

Pulse Power and Measurement Limited

Annual Report and Financial Statements

31 December 2021

Registered number: 02963819

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**Pulse Power and Measurement Limited
Annual Report and Financial Statements
31 December 2021**

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Directors' Report

Company registration

Pulse Power and Measurement Limited (the "Company") is a private company, limited by shares and registered in England and Wales with the registered number 02963819.

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

Results and dividends

The Company's profit for the 15 month period is £377,943 (2020: £925,239 profit restated). The directors propose a dividend of £4,200,000 (2020: £51,289). The Company has used a 15 month period to align its period end with the BAE Systems Group. The results presented in the financial statements are not entirely comparable with the prior year.

The dividend proposed per share is £840.00 (2020: £10.26). Dividends are paid on all classes of ordinary shares other than ordinary E shares.

Business review and principal activities

The principal activity of the company continued to be that of the manufacture and distribution of specialist electrical components.

This is the first period that the Company has prepared its financial statements in accordance with FRS101 Reduced Disclosure Framework. The last financial statements were prepared in accordance with FRS102. The date of transition to FRS101 Reduced Disclosure Framework was 1 October 2020.

The Company, in previous years, prepared its financial statements with a year ended 30 September. The current financial statements are for the 15 month period ended 31 December 2021.

On 2 March 2021 the Company was acquired by BAE Systems (Holdings) Limited.

Looking forward

The Company expects to continue with its existing contracts for the foreseeable future.

Going concern

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue operational existence for at least 12 months from the date of approval of the financial statements. While there remains significant uncertainty as to the future impact of the COVID-19 pandemic, the Company and its ultimate parent entity BAE Systems plc continue to conduct ongoing risk assessments of the potential impact of the pandemic on its business operations and liquidity. 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.

Research and development

The Company performs both customer funded research and development as well as investing in internal research and development activities.

Credit risk and liquidity

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flow risks are discussed in detail within the BAE Systems plc Group accounts.

Directors' Report (continued)

Small companies exemption

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

Directors and their interests

The directors who served throughout the 15 month period and up to the date of this Directors' Report, unless otherwise stated, were as follows:

N E Seager	
P J Seager	(resigned 02 March 2021)
P W Surman	(resigned 02 March 2021)
Dr. M E Ryan	
Dr. R F Reid	(resigned 02 March 2021)
D J Bromley	(resigned 02 March 2021)
R A Jacklin	(resigned 02 March 2021)
Sir S D Atha	(appointed 02 March 2021)
A W Morgan	(appointed 02 March 2021 and resigned 15 June 2022)
J E Fothergill	(appointed 02 March 2021)
R Checkley	(appointed 15 June 2022)

Other than the transactions as highlighted in Note 20 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.

Disclosure of information to auditor

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

Auditor

The auditor, Deloitte LLP, has indicated its willingness to be re-appointed as the Company's auditor, and a resolution proposing their reappointment will be put to the members.

Directors' Report (continued)

Approved by the Board and signed on its behalf by:



J E Fothergill
Director

Date: 16 September 2022

Registered office:
Pulse Power and Measurement Limited
65 Shrivenham Hundred Business Park
Watchfield
Swindon
Wiltshire
SN6 8TY

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; 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 Pulse Power and Measurement Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Pulse Power and Measurement Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the 15 month period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement and the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 22.

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 Pulse Power and Measurement 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 and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

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 Pulse Power and Measurement Limited (continued)

As a result of performing the above, we identified the greatest potential for fraud to be in relation to revenue recognition on transactions where judgement is required to determine if the entity is acting as a principal or as an agent. The specific procedures we performed to respond to this risk included:

- obtaining relevant evidence including customer and supplier agreements, purchase orders, sales invoices, and delivery notes; and
- assessing the terms of the agreements to ensure appropriate recognition of revenue

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 in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Other matter

As the company was exempt from audit under section 477 of the Companies Act 2006 in the prior year we have not audited the corresponding amounts for that year.

