable profit, based on the stage of completion achieved on each project. For time and materials projects, turnover is recognised as services are performed. For fixed-price projects, turnover is recognised on the stage of completion which is determined using the percentage-of-completion method based on management's assessment of progress against key project milestones and risks, and the ratio of costs incurred to total estimated project costs.

Turnover from the sale of products is recognised on delivery of the equipment to customers. Turnover derived from licence sales is recognised where there is persuasive evidence that an arrangement exists, delivery has occurred and no significant vendor obligations remain, the fee is fixed or determined and collectability is probable. Turnover from maintenance and support contracts is spread evenly over the period of the support contract.

In accordance with Application Note G of Financial Reporting Standard 5 "Accounting for the substance of transactions" (FRS 5) to the extent that the Company acts as principal in the transaction, turnover from recharging to clients the cost of specialist managed subcontractors, the purchase of software or hardware for client assignments and staff expenses incurred in the performance of client assignments, together with associated mark-up (if applicable), is recognised as these costs are incurred. Where the Company acts as agent in the transaction, only the mark-up is recognised as Company turnover.

Income is accrued where these revenue recognition policies result in the recognition of revenue before invoices are sent to clients. The cumulative impact of any revisions to the estimate of percentage-of-completion of any fixed-price contracts is reflected in the period in which such impact becomes known.

### **Amounts recoverable on contracts**

Amounts recoverable on contracts represent turnover recognised to date less amounts invoiced. Full provision is made for known or anticipated project losses.

### **Deferred income**

Deferred income represents amounts received in advance less turnover recognised to date on support contracts.

### **Payments received on account**

Payments received on account represent amounts invoiced to clients in excess of revenue recognised to date on support contracts.

### **Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes direct project costs and staff costs plus attributable overheads based on a normal level of activity.

### **Depreciation**

Depreciation is charged on a straight line basis to reduce the cost of the Company's tangible fixed assets to their net realisable values over their estimated useful lives at the following rates:

Leasehold premises	Over the period of the lease
Office furniture and equipment	20%
Computers, ancillary equipment and electronic test equipment	20-33%

### **Fixed asset investments**

Fixed asset investments are stated at cost less any accumulated impairment losses.

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Registered number: 01337451

for the year ended 31 December 2014

**1. Accounting policies (continued)**

**Goodwill**

Purchased goodwill arising on the acquisition of a business is the difference between the fair value of net assets acquired and the fair value of consideration paid. Goodwill is capitalised as an intangible asset and amortised over its useful economic life which is estimated by the Directors and which will vary depending on the acquisition.

**Other intangible assets**

Intangible assets acquired from a business acquisition are capitalised at fair value as at the date of acquisition and amortised on a straight line basis over their estimated useful economic life.

**Research and development**

Research and development costs are written off in the period in which they are incurred unless they are to be reimbursed by clients.

**Taxation**

The charge for taxation is based on the profit for the year and takes account of taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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

**Derivative instruments**

The Company uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The Company's criteria for forward foreign currency contracts are:

- the instrument must be related to a foreign currency asset or liability that is probable and whose characteristics have been identified;
- it must involve the same currency as the hedged item; and
- it must reduce the risk of foreign currency exchange movements on the Company's operations.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed, or probable, future transaction, gains and losses are deferred until the transaction occurs.

**Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. All exchange differences are dealt with through the profit and loss account.

Assets and liabilities of overseas branches are translated into sterling at the exchange rate prevailing on the balance sheet date. Income, expenditure and cash flows of overseas branches are translated at the weighted average exchange rate for the period. The exchange differences on the translation at closing rates of the overseas branches' net assets and the differences arising between the translation of profits at average and closing exchange rates are recorded as movements in the translation reserve. On disposal of a foreign branch, the deferred cumulative amount recognised in the translation reserve relating to that particular foreign operation is recognised in the profit and loss account.

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Registered number: 01337451

for the year ended 31 December 2014

**1. Accounting policies (continued)**

**Share-based payments**

Certain employees (including Directors) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares. Share options are measured at fair value at the date of grant using an option pricing model. The fair value is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will actually vest.

