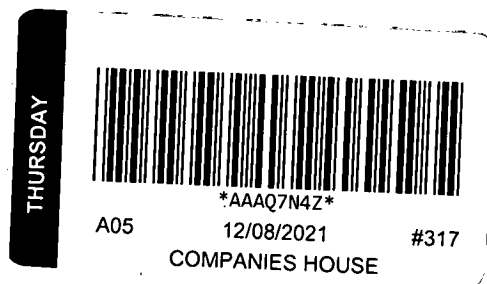


Prismatic Limited

Annual Report and Financial Statements

31 December 2020

Registered Number: 07753934



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Directors' Report

Company registration

Prismatic Limited (the "Company") is a private company, limited by shares and registered in England and Wales with the registered number 07753934.

Results and dividend

The Company's profit before tax for 12 months ended 31 December 2020 is £177k (16 months ended 31 December 2019 £5,946k). The directors have not proposed a final ordinary dividend in respect of the current financial year (2019 £4,366k).

Business review and principal activities

The Company's principal activity is the design, building and flying of high altitude long endurance aircraft (HALE).

Following the successful maiden flight of the PHASA-35 at Woomera in February 2020, Prismatic has faced the same challenge as all companies with the COVID-19 crisis. This was particularly difficult as the travel embargo meant we were unable to execute the planned next phase stratospheric flight trial.

With the continued support of our customer however I am delighted to report that we made an astonishing amount of progress in the year - including overseas flight trials - and managed the COVID-19 risk to enable work to continue at our facility whilst incurring no work related outbreak. Amongst our main achievements in year were the longest flight of the PHASE-8 test vehicle (over 8 hours) the completion of a full suite of flight planning and management tools, a full flight simulator enabling the training and qualification of two new PHASA-35 flight crews ready for 2021 and the implementation of some 94 improvements to the PHASA-35 system. This work plan, adapted to utilise the periods of enforced homeworking has resulted in an estimated loss of only 3 months progress in the 9 month lockdown of 2020.

This pragmatic and agile drive to do what we could do to advance the programme despite the continually evolving challenge to the business has left Prismatic and the PHASA-35 programme in an excellent position for 2021 with well-defined customer opportunities and a well understood and significantly reduced risk profile for the critical stratospheric flight now planned for Summer 2021.

Financial Risk

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.

Going concern

The directors' use of the going concern basis of accounting in the preparation of the financial statements has been used as the Framework agreement between BAES and Prismatic Ltd states that Prismatic running costs (people and Alton facility) will be paid by BAES to Prismatic Ltd under this Framework agreement.

Small company 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 year and up to the date of this Report were as follows:

P Brooks
J D Dixon
M V O'Connor
I L Muldowney
G Foster
C D Lloyd
J H Sutcliffe (resigned 1 January 2021)
D A Corfield (appointed 1 January 2021)

The Board is not aware of any contract of significance in relation to the Company in which any director has, or has had, a material interest.

Directors' Report (continued)

Disclosure of information to auditor

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

Auditor

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

Approved by the Board and signed on its behalf by:

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Ian Muldowney
Date: 2021.06.21
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I L Muldowney
Director

21 June 2021

Registered office:

2 Omega Park
Alton
England GU34 2QE

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 (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 Prismatic Limited

Opinion

In our opinion the financial statements of Prismatic Ltd (the 'company'):

- give a true and fair view of the state of the company's affairs as at [date] and of its [profit/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 14.

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.

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.

Independent Auditor's Report to the Members of Prismatic Limited (*continued*)

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. These included the UK Companies Act 2006 and the Corporation Tax Act 2010.; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

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

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 long term contracts. 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 and for certain contracts meeting with the customer directly; and
- analysing historical contract performance and testing the underlying calculations used in contract assessments for accuracy and completeness including assumptions made regarding COVID-19.

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 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 has/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.

Independent Auditor's Report to the Members of Prismatic Limited (*continued*)

Matters on which we are required to report by exception

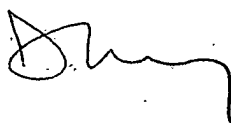
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.