Independent Auditor's Report to the Members of Pulse Power and Measurement Limited (continued)

Use of our report

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



Jamie Mander ACA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor
Reading, United Kingdom
Date: 16 September 2022

Pulse Power and Measurement Limited
Annual Report and Financial Statements
31 December 2021

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

	Note	15 months to 31 December 2021 £	As restated 30 September 2020 £
Revenue	3	11,653,337	9,367,240
Operating costs	4	(11,223,652)	(8,365,660)
Other operating income	5	91,425	-
Operating profit	4	521,110	1,001,580
Financial income	7	2,189	11,140
Financial expense	6	(43,210)	(36,476)
Profit before tax		480,089	976,244
Tax on profit	10	(102,146)	(51,005)
Profit for the financial 15 month period/year		377,943	925,239
Total comprehensive income for the 15 month period/year		377,943	925,239

The notes on pages 13 to 33 form part of these financial statements.

The results for 2021 and 2020 arise from continuing activities.

The prior year figures have been restated. See note 21 for details.

Pulse Power and Measurement Limited
Annual Report and Financial Statements
31 December 2021

Balance Sheet
as at 31 December 2021

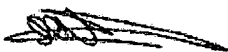
	Note	31 December 2021 £	As restated 30 September 2020 £
Non-current assets			
Property, plant and equipment	11	873,013	21,708
Right-of-use assets	17	1,429,187	1,572,335
Investments	12	640	640
Other receivables	15	2,020,547	-
Deferred tax assets	13	-	14,076
		4,323,387	1,608,759
Current assets			
Inventories	14	1,152,669	874,311
Trade, other and contract receivables	15	746,949	1,345,349
Cash and cash equivalents		1,086,552	3,158,346
		2,986,170	5,378,006
Total assets		7,309,557	6,986,765

Pulse Power and Measurement Limited
Annual Report and Financial Statements
31 December 2021

Balance Sheet (continued)
as at 31 December 2021

	Note	31 December 2021 £	As restated 30 September 2020 £
Non-current liabilities			
Lease liabilities	17	(1,436,126)	(1,539,173)
Deferred tax liabilities	13	(9,584)	-
		<u>(1,445,710)</u>	<u>(1,539,173)</u>
Current liabilities			
Trade, contract and other payables	16	(1,404,852)	(1,347,215)
Lease liabilities	17	(124,127)	(92,549)
		<u>(1,528,979)</u>	<u>(1,439,764)</u>
Total liabilities		<u>(2,974,689)</u>	<u>(2,978,937)</u>
Net assets		<u>4,334,868</u>	<u>4,007,828</u>
Capital and reserves			
Issued share capital	18	5,386	5,000
Retained earnings		4,329,482	4,002,828
Total equity		<u>4,334,868</u>	<u>4,007,828</u>

Approved by the Board on 16 September 2022 and signed on its behalf by:



J E Fothergill
Director

Registered number: 02963819

The notes on pages 13 to 33 form part of these financial statements.

The prior year figures have been restated. See note 21 for details.

Pulse Power and Measurement Limited
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Statement of Changes in Equity
for the period ended 31 December 2021

	Issued share capital £	Retained earnings £	Total equity £
At 1 October 2019	5,000	3,199,510	3,204,510
Profit for the year - as restated	-	925,239	925,239
Dividends (note 19)	-	(121,921)	(121,921)
At 30 September 2020	<u>5,000</u>	<u>4,002,828</u>	<u>4,007,828</u>
Profit for the 15 month period	-	377,943	377,943
Dividends (note 19)	-	(51,289)	(51,289)
Shares issued during the year (note 18)	386	-	386
At 31 December 2021	<u>5,386</u>	<u>4,329,482</u>	<u>4,334,868</u>

The notes on pages 13 to 33 form part of these financial statements.

The prior year figures have been restated. See note 21 for details.

Notes to the Financial Statements

1. General information

Pulse Power and Measurement 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 22. The address of the Company's registered office is shown on page 3.

The principal activity of the Company is set out in the Directors' Report on page 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 pound.

2. Accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with FRS101 Reduced Disclosure Framework. 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 paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements; and
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment.
- 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; and
- 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.

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 FRS101 Reduced Disclosure Framework. This is the first year that the Company has prepared its financial statements in accordance with FRS101 Reduced Disclosure Framework (see note 21).

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

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

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 significant 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.

No material estimates have been used in the creation of these 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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Significant accounting policies

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

2.2 Revenue and profit recognition

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

Performance obligations

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

Transaction price

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

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied or 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;

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Revenue and profit recognition (continued)

- 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 point in time criteria.

Revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

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

Contract modifications

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

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

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

Costs to obtain a contract

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

Costs to fulfil a contract

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.3 Leases

The Company as lessee

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

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

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

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.

2.4 Research and development

The Company undertakes research and development activities either on its own behalf or on behalf of customers.

Company-funded expenditure on research, and on development activities not meeting the conditions for capitalisation, is written off as incurred and charged to the Income Statement.

Where the research and development activity is performed on behalf of customers, the revenue arising is recognised in the Income Statement in accordance with the Company's revenue recognition policy.

2.5 Interest income and borrowing costs

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

2.6 Property, plant and equipment

Cost

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

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.6 Property, plant and equipment (continued)

Depreciation

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

Land and buildings leasehold	- 1.5 years straight line
Plant and machinery	- 5 to 10 years straight line
Fixtures, fittings & equipment	- 5 years straight line
Computer equipment	- 4 years straight line

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

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

Impairment

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

2.7 Investments

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

2.8 Inventories

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

2.9 Trade, other and contract receivables

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

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

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

2.10 Trade, contract and other payables

Trade, contract and other payables are stated at amortised cost.

Notes to the Financial Statements

2. Accounting policies (continued)

2.11 Dividends

Equity dividends paid on ordinary share capital are recognised as a liability in the period in which they are declared.

2.12 Pensions

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.

2.13 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 in 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 tax 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. Revenue

Revenue by reporting segment

	15 months to 31 December 2021 £	30 September 2020 £
External sales	11,653,337	9,367,240
	<u>11,653,337</u>	<u>9,367,240</u>

Revenue by customer location:

	15 months to 31 December 2021 £	30 September 2020 £
United Kingdom	7,798,191	6,082,892
Rest of Europe	1,191,863	1,252,767
Rest of the world	2,663,283	2,031,581
	<u>11,653,337</u>	<u>9,367,240</u>

4. Operating Costs

	15 months to 31 December 2021 £	As restated 30 September 2020 £
Raw materials, subcontracts and other bought-in items used	5,493,707	3,976,868
Staff costs (note 8)	3,943,336	2,507,814
Depreciation	382,607	161,913
Other operating charges	1,404,002	1,719,065
	<u>11,223,652</u>	<u>8,365,660</u>

The remuneration of the auditor for the 15 month period ended 31 December 2021 for auditing of the financial statements was £55k (2020: £nil) and £nil (2020: £nil) in respect of non-audit work.

Notes to the Financial Statements

5. Other income

	15 months to 31 December 2021 £	30 September 2020 £
Research and development expenditure credits	91,425	-
	<u>91,425</u>	<u>-</u>

6. Financial expense

	15 months to 31 December 2021 £	As restated 30 September 2020 £
Interest expense on lease liabilities (note 17)	43,210	36,476
	<u>43,210</u>	<u>36,476</u>

7. Financial income

	15 months to 31 December 2021 £	30 September 2020 £
Interest income	2,189	11,140
	<u>2,189</u>	<u>11,140</u>

Notes to the Financial Statements

8. Employees

The monthly average number of Company employees was 54 (2020: 50). There is only one category of employee. The aggregate staff costs of Company employees were as follows:

	15 months to 31 December 2021 £	30 September 2020 £
Wages and salaries	3,405,282	2,168,478
Social security costs	353,894	209,719
Cost of defined contribution pension scheme	184,160	129,617
	<u>3,943,336</u>	<u>2,507,814</u>

Notes to the Financial Statements

9. Directors' remuneration

The disclosures below represent an allocation of the emoluments received by the directors who served during the period between 1 October 2020 and 02 March 2021, to reflect their qualifying services to the Company. None of the BAE Systems group directors who served during the period between 02 March 2021 and 31 December 2021 received any emoluments from the Company during that period. All BAE Systems group directors who served during the period between 02 March 2021 and 31 December 2021 were employed by BAE Systems plc or other Group companies and were remunerated through those companies. The directors did not provide any material qualifying services to the Company during that period.