In accordance with UITF Abstract 25 "National Insurance Contributions on Share Option Gains", the Company provides in full for the employer's national insurance liability estimated to arise on the future exercise of share options granted, except where the employee has agreed to settle the employer's national insurance liability as a condition of the grant of the options.

**Pension costs**

The Company contributes in to a Group defined contribution pension plan for the majority of employees and is also a member of a number of larger group pension schemes providing benefits based on final pensionable pay.

Pension costs are charged to the profit and loss account as the obligation arises for the defined contribution schemes. Details of the principal defined benefit plans and the financial assumptions used are contained in the consolidated financial statements of BAE Systems plc. As permitted by Financial Reporting Standard 17 – Retirement Benefits, the plans are accounted for as defined contribution plans, as the employer cannot identify its share of the underlying assets and liabilities of the plans. The employer's contributions are set in relation to the current service period and also to fund a series of measures to address the pension scheme deficit.

**Lease commitments and hire purchase contracts**

Payments under operating leases are charged to the profit and loss account as incurred. Onerous lease provisions relating to operating leases are discounted where the time value of money is material.

**2. Turnover**

Analysis of turnover by geographical market is given below:

	<b>Year ended 31 December 2014 £'000</b>	<b>Year ended 31 December 2013 £'000</b>
United Kingdom	<b>247,940</b>	215,533
United States of America	<b>231</b>	787
Rest of Europe	<b>3,043</b>	3,519
Rest of the world	<b>6,826</b>	4,107
	<b>258,040</b>	223,946

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Registered number: 01337451

for the year ended 31 December 2014

**3. Operating profit/(loss)**

Operating profit/(loss) is stated after charging:

	<b>Year ended 31 December 2014 £'000</b>	<b>Year ended 31 December 2013 £'000</b>
Staff costs (see note 4)	<b>135,096</b>	122,149
Project costs	<b>48,595</b>	44,189
Intercompany operating income <sup>1</sup>	<b>(16,170)</b>	(3,809)
Intercompany expense <sup>2</sup>	<b>13,933</b>	15,596
Other operating charges (including exceptional charges)	<b>51,171</b>	38,305
Operating lease rentals:		
- plant and machinery	<b>178</b>	1,347
- land and buildings (including exceptional charges)	<b>4,694</b>	4,941
Depreciation of owned fixed assets	<b>11,780</b>	9,076
Impairment of tangible fixed assets	<b>114</b>	-
	<b>249,391</b>	231,794

<sup>1</sup> Relates to certain operating arrangements with fellow wholly owned subsidiaries.

<sup>2</sup> Represents charges from fellow wholly owned subsidiaries in respect of product licences and research and development activities.

Within the net operating costs presented above is £12,567,000 (2013: £11,619,000) relating to the Company's research and development activities.

The fee for the audit of the Company was £106,000 (2013: £104,000). The Company's individual accounts do not disclose fees for other services required by Regulation 4(1) of the Companies (Disclosure of Auditor Remuneration) Regulations 2007 because the BAE Systems plc financial statements comply with and include the disclosures required by regulation 4(1).

**3a. Exceptional items**

	<b>Year ended 31 December 2014 £'000</b>	<b>Year ended 31 December 2013 £'000</b>
<i>Operating costs:</i>		
<b>Leasehold surrender (note 3b)</b>		
Leasehold surrender - Onerous lease costs	-	85
Leasehold surrender - Property costs	<b>180</b>	309
	<b>180</b>	394

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Registered number: 01337451

for the year ended 31 December 2014

**3b.Exceptional item – Leasehold surrender**

In 2011 the Company entered into an agreement to surrender a operating lease to the landlord in exchange for a monetary incentive. The Company recognised the receipt over the period from the date of the agreement to the date of vacation. Other operating income of £nil (2013: £nil) has been recognised in the year in relation to the agreement. As a result of the decision to vacate the above property, as well as entering into an agreement to lease another property, the Company has incurred onerous lease costs of £nil (2013: £85,000) and additional property costs of £180,000 (2013: £309,000). These costs are included in operating costs in the year.