Douglas King FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, UK

21 June 2021

Income Statement and Statement of Comprehensive Income
 for the year ended 31 December 2020

	Notes	2020 12 months £'000	2019 16 months £'000
Revenue	2	4,392	14,256
Other income		358	397
Operating costs	3	(4,545)	(8,716)
Operating profit		205	5,937
Financial income	4	-	12
Financial expense	5	(28)	(3)
Profit before tax		177	5,946
Tax	7	(44)	(1,138)
Profit for the year/period		133	4,808
Other comprehensive income		-	-
Total comprehensive profit for the year		133	4,808

The notes on pages 10 to 19 form part of the financial statements.

The results for 2020 and 2019 arise from continuing activities.

Balance Sheet
as at 31 December 2020

	Notes	2020 12 months £'000	2019 16 months £'000
Non-current assets			
Property, plant and equipment	8	231	362
Right-of-use assets	12	1,200	328
		1,431	690
Current assets			
Trade, other and contract receivables	10	271	1,379
Current tax		655	397
Cash and cash equivalents		956	1,560
		1,882	3,336
Total assets		3,313	4,026
Non-current liabilities			
Lease liabilities	12	(1,029)	(109)
Deferred tax liabilities	9	(9)	(55)
		(1,038)	(164)
Current liabilities			
Trade and other payables	11	(317)	(958)
Current tax		-	(1,083)
Lease liabilities	12	(220)	(216)
Total liabilities		(1,575)	(2,421)
Net assets		1,738	1,605
Capital and reserves			
Issued share capital	13	-	-
Other reserves	13	4	4
Retained earnings		1,734	1,601
Total equity		1,738	1,605

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I L Muldowney
Director

Registered number: 07753934

Statement of Changes in Equity
for the 12 months ended 31 December 2020

	Issued Share Capital £'000	Other Reserves £'000	Retained earnings £'000	Total Equity £'000
Balance at 1 January 2020	-	4	1,601	1,605
Profit for the year	-	-	133	133
At 31 December 2020	-	4	1,734	1,738
Balance at 1 September 2018	-	-	673	673
Profit for the period	-	-	4,808	4,808
Total other comprehensive income for the year	-	4	-	4
Ordinary share dividends	-	-	(3,880)	(3,880)
At 31 December 2019	-	4	1,601	1,605

Notes to the Financial Statements

1 Accounting policies

Prismatic 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 the Company's registered office is shown on page 2. The principal activity of the Company is set out in the Directors' Report on page 2.

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 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;
- 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 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.

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.

Critical accounting policies

The directors consider that there are no significant accounting policies which are critical as a result of their level of complexity, judgement or estimation involved in their application and their impact on the financial statements.

Judgements made in applying accounting policies

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

Key sources of estimation uncertainty

The application of the Company's accounting policies requires the use of estimates. In the event that these estimates prove to be incorrect, there may be an adjustment to the carrying amounts of assets and liabilities within the next financial year. The directors consider there are no material estimates in the financial statements.

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

Changes in accounting policies

There are no amendments to existing standards, or interpretations that became effective on 1 January 2020 and have 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

Under IFRS 15, revenue represents income derived from contracts for the provision of services 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 service or a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. Services that are distinct are 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.

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 services to the customer, excluding sales taxes. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as services are delivered 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. The Company has determined that most of its contracts satisfy the over-time criteria because the customer simultaneously receives and consumes the benefits provided by the Company's performance as it is performed (typical with services or support contracts).

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. Revenue and associated margin are therefore recognised progressively as costs are incurred. The Company has determined that this method faithfully depicts the Company's performance in delivering services to the customer.

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.

The Company as lessor

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

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

Interest income and borrowing costs

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

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Dividends

Equity dividends un-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.

Depreciation

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

Fixtures and fittings and leasehold building improvements (including computing and other equipment)	- 3 years
Plant & machinery	- 5 to 10 years

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.

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.

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 their cost.

Tax

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

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

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.

