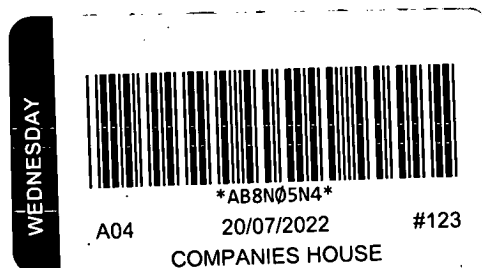


BAE Systems Integrated System Technologies Limited

Annual Report and Financial Statements

31 December 2021

Registered number: 03456325



BAE Systems Integrated System Technologies Limited
Annual Report and Financial Statements
31 December 2021

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Directors' Report

Company registration

BAE Systems Integrated System Technologies Limited (the "Company") is a private company, limited by shares and registered in England and Wales with the registered number 03456325.

The Company is a member of the BAE Systems plc Group ("BAE Systems Group or Group") of companies.

Results and dividends

The Company's loss for the financial year is £9,495k (2020: £2,543k loss). The directors do not propose a dividend for 2021 (2020: £nil).

Business review and principal activities

The Company's principal activity is the leasing of property, which it expects to continue to do for the foreseeable future.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £404,613k and a loss of £9,495k, 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.

Directors and their interests

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

D E Bristow
R Checkley
J E Fothergill
D J Mitchard

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.

Small companies exemption

Pursuant to Section 414(B) of the Companies Act 2006, the Company has taken advantage of the exemption from presenting a Strategic Report:

Post balance sheet events

There have been no significant events affecting the Company since the year end.

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.

Directors' Report (continued)

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:



D E Bristow
Director

Date: 27 June 2022

Registered office:
BAE Systems Integrated System Technologies 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 Integrated System Technologies Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems Integrated System Technologies 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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Statement of Accounting Policies; and
- the related notes 1 to 16.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

Independent Auditor's Report to the Members of BAE Systems Integrated System Technologies 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 regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

Independent Auditor's Report to the Members of BAE Systems Integrated System Technologies Limited (continued)

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

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

Matters on which we are required to report by exception

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

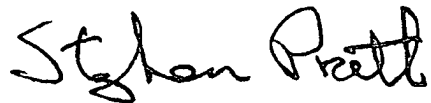
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law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

We have nothing to report in respect of these matters.

Use of our report

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

Independent Auditor's Report to the Members of BAE Systems Integrated System Technologies Limited (continued)



Stephen Pratt CA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Edinburgh
United Kingdom

27 June 2022

BAE Systems Integrated System Technologies Limited
Annual Report and Financial Statements
31 December 2021

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

	Note	2021 £000	2020 £000
Operating costs	3	(13,179)	(5,331)
Other income	4	3,642	3,513
Operating loss		<u>(9,537)</u>	<u>(1,818)</u>
Financial income	5	828	-
Financial expense	6	(786)	(725)
Loss before tax		<u>(9,495)</u>	<u>(2,543)</u>
Tax	8	-	-
Loss for the year		<u><u>(9,495)</u></u>	<u><u>(2,543)</u></u>
Total comprehensive income for the year		<u><u>(9,495)</u></u>	<u><u>(2,543)</u></u>

The notes on pages 12 to 25 form part of these financial statements.

BAE Systems Integrated System Technologies Limited
Annual Report and Financial Statements
31 December 2021

Balance Sheet
as at 31 December 2021

	Note	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	9	40	-
Investment property	10	20,345	28,581
Other receivables	11	426,292	423,221
		<u>446,677</u>	<u>451,802</u>
Current assets			
Other receivables	11	341	736
Current tax		-	2,505
		<u>341</u>	<u>3,241</u>
Total assets		<u>447,018</u>	<u>455,043</u>
Non-current liabilities			
Lease liabilities	13	(26,457)	(26,333)
Provisions	14	(528)	(376)
		<u>(26,985)</u>	<u>(26,709)</u>
Current liabilities			
Other payables	12	(401,646)	(400,901)
Lease liabilities	13	(3,308)	(2,859)
		<u>(404,954)</u>	<u>(403,760)</u>
Total liabilities		<u>(431,939)</u>	<u>(430,469)</u>
Net assets		<u>15,079</u>	<u>24,574</u>

