

BAE Systems Applied Intelligence (International) Limited

Annual Report and Financial Statements

31 December 2021

Registered Number: 06815164



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Strategic Report

Review of business

Overview

Sales for the year amounted to £11,709k (2020: £19,263k) and the loss for the year before taxation amounted to £149k (2020: profit £859k).

Revenue has fallen in the year due to the cessation of a number of contracts as well as a reversal of revenue of £4.3m on a fixed price contract. New contracts have been placed with other legal entities within the BAE Systems Applied Intelligence business Group.

The BAE Systems Applied Intelligence business group ('Applied Intelligence') provides data intelligence solutions which enable governments and commercial organisation to defend against national scale threats, protect their networks and data against sophisticated attacks and operate successfully in cyber space.

Business risks and uncertainties

The significant high level risks identified by the Board are as follows:

Global economic climate

As with all technology businesses, the Company 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 or significant pressure on selected government spending programmes.

We believe that the diversified markets covered by the business and, in particular, Company'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, staff base flexibility is maintained in order that resources can be moved to those sectors where demand is greatest.

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 government clearances. The risk of a competitive recruitment market is addressed through a portfolio of measures, including a strengthened HR recruitment team, attractive staff reward schemes such as flexible benefits, and through new career development programmes.

Pricing pressure

Low-cost providers in off-shore locations continue to exert pressure on pricing in some sectors of the organisations markets. Applied Intelligence operates a UK delivery centre in Leeds, a similar centre in Poland and a larger global delivery centre in Malaysia to provide more efficient and cost-effective offerings to its clients. Some of Applied Intelligence's work is unsuitable for off-shore resourcing for security reasons, which is a constraint the organisation has 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, however on a certain overseas project, management continues to face challenging delivery risks. Any failure to meet client expectations and/or Applied Intelligence's contractual obligations could damage Applied Intelligence's reputation in the marketplace. This risk is managed through rigorous bid approval controls, peer review of technical solutions and project plans and regular monitoring of high risk projects by project boards.

Strategic Report (continued)

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.

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

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

Areas of the Company's business that could be impacted include a decrease in spending by the Company's major customers, the failure to obtain awards for contracts, the failure of suppliers to deliver services to the Company, the inability of the Company to meet contractual delivery requirements on time, the inability to adequately staff and manage the business, and an increase in the cost or lack of availability of funding. If the Company were unable to obtain appropriate funding, it could be forced to make reductions in spending, seek to extend payment terms with suppliers. Any of the above could have a material adverse effect on the Company's business, financial condition and results of operations. Each of the identified risks is regularly reviewed and actively managed by the Board.

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

Key performance indicators

The directors consider revenue and operating profit as the principal key performance indicators to assess progress towards achieving the Company's strategy. This information for the current and prior periods is set out in the Company's Income Statement on page 11.

Across the Applied Intelligence business, total performance is reviewed on a regular basis in terms of order book. However, this is not monitored and reported on a legal entity basis so no further information has been provided here.

Section 172(1) statement

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

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

Strategic Report *(continued)*

Decision making

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

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

Employees

Employee engagement is a primary focus for the directors of the Company – connecting employees to the Company's and the BAE Systems group's strategy and purpose, empowering them to contribute to improving business performance and creating an environment in which everyone can fulfil their potential.

Keeping employees connected, informed and engaged has never been more important as the Company's employees continued to experience major impacts on their personal circumstances and ways of working through the pandemic. The Company used a range of channels to make sure its employees had access to the information and support they needed throughout the year, as well as keeping employees informed about the performance, developments and prospects of the business and the BAE Systems Group. This included engagement through the Group intranet, employee app, email, videos, podcasts, newsletters, leadership communications, virtual discussions and briefings, and through our line managers who played a key role in keeping their teams connected and engaged. This includes continuing to focus on two-way communications, ensuring there are channels through which employees can express their views, feedback and any concerns, helping the Company understand employee sentiment on an ongoing basis and respond appropriately.