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 legal entity and which 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 Revenue

Revenue by location

	2020 12 months £'000	2019 16 months £'000
United Kingdom	4,392	13,950
Africa, Central and North America	-	306
	4,392	14,256

Revenue by category

	2020 12 months £'000	2019 16 months £'000
Military and technical services	4,392	14,256
	4,392	14,256

3 Operating costs

	2020 12 months £'000	2019 16 months £'000
Raw materials, subcontracts and other bought-in items	1,310	5,573
Staff costs (note 6)	2,101	1,873
Depreciation, amortisation and impairment	455	113
Other operating charges	679	1,157
Operating costs	4,545	8,716
Included within the above analysis are the following expenses:		
Lease and sublease expense	220	293

The remuneration of the auditor for the year ended 31 December 2020 for auditing of the financial statements was £20,000 (2019: £16,500 and £nil (2019: £nil) in respect of non-audit work. These fees were borne by fellow group company, BAE Systems (Operations) Limited and not recharged.

Notes to the Financial Statements (continued)

4 Financial income

	2020 12 months £'000	2019 16 months £'000
Bank interest receivable	0	12
Financial income	0	12

5 Financial expense

	2020 12 months £'000	2019 16 months £'000
Interest expense on lease liabilities (see note 12)	28	3
Financial expense	28	3

6 Employees

The average number of Company employees excluding directors was as follows:

	2020 12 months	2019 16 months
Local employees	32	21

The aggregate staff costs of Company employees were as follows:

	2020 12 months £'000	2019 16 months £'000
Wages and salaries	1,763	1,591
Social security costs	201	177
Other pension costs	137	105
	2,101	1,873

The costs of the three serving directors in Prismatic Ltd were £267k for the 12 months ended 31 December 2020 and £357k for the 16 months ended 31 December 2019.

The four BAE Systems directors who joined the Board in 2019 were employed by BAE Systems plc or other Group companies and were remunerated through those companies. These directors did not provide any material qualifying services to the Company during the year under review.

Notes to the Financial Statements (continued)

7 Tax (continued)

Reconciliation of tax result

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

	2020 12 months £'000	2019 16 months £'000
Profit before tax	177	5,950
UK corporation tax rate	19%	19%
Expected tax expense on profit	34	1,131
Expenses not tax effected	10	10
Adjustments in respect of prior years	(6)	3
Tax Rate adjustment	6	(6)
Tax result	44	1,138

As at 31 December 2019 legislation was in place for the UK corporation tax rate to be reduced from 19% to 17% with effect from 1 April 2020. However, under the Finance Act 2020, the rate was retained at 19%. The deferred tax liability at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse. The resulting tax rate adjustment has been recorded in the Income Statement.

8 Property, plant and equipment

	Fixtures and fittings £'000	Plant and Machinery £'000	Total £'000
Cost or valuation			
At 1 January 2020	173	314	487
Additions	6	103	109
At 31 December 2020	179	417	596
Depreciation and impairment			
At 1 January 2020	28	97	125
Depreciation charge for the year	116	124	240
At 31 December 2020	144	221	365
At 31 December 2020	35	196	231
At 31 December 2019	145	217	362

Notes to the Financial Statements *(continued)*

6 Employees *(continued)*

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

	2020 12 months £'000	2019 16 months £'000
Directors' remuneration	249	335
Amounts receivable under long-term incentive schemes	-	-
Company contributions to defined contribution pension schemes	18	22
	267	357

Post-employment benefits are accruing to the following number of Directors under:

	2020 12 months Number of Directors	2019 16 months Number of Directors
Defined contribution schemes	2	2

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

	2020 12 months £'000	2019 16 months £'000
Remuneration and amounts receivable under long-term incentive schemes	90	111
Company contributions to defined contribution pension schemes	9	11

During the year, the amount of money paid to or receivable by Directors under long-term incentive schemes in respect of qualifying services was £nil (2019 £nil)