BAE Systems Integrated System Technologies Limited
Annual Report and Financial Statements
31 December 2021

Balance Sheet (continued)
as at 31 December 2021

	Note	2021 £000	2020 £000
Capital and reserves			
Issued share capital	15	16,937	16,937
Retained (deficit)/earnings		(1,858)	7,637
Total equity		<u>15,079</u>	<u>24,574</u>

Approved by the Board on 27 June 2022 and signed on its behalf by:



D E Bristow
Director

Registered number: 03456325

The notes on pages 12 to 25 form part of these financial statements.

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

	Issued share capital £000	Retained deficit £000	Total equity £000
At 1 January 2020	16,937	10,180	27,117
Loss and total comprehensive expense for the year	-	(2,543)	(2,543)
At 31 December 2020	<u>16,937</u>	<u>7,637</u>	<u>24,574</u>
Loss for the year	-	(9,495)	(9,495)
At 31 December 2021	<u>16,937</u>	<u>(1,858)</u>	<u>15,079</u>

The notes on pages 12 to 25 form part of these financial statements.

Notes to the Financial Statements

1. General information

BAE Systems Integrated System Technologies 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 16. The address of the Company's registered office is shown on page 2.

The principal activity of the Company is set out in the Directors' Report on page 1. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in 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 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
- 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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

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

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.

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.

There are none recognised in the financial statements.

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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 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.

The Company as lessor

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

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

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

2.3 Interest income and borrowing costs

Interest income and borrowing costs are recognised in the Income Statement in the period in which they are incurred.

Notes to the Financial Statements

2. Accounting policies (continued)

2.4 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.

2.5 Other receivables

Other receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

2.6 Other payables

Other payables are stated at amortised cost.

2.7 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.

Other

Other provisions are for dilapidations on properties.

Notes to the Financial Statements

2. Accounting policies (continued)

2.8 Tax

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

Current tax

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

Deferred tax

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

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

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

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

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

Notes to the Financial Statements

3. Operating costs

	2021 £000	2020 £000
Depreciation, amortisation and impairment (note 9)	12,338	3,142
Property costs	421	1,821
Other operating charges	420	368
	13,179	5,331

The remuneration of the auditor for the year ended 31 December 2021 for auditing of the financial statements was £10,000 (2020: £3,000) and £nil (2020: £nil) in respect of non-audit work and was borne by fellow Group undertaking, BAE Systems Surface Ships Limited.

4. Other income

	2021 £000	2020 £000
Operating lease income (note 13)	3,642	3,513
	3,642	3,513

5. Financial income

	2021 £000	2020 £000
Interest income	828	-
	828	-

Interest income relates to interest received on the tax debtor balance following its settlement by HMRC.

6. Financial expense

	2021 £000	2020 £000
Interest expense on lease liabilities (note 13)	786	725
	786	725

7. Employees

The Company has no employees (2020: nil).

None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by BAE Systems plc or through other group companies and were remunerated through those companies. The directors did not provide any material qualifying services to the Company.

Notes to the Financial Statements

8. Tax

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

Reconciliation of tax expense

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

	2021 £000	2020 £000
Loss before tax	(9,495)	(2,543)
UK corporation tax rate	19.00%	19.00%
Expected tax income on loss	1,804	483
Property, plant and equipment	3	3
Imputed interest income	(87)	(56)
Losses surrendered to fellow group companies	(1,696)	(432)
Other	(24)	2
Tax result	-	-

Unrecognised deferred tax asset

The deferred tax asset, which has not been recognised in the financial statements, is made up as follows:

	2021 £000	2020 £000
Property, plant and equipment ¹	48	39
	48	39

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

The deferred tax asset has not been recognised because there is insufficient evidence of future taxable profits to support its recoverability.