These engagement activities form part of the Company's implementation of the BAE Systems group-wide employee engagement processes and policies which are described on pages 11, 18, 23, 56-58 and 153 of BAE Systems plc's Annual Report 2021 available at: www.baesystems.com/investors.

Also pursuant to the Policy, employees are provided with the means to give their views and feedback. Through the implementation by the Company of these processes and policies, the directors have regard to the interests of the Company's employees.

Fostering business relationships with suppliers, customers and others

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

Our largest customers are governments and commercial businesses. Strong and collaborative relationships with our principal customers help us to identify their requirements and to help position the Company as a trusted provider. The directors and their teams are in regular contact with the principal customers of the Company.

The Company, together with its procurement and supply chain function, works with its suppliers and their supply chains to provide goods and services that meet its customers' requirements. The Company's supplier relationships are often long-term due to the length of the product life-cycles and the directors meet with key suppliers and work with the BAE Systems group's procurement function to develop deeper relationships with business in the supply chain and develop strategic relationships with key suppliers.

The Community and the environment

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

We recognise that our operations have an impact on the environment – from the energy and resources we use, to the products we supply and the waste that we generate. As an organisation, the BAE Systems group is committed to reducing the environmental impact of our operations and products, minimising our environmental footprint and, in turn, decreasing our operational costs. Through the Operational Framework the Company implements the requirements of the BAE Systems group's

Strategic Report (continued)

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

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

Maintaining a reputation for high standards of business conduct

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

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

Approved by the Board and signed on its behalf by



D J Lawton

Director

26 July 2022

Directors' Report

Company registration

BAE Systems Applied Intelligence (International) Limited (the Company) is a private company, limited by shares and registered in England and Wales with the registered number 06815164.

Sales for the year amounted to £11,709k (2020: £19,263k) and the loss for the year before taxation amounted to £149k (2020: profit of £859k).

Revenue has fallen in the year due to the cessation of a number of contracts as well as a reversal of revenue of £4.3m on a fixed price contract. New contracts have been placed with other legal entities within the BAE Systems Applied Intelligence business Group.

The directors do not propose a dividend in respect of the year ended 31 December 2021 (2020: £nil).

Going concern

The ultimate parent company, BAE Systems plc, has indicated in writing that, for at least 12 months from the date of approval of these financial statements, it will continue to make available funds as are needed by the Company to meet its liabilities as they fall due and in particular will not seek repayment of amounts currently made available. The Company and its ultimate parent entity BAE Systems plc continue to conduct ongoing risk assessments in relation to their business operations and liquidity, including in relation to the future potential impact of the COVID-19 pandemic. Having undertaken these assessments, the directors consider that the Company will be able to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Directors and their interests

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

A G Jordan – resigned 28 January 2022

D J Lawton

D R Smith – appointed 13 April 2022

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.

Energy and Carbon Reporting exemption

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

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 he ought to have taken to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

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

Approved by the Board and signed on its behalf by:



D J Lawton
Director

Date: 26 July 2022

Registered office:

BAE Systems Applied Intelligence (International) Limited
Surrey Research Park
Guildford, Surrey, GU2 7RQ

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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 Applied Intelligence (International) Limited

Report on the audit of the financial statements.

Opinion

In our opinion the financial statements of BAE Systems Applied Intelligence (International) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31st 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 related notes 1 to 15.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

Independent Auditor's Report to the Members of BAE Systems Applied Intelligence (International) Limited (continued)

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 identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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, which included the UK Companies Act and taxation legislation; and
- do not have a direct effect on the financial statements, but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty, including in respect of export controls, defence contracting and anti-bribery and corruption legislation.

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

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

- examining external evidence to support contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence;
- discussing the status of the contract with the operational manager of the contract, as well as with the divisional CEO and CFO; and
- analysing historical contract performance and testing the underlying calculations used in contract assessments for accuracy and completeness including assumptions made regarding COVID-19.