7 Tax

	2020 12 months £'000	2019 16 months £'000
Current tax		
Current tax charge / (credit)	67	1,079
Adjustment in respect of prior years	23	4
	90	1,083
Deferred tax		
Current year	(23)	56
Adjustment in respect of prior years	(29)	(1)
Tax Rate adjustment	6	
	(46)	55
Tax result	44	1,138

Notes to the Financial Statements (continued)

7 Tax (continued)

Reconciliation of tax result

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

	2020 12 months £'000	2019 16 months £'000
Profit before tax	177	5,950
UK corporation tax rate	19%	19%
Expected tax expense on profit	34	1,131
Expenses not tax effected	10	10
Adjustments in respect of prior years	(6)	3
Tax Rate adjustment	6	(6)
Tax result	44	1,138

As at 31 December 2019 legislation was in place for the UK corporation tax rate to be reduced from 19% to 17% with effect from 1 April 2020. However, under the Finance Act 2020, the rate was retained at 19%. The deferred tax liability at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse. The resulting tax rate adjustment has been recorded in the Income Statement.

8 Property, plant and equipment

	Fixtures and fittings £'000	Plant and Machinery £'000	Total £'000
Cost or valuation			
At 1 January 2020	173	314	487
Additions	6	103	109
At 31 December 2020	179	417	596
Depreciation and impairment			
At 1 January 2020	28	97	125
Depreciation charge for the year	116	124	240
At 31 December 2020	144	221	365
At 31 December 2020	35	196	231
At 31 December 2019	145	217	362

Notes to the Financial Statements (continued)

9

	2020 12 months £'000	2019 16 months £'000
At 1 January	55	-
Charged to the Income Statement	(46)	55
At 31 December	9	55

The deferred tax liability is made up as follows:

	2020 12 months £'000	2019 16 months £'000
Property, plant and equipment	17	55
Accruals	(8)	-
	9	55

10 Trade, other and contract receivables

	2020 12 months £'000	2019 16 months £'000
Current		
Amounts owed by BAE Systems plc subsidiaries	40	1,209
Prepayments	141	80
Other receivables	90	90
	271	1,379

Amounts owed by BAE Systems plc subsidiaries are unsecured, repayable on demand and bear no interest.

11 Trade and other payables

	2020 12 months £'000	2019 16 months £'000
Current		
Dividends	-	248
Accruals and provisions	134	377
Other taxes and Social Security	183	333
	317	958

Notes to the Financial Statements (continued)

12 Leases

The Company leases its building under non-cancellable lease arrangements. The lease was signed on the 31 July 2018 for an 8-year term with a lease break clause on the 31 August 2021. The lease break notice date in January 2021 was not served as agreed at the Board and the lease will now run until the 31 July 2026.

Right-of-use-assets

	31 December 2020		31 December 2019	
	Land and buildings	Total	Land and buildings	Total
	£'000	£'000	£'000	£'000
Additions during the year	1,087	1,087	398	398
Depreciation expense for the year	(215)	(215)	(70))	(70)
Net book value	1,200	1,200	328	328

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.

	2020	2019
	12 months	16 months
	£'000	£'000
Payments due:		
Within one year	220	220
Between one and five years	1,029	110
Later than five years	-	-
	1,249	330

The total cash outflow for leases in the 12 months to 31 December 2020 amounted to £264k (16 months to 31 December 2019 £348k).

Amounts recognised in the Income Statement

	2020	2019
	12 months	16 months
	£'000	£'000
Included in operating costs:		
Depreciation on right-of-use assets	(215)	(70)
Short-term lease expense	0	0
	(215)	(70))
Included in net finance costs:		
Interest expense on lease liabilities	(28)	(3)
	(28)	(3)

Notes to the Financial Statements (continued)

13 Share capital and other reserves

Share capital	Share Premium £'000	£0.01 A Ordinary shares No	£0.01 B Ordinary shares No	Nominal value £171
Issued and fully paid				
At 1 January 2020 and 31 December 2020	4	8,354	8,696	0
Equity dividends			2020 £'000	2019 £'000
			0	3,880

14 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