**4. Staff costs**

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Wages and salaries	110,648	98,767
Social security costs	13,006	12,380
Pension costs	11,294	10,488
Share-based payments	148	514
	<u>135,096</u>	<u>122,149</u>

The average number of employees during the year was 1,878 (2013: 1,785).

**5. Directors' emoluments**

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Emoluments	<u>1,022</u>	<u>1,246</u>
Company contributions paid to defined contribution pension scheme	<u>128</u>	<u>142</u>

One of the directors serving during the year was employed by BAE Systems plc and was remunerated through that company.

The number of directors for whom retirement benefits were accruing in respect of qualifying services under money purchase pension schemes amounted to 3 (2013: 3).

The amounts in respect of the highest paid Director are as follows:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Emoluments	<u>380</u>	<u>619</u>
Company contributions paid to defined contribution pension schemes	<u>33</u>	<u>55</u>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**6. Tax on profit/(loss) on ordinary activities**

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
<b>Current tax</b>		
Overseas tax for the year	-	52
Adjustments in respect of prior periods	-	(164)
Total current tax (credit)/charge	-	(112)
<b>Deferred tax</b>		
Origination and reversal of timing differences	36	395
Adjustment in respect of prior periods	(316)	(1,926)
Tax rate adjustment (see note below)	-	387
Total deferred tax (credit)/charge	(280)	(1,144)
<b>Tax (credit)/charge on profit/(loss) on ordinary activities</b>	<b>(280)</b>	<b>(1,256)</b>

The current tax charge for the year is different to the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%). The differences are explained below:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
<b>Current tax reconciliation</b>		
Profit/(loss) on ordinary activities before taxation	8,524	(7,915)
Current tax at 21.5% (2013: 23.25%)	1,833	(1,840)
Effects of:		
- Expenses not tax effected	108	286
- Income not subject to tax	(1,985)	-
- Accelerated capital allowances	(112)	(340)
- Imputed interest	(128)	(168)
- Research & development tax credits	(932)	(1,046)
- Share based payments	(186)	(73)
- Group losses (received)/surrendered free of charge	(672)	3,240
- Other timing differences	74	(59)
- Investment impairment not tax effected	2,000	-
- Adjustments in respect of prior years	-	(164)
- Overseas taxation: current year	-	52
<b>Current tax (credit) for the year</b>	<b>-</b>	<b>(112)</b>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**6. Tax on (loss)/profit on ordinary activities (continued)**

**Deferred tax**

The deferred taxation asset is made up as follows:

	<b>Recognised 31 December 2014 £'000</b>	<b>Recognised 31 December 2013 £'000</b>
Decelerated capital allowances	<b>2,088</b>	2,085
Share based payments	<b>118</b>	188
Other timing differences	<b>653</b>	306
	<b><u>2,859</u></b>	<b><u>2,579</u></b>

Movements in the deferred taxation asset during the year were as follows:

	<b>31 December 2014 £'000</b>	<b>31 December 2013 £'000</b>
At 1 January	<b>2,579</b>	1,435
Deferred tax credit/(charge) for the period	<b>280</b>	1,531
Tax rate adjustment	-	(387)
At 31 December (see note 11)	<b><u>2,859</u></b>	<b><u>2,579</u></b>

**Note**

Under the Finance Act 2013, the UK corporation tax rate was reduced from 23% to 21% with effect from 1 April 2014 and then to 20% with effect from 1 April 2015. This will reduce future current tax charges accordingly.

The reduction from 23% to 20% was substantively enacted before 31 December 2013. In line with this change, the rate applying to UK deferred tax assets and liabilities was reduced from 23% to 20%, creating a rate adjustment in 2013, which was reflected in the profit and loss account.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**7. Intangible assets**

	Goodwill £'000	Other intangible assets £'000	Total £'000
<b>Cost</b>			
At 31 December 2013 and 31 December 2014	27,531	50	27,581
<b>Amortisation</b>			
At 31 December 2013 and 31 December 2014	27,531	50	27,581
<b>Net book value</b>			
<b>At 31 December 2014</b>	-	-	-
At 31 December 2013	-	-	-

Goodwill is amortised on a straight line basis over its estimated useful economic life of 5 years. Other intangible assets relate to intellectual property.