Independent Auditor's Report to the Members of BAE Systems Applied Intelligence (International) 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 concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and understanding the impact of COVID-19 and remote working on the nature and operation of controls, to inform our risk assessment and conclusions on their effectiveness; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

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.



Thomas Murray BSc ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
26 July 2022

Income Statement

for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Revenue	2	11,709	19,263
Operating costs	3	(11,860)	(18,312)
Operating (loss)/profit and (loss)/profit before finance costs and tax		(151)	951
Finance income		4	9
Finance expenditure		(2)	(101)
(Loss)/Profit before tax		(149)	859
Tax	5	-	(32)
(Loss)/Profit for the year		(149)	827

Statement of Comprehensive Income

for the year ended 31 December 2021

	2021 £'000	2020 £'000
(Loss)/Profit for the year	(149)	827
Other comprehensive (expense)/income		
Items that may be reclassified to the Income Statement:		
Amounts (charged) to hedging reserve	(14)	(37)
Exchange differences on retranslation of foreign branches	(70)	8
Total comprehensive (expense)/income for the year	(233)	798

The notes on pages 14 to 24 form part of the financial statements.

The results for 2021 and 2020 arise from continuing activities.

Balance Sheet

as at 31 December 2021

	Notes	2021	2020
		£'000	£'000
Non-current assets			
Right-of-use assets	7	82	131
Investments	8	1	1
		83	132
Current assets			
Inventories	9	-	-
Trade, other and contract receivables	10	25,609	34,679
Other financial assets	13	12	-
Cash and cash equivalents		835	904
		26,456	35,583
Total assets		26,539	35,715
Non-current liabilities			
Lease liabilities	7	-	(62)
		-	(62)
Current liabilities			
Trade and other payables	11	(10,834)	(19,084)
Lease liabilities	7	(65)	(65)
Other financial liabilities	13	(26)	-
Current tax		(638)	(739)
Provisions	12	(1,724)	(2,280)
		(13,287)	(22,168)
Total liabilities		(13,287)	(22,230)
Net assets		13,252	13,485
Equity			
Issued share capital	14	-	-
Share premium	14	10,000	10,000
Other reserves	14	(14)	-
Foreign translation reserve		(60)	10
Retained earnings		3,326	3,475
Total equity		13,252	13,485

Approved by the Board on 26 July 2022 and signed on its behalf by:



D J Lawton
Director

Registered number: 06815164

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

	Issued share capital	Share premium	Other reserves	Foreign translation reserve	Retained Earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Total equity at 1 January 2020	-	10,000	37	2	2,648	12,687
Profit for the year	-	-	-	-	827	827
Total other comprehensive expense for the year	-	-	(37)	-	-	(37)
Retranslation of net assets of foreign branches	-	-	-	8	-	8
At 31 December 2020	-	10,000	-	10	3,475	13,485
Loss for the year	-	-	-	-	(149)	(2,714)
Total other comprehensive expense for the year	-	-	(14)	-	-	(14)
Retranslation of net assets of foreign branches	-	-	-	(70)	-	(70)
At 31 December 2021	-	10,000	(14)	(60)	3,326	13,252

Notes to the Financial Statements

1 Accounting policies

BAE Systems Applied Intelligence (International) Limited (the Company) is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is BAE Systems plc. The address of that company's registered office is shown on page 6. The principal activity of the Company is to solve complex and mission-critical problems through a combination of IT software, hardware and professional services.

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

Basis of preparation

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

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of International Accounting Standard (IAS) 1 Presentation of Financial Statements, to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16 Property, Plant and Equipment; paragraph 118(e) of IAS 38 Intangible Assets; and paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

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

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

The following paragraphs summarise the main accounting policies of the Company and have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

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. The significant estimates in relation to the Company's critical accounting policies are set out above.

One particular contract operated by the company, for which a forward loss provision has been recorded previously, carries material completion risk. At 31 December 2021 the forward loss provision on this contract was £2,542k (2020: £2,280k). There was also a reversal of revenue in the year of £4.3m on this contract. The year-end position represented management's best estimate of the costs to complete the contract and revenue to be recognised. However, given the complexities of this contract this estimate has since changed and we expect to add to the loss provision again in 2022, increasing the expected total loss on the contract by 12%.