Notes to the Financial Statements

9. Property, plant and equipment

	Land and buildings £000
Cost or valuation	
At 1 January 2021	-
Additions	40
At 31 December 2021	<u>40</u>
Net book value	
At 31 December 2021	<u>40</u>
At 31 December 2020	<u>-</u>
Non-depreciated assets:	
Assets in the course of construction	<u>40</u>

Capital commitments

Capital expenditure contracted for but not provided for in full in the financial statements is £659k (2020: £nil).

Notes to the Financial Statements

10. Investment property

	Investment property £000
Cost	
At 1 January 2021	35,586
Additions	4,102
At 31 December 2021	39,688
Depreciation and impairment	
At 1 January 2021	7,005
Depreciation charge for the year	3,422
Impairment charge	8,916
At 31 December 2021	19,343
Net book value	
At 31 December 2021	20,345
At 31 December 2020	28,581
Fair Value	
At 31 December 2021	20,345
At 31 December 2020	28,581

The recent contractual rent review increased the lease liability and right of use asset but this increase wasn't passed on to the sub-let which therefore resulted in the requirement for an immediate impairment. As such an impairment charge of £8,916k has been recognised.

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.

Notes to the Financial Statements

11. Other receivables

	2021 £000	2020 £000
Non-current		
Amounts owed by BAE Systems plc and its subsidiaries	426,292	423,221
	426,292	423,221
Current		
Prepayments	142	195
Other receivables	199	541
	341	736

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

12. Other payables

	2021 £000	2020 £000
Current		
BAE Systems plc subsidiaries	400,162	399,334
Accruals	462	462
Deferred income	1,022	1,105
	401,646	400,901

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

Notes to the Financial Statements

13. Leases

The Company leases land, buildings, vehicles and equipment under non-cancellable 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/(modifications) during the year	4,102	(6)
Impairment charge\reversals	8,916	(104)
Depreciation expense for the year	3,422	3,246
Net book value	20,345	28,581

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	3,973	3,515
Between one and five years	15,891	14,059
Later than five years	12,931	14,954
	32,795	32,528
Reconciliation to Balance Sheet:		
Undiscounted lease liability	32,795	32,528
Impact of discounting	(3,030)	(3,336)
Total discounted lease liability	29,765	29,192

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2021, amounted to £4,315k (2020: 3,518k).

Notes to the Financial Statements

13. Leases (continued)

Amounts recognised in the Income Statement

	2021 £000	2020 £000
Included in operating costs:		
Depreciation on right-of-use assets	3,422	3,246
Impairment charge\reversals	8,916	(104)
	12,338	3,142
	12,338	3,142
Included in other income:		
Operating lease income from subleasing right-of-use assets	3,642	3,513
	3,642	3,513
	3,642	3,513
Included in net finance costs:		
Interest expense on lease liabilities	786	725
	786	725
	786	725

Operating leases

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

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

	2021 £000	2020 £000
Receipts due:		
Within one year	3,065	3,610
Between one and two years	3,065	3,610
Between two and three years	3,065	3,610
Between three and four years	3,065	3,610
Between four and five years	3,065	3,610
Later than five years	9,960	15,343
	25,285	33,393
	25,285	33,393

Notes to the Financial Statements

14. Provisions

	Other £000
Non-current	376
Current	-
	<hr/>
At 1 January 2021	376
Created	152
	<hr/>
At 31 December 2021	528
	<hr/> <hr/>
Represented by:	
Non-current	528
Current	-
	<hr/>
	528
	<hr/> <hr/>

Other

The provision relates to dilapidations on the Frimley site.

Notes to the Financial Statements

15. Share capital

	£1 Ordinary shares	Nominal value £000
Authorised		
At 1 January 2020, 31 December 2020 and 31 December 2021	<u>25,000,000</u>	<u>25,000</u>
Issued and fully paid		
At 1 January 2020, 31 December 2020 and 31 December 2021	<u>16,937,092</u>	<u>16,937</u>

16. Controlling parties

The immediate parent company is BAE Systems Electronics 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