	15 months to 31 December 2021	30 September 2020
	£	£
Directors' remuneration	355,320	219,556
Company contributions to defined contribution pension schemes	32,737	36,937
	388,057	256,493

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

	15 months to 31 December 2021	30 September 2020
	Number of directors	Number of directors
Defined contribution schemes	2	3

	15 months to 31 December 2021	30 September 2020
	Number of directors	Number of directors
Number of directors who exercised share options	2	-

Amounts paid in respect of the highest paid director were as follows:

	15 months to 31 December 2021	30 September 2020
	£	£
Remuneration	131,750	80,000
Company contributions to defined contribution pension schemes	9,375	6,552
	141,125	86,552

Notes to the Financial Statements

10. Tax

Tax expense

	15 months to 31 December 2021	As restated 30 September 2020
	£	£
Current tax		
UK:		
Current tax	(78,486)	(65,081)
Deferred tax		
Origination and reversal of temporary differences	(14,830)	14,076
Tax rate adjustment ¹	(1,664)	-
Adjustments in respect of prior years	(7,166)	-
	<u>(23,660)</u>	<u>14,076</u>
Tax income	<u>(102,146)</u>	<u>(51,005)</u>

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

Reconciliation of tax expense

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

	15 months to 31 December 2021	As restated 30 September 2020
	£	£
Profit before tax	480,089	976,244
UK corporation tax rate	19.00%	19.00%
Expected tax expense	(91,217)	(185,486)
Expenses not tax effected	(506)	3,512
Additional R&D deduction	-	126,558
Property, plant and equipment	4,225	1,619
Provisions and accruals	-	2,792
Imputed interest income	(5,818)	-
Adjustments in respect of prior years	(1,664)	-
Tax rate adjustment ¹	(7,166)	-
Tax (expense)	<u>(102,146)</u>	<u>(51,005)</u>

Notes to the Financial Statements

11. Property, plant and equipment

	Land and buildings leasehold £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Total £
Cost or valuation					
At 1 October 2020	15,156	17,557	1,204	5,974	39,891
Additions	-	458,246	57,097	535,891	1,051,234
Disposals	-	(3,710)	-	(9,064)	(12,774)
At 31 December 2021	15,156	472,093	58,301	532,801	1,078,351
Depreciation					
At 1 October 2020	13,317	4,697	53	116	18,183
Depreciation charge for 15 months	1,839	58,451	7,333	121,115	188,738
Disposals	-	(323)	-	(1,260)	(1,583)
At 31 December 2021	15,156	62,825	7,386	119,971	205,338
Net book value					
At 31 December 2021	-	409,268	50,915	412,830	873,013
At 30 September 2020	1,839	12,860	1,151	5,858	21,708

Notes to the Financial Statements

12. Investments

	Subsidiary companies £
Cost	
At 1 October 2020	640
At 31 December 2021	640

Impairment testing

During the year, management conducted an impairment review of the investments held by the Company. As a result of this review, no impairments were identified.

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, unless otherwise stated, have a financial year end of 31 December.