Changes in accounting policies

Several other standards, interpretations and amendments to existing standards became effective on 1 January 2021, none of which had a material impact on the Company.

Significant accounting policies

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

Revenue and profit recognition

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

The Company accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Company's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired.

The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks, which are reliant on the knowledge and experience of the Company's project managers, engineers, and finance and commercial professionals. Material changes in these estimates could affect the profitability of individual contracts. Revenue and cost estimates are reviewed and updated at least quarterly, and more frequently as determined by events or circumstances.

Performance obligations

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

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

Transaction price

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

Revenue and profit recognition

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

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

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

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

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

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

Software licences

The Company sells software licences either separately or together with other goods and services, including computer hardware and implementation, hosting and support. Revenue recognition in respect of software licences sold as part of a bundle of goods and services is considered separately when the licence is determined to be a separate performance obligation. Software licences either represent a right to access the Company's intellectual property as it exists throughout the licence period or a right to use the Company's intellectual property as it exists at the point in time at which the licence is granted. Revenue in respect of right to access licences is recognised over the licence term or, in relation to perpetual licences, over the related customer relationship, and revenue in respect of right to use licences is recognised up front on delivery to the customer. A software licence is considered to be a right to access the Company's intellectual property as it exists throughout the licence period if all of the following criteria are satisfied:

- the contract requires, or the customer reasonably expects, that the Company will undertake activities that significantly affect the intellectual property;
- the licence directly exposes the customer to the effects of those activities; and
- those activities do not result in the transfer of a good or service to the customer.

If one or more of the above criteria is not met then the licence revenue is recognised at the point in time control of the licence passes to the customer.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Contract modifications

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

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

Costs to obtain a contract

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

Costs to fulfil a contract

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

Interest income and borrowing costs

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

Dividends

Dividends received and receivable are credited to the Company's Income Statement. Equity dividends paid on ordinary share capital are recognised as a liability in the period in which they are declared.

Property, plant and equipment

Cost

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

Depreciation

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

Leasehold premises	Over the period of the lease
Office furniture and equipment	10%
Computer, ancillary equipment and electronic test equipment	20 – 33%

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

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

Impairment

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

Investments

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

Impairment

An impairment loss in respect of investment property and equity accounted investments is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount.

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

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the Balance Sheet date. These exchange differences are recognised in the Income Statement.

The assets and liabilities of foreign currency branches are translated at the exchange rates ruling at the Balance Sheet date. The Income Statements of these branches are translated at average rates of exchange during the year. All resulting exchange differences are recognised in the foreign translation reserve.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Inventories

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

Trade, other and contract receivables

Trade and other receivables are stated at amortised cost including a provision for expected credit losses. The Company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Company writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

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

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, call and term deposits, and other short-term liquid investments with original maturities of three months or less and which are subject to an insignificant risk of change in value.

Trade and other payables

Trade and other payables are stated at amortised cost.

Tax

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

Current tax

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

Deferred tax

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

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

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

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

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

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.

Reorganisations

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected. The costs associated with the restructuring programmes are supported by detailed plans and based on previous experience as well as other known factors. Future operating costs are not provided for.

Other

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

Retirement benefit obligations

Defined contribution pension schemes

A defined contribution pension scheme is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions are recognised as an expense in the Income Statement as incurred.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Financial instruments

Derivative financial instruments and hedging activities

The international nature of the Company's business means that it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the Company's policy is to hedge all material firm transactional exposures.

In accordance with its treasury policy, the Company does not hold derivative financial instruments for trading purposes.

The Company aims to achieve hedge accounting treatment for all derivatives that hedge material foreign currency exposures.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the Balance Sheet date. Fair values are estimated by discounting expected future cash flows.