**8. Tangible fixed assets**

	Short leasehold premises £'000	Office furniture & equipment £'000	Computers & ancillary equipment £'000	Electronic test equipment £'000	Assets in the course of construction £'000	Total £'000
<b>Cost</b>						
At 1 January 2014	27,547	347	28,281	2,655	12,869	71,699
Additions	-	-	90	-	21,306	21,396
Disposals	-	-	(3,073)	-	-	(3,073)
Transfers	428	24	18,581	6	(19,039)	-
Transfer to other group undertaking	-	-	-	-	(577)	(577)
At 31 December 2014	27,975	371	43,879	2,661	14,559	89,445
<b>Depreciation</b>						
At 1 January 2014	8,183	238	14,960	1,572	-	24,953
Provided during the year	3,316	35	7,465	964	-	11,780
Disposals	-	-	(3,073)	-	-	(3,073)
Impairment	-	-	114	-	-	114
At 31 December 2014	11,499	273	19,466	2,536	-	33,774
<b>Net book value</b>						
<b>At 31 December 2014</b>	<b>16,476</b>	<b>98</b>	<b>24,413</b>	<b>125</b>	<b>14,559</b>	<b>55,671</b>
At 31 December 2013	19,364	109	13,321	1,083	12,869	46,746

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**9. Investments**

**Shares in group undertakings**

	<b>£'000</b>
<b>Carrying value</b>	
At 1 January 2014	9,873
Additions	181
Impairment	(9,300)
<b>At 31 December 2014</b>	<b>754</b>

The investment in Detica Consulting Group limited was impaired during the year upon it declaring a pre-liquidation dividend.

<b>Company name</b>	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Proportion of ordinary share capital held</b>
Detica Consulting Group Limited	England and Wales	Dormant (In liquidation)	100%
BAE Systems Applied Intelligence Malaysia SDN BHD	Malaysia	Business and technology services, solutions and products	99.9999%*

\* The proportion of ordinary share capital held was increased from 50% to 99.9999% during the year.

**10. Stock**

	<b>31 December 2014</b>	31 December 2013
	<b>£'000</b>	£'000
Work in progress	<b>12,425</b>	11,173

**11. Debtors**

	<b>31 December 2014</b>	31 December 2013
	<b>£'000</b>	£'000
Trade debtors	<b>44,048</b>	32,849
Amounts due from group undertakings	<b>9,092</b>	10,036
Other debtors	<b>452</b>	1,943
Prepayments and accrued income	<b>56,875</b>	24,598
Amounts recoverable on contracts	<b>30,580</b>	21,266
Deferred tax asset (note 6)	<b>2,859</b>	2,579
	<b>143,906</b>	93,271

Amounts due from Group undertakings are unsecured, interest free, have no fixed repayment date and are repayable on demand.

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**12. Creditors: amounts falling due within one year**

	<b>31 December 2014 £'000</b>	<b>31 December 2013 £'000</b>
Payments received on account	<b>15,618</b>	12,623
Deferred income	<b>6,097</b>	7,147
Trade creditors	<b>3,238</b>	1,890
Other creditors	<b>1,199</b>	451
Amounts owed to group undertakings	<b>58,027</b>	40,443
Social security and other taxes	<b>12,144</b>	10,813
Accruals	<b>79,309</b>	54,363
	<b><u>175,632</u></b>	<b><u>127,730</u></b>

Amounts due to Group undertakings are unsecured, interest free, have no fixed repayment date and are repayable on demand.

**13. Provisions**

	<b>Onerous leases £'000</b>	<b>Contract loss provisions £'000</b>	<b>Total £'000</b>
Opening provision at 1 January 2014	601	101	702
Provision utilised in year	(315)	-	(315)
Provision released in the year	-	(81)	(81)
Discounting charge	55	-	55
<b>Closing provision at 31 December 2014</b>	<b>341</b>	<b>20</b>	<b>361</b>

The provisions on onerous leases have been created in order to satisfy the Company's remaining net rental obligations on a vacant property lease in London.