Company name	Class of shares held	Proportion of class (%)
PULSE POWER AND MEASUREMENT INC <i>1717 Pennsylvania Avenue NW, Washington, DC, 20006</i>	Ordinary shares	100%

13. Deferred tax

	Deferred tax assets		Deferred tax liabilities	Net deferred tax assets/ (liabilities)	
	2021	2020	2021	2021	2020
	£	£	£	£	£
Property, plant and equipment	-	-	(29,857)	(29,857)	-
Provisions and accruals	20,273	14,076	-	20,273	14,076
	20,273	14,076	(29,857)	(9,584)	14,076
Deferred tax assets/(liabilities)					
Set off of tax	(20,273)	-	20,273	-	-
	-	14,076	(9,584)	(9,584)	14,076
Net deferred tax liabilities	-	14,076	(9,584)	(9,584)	14,076

Notes to the Financial Statements

13. Deferred tax (continued)

Movement in temporary differences during the year

	As at 1 October 2020 £	Recognised in income £	As at 31 December 2021 £
Property, plant and equipment	-	(29,857)	(29,857)
Provisions and accruals	14,076	6,197	20,273
	<u>14,076</u>	<u>(23,660)</u>	<u>(9,584)</u>

	As at 1 October 2019 £	Recognised in income £	As at 30 September 2020 £
Provisions and accruals	-	14,076	14,076
	<u>-</u>	<u>14,076</u>	<u>14,076</u>

14. Inventories

	31 December 2021 £	30 September 2020 £
Raw materials	700,783	535,248
Work in progress	99,276	85,065
Finished goods	352,610	253,998
	<u>1,152,669</u>	<u>874,311</u>

Notes to the Financial Statements

15. Trade, other and contract receivables

	31 December 2021	30 September 2020
	£	£
Non current		
Amounts owed by BAE Systems plc subsidiaries	2,020,547	-
	<u>2,020,547</u>	<u>-</u>
Current		
Trade receivables	566,201	744,741
Prepayments	167,695	392,497
Other debtors	13,053	633
Amounts owed by Pulse Power and Measurement Inc.	-	207,478
	<u>746,949</u>	<u>1,345,349</u>

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

16. Trade, contract and other payables

	31 December 2021	30 September 2020
	£	£
Current		
Trade payables	359,694	410,943
Amounts owed to Pulse Power and Measurement Inc.	14,198	-
Corporation tax	-	65,081
Other taxes and social security costs	62,176	294,057
Accruals	483,279	178,693
Deferred Income	459,105	377,030
Other payables	26,400	21,411
	<u>1,404,852</u>	<u>1,347,215</u>

Notes to the Financial Statements

17. Leases

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

	<u>31 December 2021</u>			<u>30 September 2020</u>		
	Land and buildings £	Vehicles £	Total £	Land and buildings £	Vehicles £	Total £
Additions during the year	-	50,721	50,721	1,722,374	-	1,722,374
Depreciation expense for the year	187,549	6,320	193,869	150,039	-	150,039
Net book value	<u>1,384,786</u>	<u>44,401</u>	<u>1,429,187</u>	<u>1,572,335</u>	<u>-</u>	<u>1,572,335</u>

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 £	As restated 2020 £
Payments due:		
Within one year	156,939	127,128
Between one and five years	671,906	614,389
Later than five years	921,495	1,121,820
	<u>1,750,340</u>	<u>1,863,337</u>
Reconciliation to Balance Sheet:		
Undiscounted lease liability	1,750,340	1,863,337
Impact of discounting	(190,087)	(231,615)
Total discounted lease liability	<u>1,560,253</u>	<u>1,631,722</u>

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2021, amounted to £165,400 (2020: £127,180).

The amounts paid in respect of short-term leases and low-value leases not recognised on the Balance Sheet amount to £24,959 (2020: £62,209).

Notes to the Financial Statements

17. Leases (continued)

Amounts recognised in the Income Statement.

	2021	As restated 2020
	£	£
Included in operating costs:		
Depreciation on right-of-use assets	193,869	150,039
	<u>193,869</u>	<u>150,039</u>
Included in net finance costs:		
Interest expense on lease liabilities	43,210	36,476
	<u>43,210</u>	<u>36,476</u>

18. Share capital

The Company has 10,000 authorised shares (2020: 10,000).

