

Notes to the Group accounts *continued***8. Tax****Taxation expense**

	2008 £m	2007 £m
Current taxation expense		
UK corporation tax		
Current tax	(357)	(140)
Double tax relief	7	29
Adjustment in respect of prior years	19	(21)
	(331)	(132)
Overseas tax charges		
Current year	(241)	(160)
Adjustment in respect of prior years	23	–
	(218)	(160)
	(549)	(292)
Deferred taxation expense		
UK		
Origination and reversal of temporary differences	(58)	(103)
Adjustment in respect of prior years	38	39
Tax rate adjustment ¹	–	(5)
Overseas		
Origination and reversal of temporary differences	(47)	22
Adjustment in respect of prior years	13	4
	(54)	(43)
Taxation expense	(603)	(335)

1 The UK current tax rate was reduced from 30% to 28% with effect from 1 April 2008. In 2007, in line with this change, the rate applying to UK deferred tax assets and liabilities was also reduced from 30% to 28%, creating a rate adjustment, which was partly reflected in the Consolidated income statement and partly in the Consolidated statement of recognised income and expense.

The following table reconciles the theoretical income tax expense, using the UK corporation tax rate, to the reported tax expense. The reconciling items represent, besides the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from differences between the local tax base and the reported financial statements.

	2008 £m	2007 £m
Profit before tax	2,371	1,235
UK corporation tax rate	28.5%	30.0%
Expected income tax expense	(676)	(371)
Effect of tax rates in foreign jurisdictions	(45)	(13)
Expenses not tax effected	(40)	(38)
Income not subject to tax	55	70
Research and development tax credits	5	39
Goodwill impairment	(15)	(44)
Chargeable gains	(5)	(28)
Utilisation of previously unrecognised tax losses	74	23
Current year losses not tax effected	(9)	(11)
Adjustments in respect of prior years	93	22
Adjustments in respect of equity accounted investments	6	36
Other	(46)	(20)
Taxation expense	(603)	(335)

Current tax taken in equity

	2008 £m	2007 £m
Relating to financial instruments	2	(1)
Relating to share-based payments	2	28
Relating to pensions	54	69
	58	96

8. Tax continued

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Property, plant and equipment	1	1	(70)	(71)	(69)	(70)
Intangible assets	–	–	(509)	(372)	(509)	(372)
Provisions and accruals	459	271	(2)	(2)	457	269
Goodwill impairment	–	–	(34)	(25)	(34)	(25)
Pension/retirement plans:						
Deficits	1,115	522	–	–	1,115	522
Additional contributions	66	106	–	–	66	106
Share-based payments	30	75	–	–	30	75
Financial instruments	–	6	(136)	–	(136)	6
Other items	42	16	(17)	(7)	25	9
Rolled over capital gains	–	–	(18)	(18)	(18)	(18)
Capital losses carried forward	18	18	–	–	18	18
Trading losses carried forward	1	7	–	–	1	7
Deferred tax assets/(liabilities)	1,732	1,022	(786)	(495)	946	527
Set off of tax	(706)	(455)	706	455	–	–
Net deferred tax assets/(liabilities)	1,026	567	(80)	(40)	946	527

Movement in temporary differences during the year

	At 1 January 2008 £m	Exchange movements £m	Acquisitions and disposals ² £m	Other movements £m	Recognised in income £m	Recognised in equity £m	At 31 December 2008 £m
Property, plant and equipment	(70)	(17)	(2)	–	20	–	(69)
Intangible assets	(372)	(116)	(67)	–	46	–	(509)
Provisions and accruals	269	92	45	1	50	–	457
Goodwill impairment	(25)	(9)	28	–	(28)	–	(34)
Pension/retirement plans:							
Deficits	522	115	(35)	1	(98)	610	1,115
Additional contributions	106	–	4	–	(14)	(30)	66
Share-based payments	75	4	–	–	(23)	(26)	30
Financial instruments	6	–	–	–	(10)	(132)	(136)
Other items	9	(2)	3	1	11	3	25
Rolled over capital gains	(18)	–	–	–	–	–	(18)
Capital losses carried forward	18	–	–	–	–	–	18
Trading losses carried forward	7	–	2	–	(8)	–	1
	527	67	(22)	3	(54)	425	946