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
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**14. Share capital**

	<b>31 December 2014 £'000</b>	<b>31 December 2013 £'000</b>
<b>Allotted, called-up and fully paid</b>		
125,045 ordinary shares of £1 each	<b>125</b>	<b>125</b>

**15. Reconciliation of shareholder's funds and movements on reserves**

	Share capital	Share premium account	Capital redemption reserve	Other reserves	Translation reserve	Profit and loss account	Total shareholder's funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2013	125	587	31	9,783	102	28,659	39,287
Loss for the year	-	-	-	-	-	(6,659)	(6,659)
Share-based payments	-	-	-	514	-	-	514
Retranslation of net assets of foreign branches	-	-	-	-	3	-	3
Realisation of FX gain in translation reserve	-	-	-	-	(105)	105	-
At 31 December 2013	125	587	31	10,297	-	22,105	33,145
Profit for the year	-	-	-	-	-	8,804	8,804
Share-based payments	-	-	-	148	-	-	148
At 31 December 2014	<b>125</b>	<b>587</b>	<b>31</b>	<b>10,445</b>	<b>-</b>	<b>30,909</b>	<b>42,097</b>

Other reserves represent the credit to reserves in relation to the share-based payment charge recognised in the Company's profit and loss account – see note 1.

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**16. Employee share schemes**

**BAE Systems Group share schemes**

Options over shares of the ultimate parent undertaking, BAE Systems plc, have been granted to employees of the company under various plans. Details of the terms and conditions of each share-based payment plan are given in the Annual Remuneration Report of the BAE Systems Group Annual Report & Accounts.

Executive Share Option Scheme				
	2014		2013	
	Number of shares '000	Weighted average exercise price £	Number of shares '000	Weighted average exercise price £
Outstanding at the beginning of the year	1,080	3.40	706	3.02
Granted during the year	424	4.12	513	3.89
Exercised during the year	(7)	2.64	-	-
Expired during the year	(660)	3.57	(139)	3.25
Outstanding at the end of the year	837	3.63	1,080	3.40
Range of exercise price of outstanding options (£)	3.01 - 4.12		2.64 - 3.89	
Weighted average remaining contracted life (years)	8		9	
Weighted average fair value of options granted (£)	0.70		0.62	
Expense recognised for the year (£K)	23		162	

	Share Matching Plan		Performance Share Plan	
	2014 Number of shares '000	2013 Number of shares '000	2014 Number of shares '000	2013 Number of shares '000
Outstanding at the beginning of the year	724	890	1,023	1,223
Granted during the year	-	177	484	256
Exercised during the year	-	-	(27)	(27)
Expired during the year	(434)	(343)	(855)	(429)
Outstanding at the end of the year	290	724	625	1,023
Weighted average remaining contracted life (years)	1	1	5	5
Weighted average fair value of options granted (£)	-	3.89	2.72	3.17
Expense recognised for the year (£K)	-	-	125	351

The exercise price for the Share Matching Plan (SMP), Performance Share Plan (PSP) and Restricted Share Plan is £nil (2013 £nil).

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**16. Employee share schemes (continued)**

**Details of options granted in the year**

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

ExSOP - binomial award  
PSP – Monte-Carlo

	2014	2013
Range of share price at date of grant (£)	4.12	3.89
Expected option life (years)	3 - 10	3 - 10
Volatility	24%	24% - 25%
Risk free interest rate	1.0% - 1.1%	0.2% - 0.3%

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

The average share price of BAE Systems plc in the year ended 31 December 2014 was £4.33 (31 December 2013: £4.07).

A charge of £148,000 (31 December 2013: £514,000) has been made in the profit and loss account in the year for the above schemes.

**17. Obligations under operating leases**

At the year end the Company is committed to making the following annual payments under non-cancellable operating leases in the following year:

	Land and buildings 31 December 2014 £'000	Land and buildings 31 December 2013 £'000	Other assets 31 December 2014 £'000	Other assets 31 December 2013 £'000
Contracts expiring:				
Within one year	188	211	1	248
Between two and five years	934	950	55	3
After five years	4,234	3,911	-	-
	<u>5,356</u>	<u>5,072</u>	<u>56</u>	<u>251</u>

Operating lease commitments above include £662,000 (2013: £662,000) relating to commitments under onerous operating leases which have been fully provided for within Provisions.