Fair value through profit or loss

Gains and losses on derivative financial instruments that are not designated as cash flow hedges are recognised in the Income Statement for the period.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows relating to a highly probable forecast transaction (income or expense), or recognised asset or liability, the effective portion of any change in the fair value of the instrument is recognised in other comprehensive income and presented in the hedging reserve in equity. Amounts recognised in equity are reclassified from the hedging reserve into the cost of the underlying transaction and recognised in the Income Statement when the underlying transaction affects profit or loss. The ineffective portion of any change in the fair value of the instrument is recognised in the Income Statement immediately. The Company treats the foreign currency basis element of the designated foreign exchange derivative hedging instrument as a cost of hedging and as such it is excluded from the hedge designation.

2 Revenue

The Company's revenue from customers by geographical location are:	2021 £'000	2020 £'000
United Kingdom	-	167
Europe	4,033	4,306
North America	90	104
Rest of the World	7,586	14,686
	11,709	19,263

The Company's revenue from customers by type are:	2021 £'000	2020 £'000
Fixed Price	3,478	10,199
Periodic Service Provision	1,731	6,507
Maintenance & Software Support	4,926	1,645
Licences	987	379
Other	110	197
Intercompany	477	336
	11,709	19,263

3 Operating costs

Included within operating costs are the following expenses:	2021 £'000	2020 £'000
Staff costs (note 4)	1,911	1,470
Depreciation, amortisation and impairment (note 7)	49	57
Foreign exchange cost	(13)	141
Intercompany operating cost ¹	3,551	3,566
Lease and sublease expense	68	128

¹ Relates to certain operating arrangements with fellow wholly owned subsidiaries.

The remuneration of the auditor for the year ended 31 December 2021 for the audit of the financial statements of the Company was £73k (2020: £53k) and £nil (2020: £nil) in respect of non-audit work.

Notes to the Financial Statements (continued)

4 Employees

The monthly average number of Company employees was 20 (2020: 14). All employees were in the engineering sector.

The aggregate staff costs of Company employees were as follows:

	2021 £'000	2020 £'000
Wages and salaries	1,911	1,470
Social security costs	-	-
	1,911	1,470

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

5 Tax expense

Tax expense	2021 £'000	2020 £'000
Current tax		
UK:		
Current tax	-	-
Double tax relief	-	-
Overseas:		
Current tax	-	8
Adjustments in respect of prior years	-	24
Tax expense	-	32

Reconciliation of tax expense

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

	2021 £'000	2020 £'000
Profit/(Loss) before tax	(149)	859
UK corporation tax rate	19.00%	19.00%
Expected tax expense/(credit) on profit	(28)	163
Expenses not tax effected	1	-
Income not subject to tax	-	(13)
Property, plant and equipment	-	(3)
Provisions and accruals	52	7
Imputed interest income	45	35
Effect of tax rates in foreign jurisdictions	-	8
Losses surrendered to / (received from) group companies	(70)	(189)
Unrecognised foreign tax credits brought forward	-	-
Adjustment in respect of prior years	-	24
Tax result	-	32

Notes to the Financial Statements *(continued)*

6 Deferred tax

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
Financial instruments	-	-
Property, plant and equipment	12	12
Provisions and accruals	82	8
	94	20

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

The Government announced in 2021 that from 1 April 2023 the UK corporation tax rate would increase from 19% to 25%. The deferred tax asset at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse. The resulting tax rate adjustments have been recorded partly in the Income Statement and partly in the Statement of Other Comprehensive Income and Statement of Changes in Equity.

7 Right-of-use assets

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

Right-of-use assets

	2021	
	Land and buildings	Total
	£'000	£'000
Net book value brought forward	131	131
Depreciation expense for the year	(49)	(49)
Net book value	82	82

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
Payments due:	
Within one year	(65)
Between one and five years	-
	(65)

Amounts recognized in the income statement

Depreciation of £49k (2020 £57k) has been recognised in the Income Statement for the year, along with a finance cost of £2k (2020 £6k) in respect of Right-of-use assets and liabilities.

Future commitments

There are no future commitments to the Company.