Issued and fully paid

	As at 31 December 2021			As at 30 September 2020	
	Value per share £	Number of shares issued	Number of shares	Number of shares	Nominal value £
Ordinary A	1.00	-	4,798	4,798	4,798
Ordinary B	1.00	-	198	198	198
Ordinary C	1.00	-	1	1	1
Ordinary D	1.00	-	1	1	1
Ordinary E	1.00	386	386	-	-
Ordinary F	1.00	-	1	1	1
Ordinary G	1.00	-	1	1	1
Total		<u>386</u>	<u>5,386</u>	<u>5,386</u>	<u>5,000</u>

The ordinary shares carry no right to a fixed income.

Notes to the Financial Statements

19. Dividends

	31 December 2021	30 September 2020
	£	£
Dividends paid in respect of prior year	51,289	121,921
	51,289	121,921
	51,289	121,921

The directors are proposing a final dividend of £840.00 (2020: £10.26) per share totalling £4,200,000 (2020: £51,289). Dividends are paid on all classes of ordinary shares other than ordinary E shares.

This dividend has not been accrued in the balance sheet.

20. Related party transactions

The directors' remuneration, analysed under the headings required by Company law is set out in note 9.

Mr. N. Seager is also a director of Fraser John Limited. All transactions with Fraser John Limited occurred in the normal course of business, are priced on an arm's-length basis and settled on normal credit terms.

During the period, £129,000 (2020: £103,200) was paid in respect of a lease that is held with Fraser John Limited. The estimated commitment outstanding as at 31 December 2021 was £1,680,000 (2020: £1,809,000).

In addition to the significant transactions disclosed below, the Company also acquired assets from Fraser John Limited for a value of £900k.

	2021	2021	2021	2020	2020	2020
	Sales	Purchases	Creditors	Sales	Purchases	Creditors
	£	£	£	£	£	£
Fraser John Limited	25,923	304,927	10,320	120,477	813,173	70,465
	25,923	304,927	10,320	120,477	813,173	70,465
	25,923	304,927	10,320	120,477	813,173	70,465

21. First time adoption of FRS101 Reduced Disclosure Framework

This is the first year that the Company has prepared its financial statements in accordance with FRS101 Reduced Disclosure Framework. The last financial statements were prepared in accordance with FRS102. The date of transition to FRS101 Reduced Disclosure Framework was 1 October 2020.

The effect of the restatement on previously reported financial information is set out below:

Notes to the Financial Statements

21 First time adoption of FRS101 Reduced Disclosure Framework (continued)

Balance Sheet (extract)

	2020 As previously reported £	Adjustment for Right-of- use-assets £	2020 Restated £
Non current assets			
Right-of-use-assets	-	1,572,335	1,572,335
Deferred tax assets	-	14,076	14,076
Total assets	5,400,354	1,586,411	6,986,765
Non current liabilities			
Lease liabilities	-	(1,539,173)	(1,539,173)
Current liabilities			
Lease liabilities	-	(92,549)	(92,549)
Total liabilities	(1,347,215)	(1,631,722)	(2,978,937)
Net assets	4,053,139	(45,311)	4,007,828
Capital and reserves			
Retained earnings	4,048,139	(45,311)	4,002,828
Total equity	4,053,139	(45,311)	4,007,828

Notes to the Financial Statements

21 First time adoption of FRS101 Reduced Disclosure Framework (continued)

Income Statement (extract)

	2020 As previously reported	Adjustment for Right-of- use-assets	2020 Restated
	£	£	£
Operating costs	(8,342,749)	(22,911)	(8,365,660)
Operating profit	1,024,491	(22,911)	1,001,580
Financial expense	-	(36,476)	(36,476)
Profit before tax	1,035,631	(59,387)	976,244
Tax on profit	(65,081)	14,076	(51,005)
Profit for the year	970,550	(45,311)	925,239

Retained Earnings

	2020 £
Retained earnings – as previously reported	4,048,139
Restatement	(45,311)
Retained earnings – restated	4,002,828

22. Controlling parties

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

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

6 Carlton Gardens
London
SW1Y 5AD

Website: www.baesystems.com