**BAE SYSTEMS APPLIED INTELLIGENCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**18. Pension commitments**

The Company contributes in to a Group defined contribution pension plan for the majority of employees and is also a member of a number of larger group pension schemes providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', these schemes have been accounted for, in these financial statements as if they were defined contribution schemes, as the employer cannot identify its share of the underlying assets and liabilities of the schemes.

The assets of the occupational pension schemes are held separately from those of the Company in independently administered funds.

The pension charge for the year was £10,646,000 (2013: £9,706,000) in relation to the defined contribution schemes and £648,000 (2013: £782,000) in relation to the defined benefit schemes. Payments into the Group defined benefit schemes during the year included an additional contribution towards the scheme deficit of £348,000 (2013: £196,000). At 31 December 2014, contributions amounting to £944,000 (2013: £nil) were payable to the funds and are included in creditors.

**19. Financial instruments**

Treasury activities, policies and procedures are managed by the Company's ultimate parent undertaking, BAE Systems plc. The Company has adopted their policies and procedures which are designed to reduce the financial risks faced by the Company. These primarily relate to credit risk, foreign currency risk, interest rate risk and liquidity risk. The Company does not undertake any trading or speculative activity in financial instruments. A summary of the risks are set out below.

**Credit risk**

The Company monitors its exposure to credit risk on an ongoing basis and the maximum credit risk exposure at the balance sheet date is represented by the carrying value of financial assets. The Company's largest customer is the UK Government and with this exception, there are no significant concentrations of credit risk. It is the Company's policy to take out credit insurance in relation to material overseas sales.

**Foreign currency risk**

To mitigate foreign exchange risk arising from transactions denominated in other currencies, the Company's policy is to hedge material currency exposures on award of contract and/or at the time customer invoices are raised, through forward currency contracts.

**Interest rate risk**

The Company is exposed to interest rate risk on financial assets and financial liabilities. The Company is not exposed to interest rate risks on other assets and liabilities which are transacted on normal commercial terms. Interest rate risk management is conducted by BAE Systems plc on a Group-wide basis.

**Liquidity risk**

Liquidity risk management is conducted by BAE Systems plc on a Group-wide basis. BAE Systems plc aims to mitigate liquidity risk by managing cash generation by its operations and applying cash collection targets throughout its operations. Investment is carefully controlled, with authorisation limits operating up to BAE Systems plc Board level and cash payback periods and analysis of returns on investment applied as part of the investment appraisal process.

The Company has thirteen derivative financial instruments at 31 December 2014 (2013: twelve). These contracts represent a hedge against future customer receivables of the Company and another group company and the fair value of these contracts at 31 December 2014 was £nil (2013: loss £61,000). This represented a contingent liability at 31 December 2013.

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**19. Financial instruments (continued)**

The instruments consist of eight contracts to sell Euros and buy Sterling and five contracts to sell Dirham and buy Sterling (2013: twelve contracts to sell Euros and buy Sterling) at agreed future dates at agreed future exchange rates. Eight contracts held at 31 December 2014 committed the Company to sell Euro's and buy Sterling between 2014 and 2016 for a total net payment of £1,255,000 (2013: twelve contracts - £1,994,000). If this same contract had been entered into on 31 December 2014, the Company would have been committed to sell Euros and buy Sterling for a net payment of £1,206,000 (2013: £2,055,000). Five contracts held at 31 December 2014 committed the other group company to sell Dirham's and buy Sterling for a total net payment of £2,242,000. If this same contract had been entered into on 31 December 2014, the other group company would have been committed to sell Dirham's and buy Sterling for a net payment of £2,291,000.

**20. Capital commitments**

The Company had capital commitments of £2,331,000 at 31 December 2014 (2013: £4,124,000).

**21. Ultimate parent company**

The Company's immediate parent company is Detica Group Limited. The Company's ultimate parent company and controlling party is BAE Systems plc. BAE Systems plc includes the Company in its Group financial statements and is the smallest and largest group to consolidate the Company's financial statements.

Copies of the BAE Systems plc financial statements are available from 6 Carlton Gardens, London, SW1Y 5AD or at [www.baesystems.com](http://www.baesystems.com).