	At 1 January 2007 £m	Exchange movements £m	Acquisitions £m	Other movements £m	Recognised in income £m	Recognised in equity £m	At 31 December 2007 £m
Property, plant and equipment	(67)	–	(8)	1	4	–	(70)
Intangible assets	(143)	(5)	(272)	–	47	1	(372)
Provisions and accruals	260	(2)	42	(3)	(28)	–	269
Goodwill impairment	(17)	–	18	–	(26)	–	(25)
Pension/retirement plans:							
Deficits	778	(3)	7	–	(50)	(210)	522
Additional contributions	158	–	–	–	(1)	(51)	106
Share-based payments	82	–	–	–	1	(8)	75
Financial instruments	25	–	–	–	(7)	(12)	6
Other items	(28)	2	7	1	25	2	9
Rolled over capital gains	(19)	–	–	–	1	–	(18)
Capital losses carried forward	19	–	–	–	(1)	–	18
Unremitted overseas dividends	(1)	–	–	–	1	–	–
Trading losses carried forward	15	1	–	–	(9)	–	7
	1,062	(7)	(206)	(1)	(43)	(278)	527

² Acquisitions and disposals includes deferred tax assets on the acquisition of MTC (£16m) and Tenix Defence (£9m), and the finalisation of fair values relating to the Armor Holdings, Inc. acquisition in 2007 (£7m), less deferred tax liabilities on the acquisition of Detica (£23m) and the deferred tax asset transferred on formation of the BVT joint venture (£31m).

Notes to the Group accounts *continued***8. Tax continued****Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

	2008	2007
	£m	£m
Deductible temporary differences	23	22
Capital losses carried forward	58	59
Trading and other losses carried forward	90	140
	171	221

These assets have not been recognised as the incidence of future profits in the relevant countries and legal entities cannot be sufficiently accurately predicted at this time.

The aggregate temporary differences associated with investments in subsidiaries, branches, associates and joint ventures for which deferred tax liabilities have not been recognised is £332m (2007 £432m).

9. Disposals**Continuing and discontinued operations for the year ended 31 December 2008**

Name	Country of incorporation	Date of sale	Percentage share	Profit on disposal of businesses £m	Proceeds from sale of subsidiary undertakings £m	Proceeds from sale of equity accounted investments £m	Deferred consideration ⁴ £m
Surveillance and Attack division	USA	22.02.08	100%	61	118	–	–
BAE Systems Surface Fleet Solutions Limited ²	UK	01.07.08	45%	121	–	–	–
Flagship Training Limited ⁴	UK	01.07.08	50%	56	–	16	53
Gregory backpack business	USA	14.03.08	100%	–	7	–	–
Continuing operations				238	125	16	53
Discontinued operations ³ – Mobile International business	USA	14.02.08	100%	–	6	–	–
				238	131	16	53

Continuing and discontinued operations for the year ended 31 December 2007

Name	Country of incorporation	Date of sale	Percentage share	Profit/(loss) on disposal of businesses £m	Proceeds from sale of subsidiary undertakings £m	Proceeds from sale of equity accounted investments £m
HR Enterprise Limited and its subsidiary Xchanging HR Services Limited (XHRS)	UK	17.01.07	50%	–	–	10
Xchanging Procurement Services (Holdco) Limited (XPS)	UK	06.03.07	50%	44	–	47
Customer Training Centre	UK	13.12.07	100%	4	6	–
Inertial Products business	USA	20.08.07	100%	(6)	70	–
TEMPEST products business	USA	11.12.07	100%	(2)	1	–
Transaction costs				–	(5)	–
Continuing operations				40	72	57
Discontinued operations ⁵ – SELEX	UK	30.03.07	25%	22	24	–
				62	96	57

1 Consideration of £67m has been deferred over three years, the discounted value of which is £53m.

2 On 1 July 2008, the Group exchanged a 45% shareholding in BAE Systems Surface Fleet Solutions Limited (SFSL) as consideration for the contribution to SFSL of 100% of VT Group plc's shipbuilding and naval support businesses to form the joint venture BVT Surface Fleet Limited.

3 The Group's Mobile International business was acquired with Amor Holdings, Inc. on 31 July 2007 with a view to immediate resale. Accordingly, it was classified as held for sale as at 31 December 2007. The sale was completed on 14 February 2008 for a cash consideration less transaction costs of £6m.

4 Included within other receivables (note 16 to the Group accounts).

5 On 30 March 2007, the sale of the Group's remaining 25% interest in SELEX was completed following the exercise by Finmeccanica SpA of its call option granted as part of the original disposal transaction in 2005. Net proceeds of £24m comprise the consideration of £277m, less £253m which was assigned to the BAE Systems 2000 Pension Plan in 2006. A profit of £22m was recognised during the year upon settlement of warranties and similar obligations on this transaction.