Cash outflow

Cash outflow for the leases in the year were £65k (2020 £65k).

Notes to the Financial Statements (continued)

8 Investments

Carrying value	£'000
At 1 January 2021 and at 31 December 2021	1

Subsidiary undertakings and participating interests at 31 December 2021

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2021 is disclosed below. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned directly by the Company and have a financial year end of 31 December.

Company name	Class of shares	Proportion of class (%)	Equity interest held (%)
BAE Systems Applied Intelligence (Japan) KK Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo, 107-6024, Japan	Ordinary shares	100	100
BAE Systems Applied Intelligence (Malaysia) Sdn Bhd c/o Level 25, Menara Hong Leong, No.6 Jalan Damantela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia	Ordinary shares	0.0001	0.0001

9 Inventories

	2021 £'000	2020 £'000
Short-term work in progress	-	-

10 Trade, other and contract receivables

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Amounts due from customers for contract work	151	5,793
Trade receivables	5,201	2,411
Amounts owed by group subsidiaries	1,551	2,694
Amounts owed by ultimate parent company	18,485	23,684
Other taxes and social security	-	-
Prepayments	61	-
Other receivables	160	97
	25,609	34,679

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

Notes to the Financial Statements (continued)

11 Trade and other payables

	2021	2020
	£'000	Restated ¹
	£'000	£'000
Amounts falling due within one year:		
Trade payables	2	32
Amounts due to contract customers	6,645	4,939
Amounts owed to group subsidiaries	3,237	13,120
Other taxes and social security costs	42	13
Accruals	815	980
Other payables	93	-
	10,834	19,084

Revenue recognised in the year includes £4,939k (2020: £6,139k) that was included in the opening amounts due to contract customers balance.

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

¹ Revenue relating to certain software licence transactions was erroneously deferred on the balance sheet in prior years, as it was recognised originally on transition to IFRS 15 in 2018 and thus should no longer have been in deferred revenue. This was due to a clerical error. As a result of this, the amounts due to contract customers at 31 December 2020 has been restated and reduced by £2,565k, with a corresponding increase in amounts owed to group subsidiaries, reflecting an associated increase in the operating fee chargeable on the Company's profits under the Group's transfer pricing arrangements. There has been no change to the 2020 statements or statement of comprehensive income.

12 Provisions

	Contract loss	Total
	£'000	£'000
At 1 January 2021	(2,280)	(2,280)
Created	(6,523)	(6,523)
Utilised	7,079	7,079
At 31 December 2021	(1,724)	(1,724)
Represented by:		
Non-current	-	-
Current	(1,724)	(1,724)
	(1,724)	(1,724)

One particular overseas contract operated by the company, for which a forward loss provision has been recorded previously, carries material completion risk.

13 Other financial assets and liabilities

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Current				
Cash flow hedges – foreign exchange contracts	12	(26)	-	-
	12	(26)	-	-

Notes to the Financial Statements (continued)

14 Share capital and other reserves

Share capital (Authorised, allotted, issued and fully paid)

	Ordinary shares £1	Nominal value £
At 1 January 2021 and at 31 December 2021	3	3

The directors do not propose a final dividend for the year ended 31 December 2021 (2020: £nil).

Other reserves	Foreign translation reserve £'000	Share premium £'000	Other reserves £'000	Total £'000
At 01 January 2020	2	10,000	37	10,039
Other comprehensive expenses		-	(37)	(37)
Retranslation of net assets of foreign branches	8	-	-	8
At 31 December 2020	10	10,000	-	10,010
Other comprehensive expenses		-	(14)	(14)
Retranslation of net assets of foreign branches	(70)	-	-	(70)
At 31 December 2021	(60)	10,000	(14)	9,926

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

15 Controlling parties

The Company's immediate parent company is Detica Group Limited and the ultimate controlling party is BAE Systems plc. Both companies are incorporated in United Kingdom and registered in England and Wales. BAE Systems plc is the both the smallest and largest parent company preparing group financial statements in which this entity is consolidated.

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