

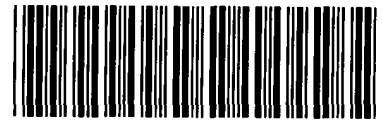
BAE Systems (International) Limited

Annual Report and Financial Statements

31 December 2019

Registered Number: 02385987

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Contents

Strategic Report	3
Directors' Report	6
Directors' Responsibilities Statement	8
Independent Auditor's Report to the Members of BAE Systems (International) Limited	9
Income Statement	11
Statement of Comprehensive Income	11
Balance Sheet	12
Statement of Changes in Equity	13
Notes to the Financial Statements	14

Strategic Report

Review of business

The principal activity of BAE Systems (International) Limited (the Company) is the provision of marketing and support services for the BAE Systems plc Group (Group) via branches in overseas locations.

There has been no significant change in the nature or level of this activity during the period.

The future potential impact of the COVID-19 pandemic on the Company is not yet known but may be significant. While the Company cannot currently quantify what the effects might be, it continues to monitor the pandemic and its impact, to ensure appropriate actions can be taken to mitigate risks to the Company.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks including the following principal risks:

- The risks of operating in some countries include: political changes impacting the business environment; economic downturns, political instability and civil disturbances; changes in government regulations and administrative policies; the imposition of restraints on the movement of capital; and the introduction of burdensome taxes or tariffs;
- The outbreak of contagious diseases may have an adverse effect on the Company's business, financial condition and results of operations.
- Contagious diseases can have an adverse effect on the Company's business, financial condition and results of operations. There is currently a COVID-19 coronavirus pandemic across the world. Governments are taking a number of steps to mitigate the impact of this pandemic, including implementing quarantines. Many people have contracted the disease across the world and many deaths have occurred. It is not clear for how long this pandemic will last or how much more extensive it will become, or the further measures that will be taken by governments and others to seek to control this pandemic and its impact.

Since the outbreak of the COVID-19 coronavirus pandemic, the Company has taken a number of responsive measures including reducing site operational levels and introducing new cleaning regimes, safe working distance measures and protective equipment for its employees. A significant proportion of the Company's employees are working from home. While the Company is liaising closely with its customers and suppliers to understand any changes in requirements and priorities during this time, the uncertainties surrounding the development of this pandemic make it difficult to predict the extent to which the Company may be affected.

The COVID-19 coronavirus pandemic could also result in changes to the outlook in the Company's markets. Areas of the Company's business that could be impacted include a decrease in defence spending by the Company's major customers, the failure to obtain awards for defence contracts, the failure of suppliers to deliver parts to the Company, the requirement for the Company or its suppliers to close plants, the inability of the Company to meet contractual delivery requirements on time, the inability to adequately staff and manage the business, and an increase in the cost or lack of availability of funding. If the Company were unable to obtain appropriate funding, it could be forced to make reductions in spending, seek to extend payment terms with suppliers and/or suspend or curtail planned programmes. Any of the above could have a material adverse effect on the Company's business, financial condition and results of operations; and

- The terms of the UK's relationship with the EU after the end of the transition phase on 31 December 2020 are currently uncertain, rendering it difficult for the Company to prepare in detail for the changes in the regulatory environment that are likely to apply beyond the transition phase. However, near-term impacts for the Company are likely to be limited.

The Company is part of the Group and the principal risks and uncertainties affecting the Group are discussed in more detail in the Annual Report of the Group.

Key performance indicators

The Company is part of the Group and the key performance indicators used to monitor and review the business are set by the Group and discussed in more detail in the Annual Report of the Group. The directors do not consider it necessary to provide additional key performance indicators at a company level for an understanding of the development, performance or position of the business.

Section 172(1) statement

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

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

Decision making

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

Pursuant to the Operational Framework, BAE Systems' businesses each produce a strategic plan, a financial forecast for the current year and financial projections for the next five years. The directors of the Company ensure that this process is undertaken by the Company's management and that principal and emerging risks in the business are identified and managed. In so doing the management have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long term and the long-term reputation of the Company and its businesses.

Employees

Employee engagement is a primary focus for the directors of the Company – connecting employees to the Company's and the BAE Systems group's strategy and purpose, empowering them to contribute to improving business performance and creating an environment in which everyone can fulfil their potential. We keep the Company's employees informed about what is happening across the BAE Systems group through the group's intranet and email, podcasts, newsletters, and leadership blogs and briefings.

Due to the size and locations of the Company's overseas offices, the communication channels are adapted accordingly to ensure the messages are clear to all cultures, and ensure that the employees feel part of a cohesive team. This is managed carefully by management and dedicated regional Communications professionals. These engagement activities form part of the Company's implementation of the BAE Systems group-wide employee engagement processes and policies which are described on pages 35-36, 83, 95-98 and 116 of BAE Systems plc's Annual Report 2019 (available at: www.baesystems.com/investors). Pursuant to the Group's People Policy, Directors and employees are required to contribute to creating an engaged and inclusive work environment, where individuals are respected and where the value of a diverse workforce is recognised. Also, pursuant to the Policy, employees are to be provided with the means to give their views and feedback. Through the implementation by the Company of these processes and policies, the Directors have regard to the interests of the Company's employees.

Fostering business relationships with suppliers, customers and others

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

The Company's business is focused on providing marketing services for other Business Units in the BAE Systems Group. Strong and collaborative relationships with Business Unit customers help us to identify those customers' requirements and to help position the Company as a trusted provider. The Directors ensure that management is in regular contact with the Company's principal customers to ensure that marketing activity is aligned to the interests and priorities of the Group.

The Company, together with the Group's procurement and supply chain function, works with its suppliers and their supply chains to provide premises, goods and services that meet its customers' requirements. Management meet with key suppliers and work with the BAE Systems group's procurement function to develop deeper relationships with business in the supply chain and develop strategic relationships with key suppliers which are typically providers of in-country offices or accommodation, and in-country service providers of financial and administrative services.

The Community and the environment

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

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

BAE Systems (International) Limited
Annual Report and Financial Statements
31 December 2019

These activities form part of the Company's implementation of the BAE Systems group-wide community and environment processes and policies and the BAE Systems group's impacts thereon which are described in the Environment and climate change and Fostering strong community partnerships sections (pages 40-42) of BAE Systems plc's Annual Report 2019.

Maintaining a reputation for high standards of business conduct

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

Detailed information on the BAE Systems group-wide business conduct processes and policies are described in BAE Systems plc's Annual Report 2019 and in particular the Ethics and business conduct section on pages 38-39.

Approved by the Board and signed on its behalf by:

D S Parkes
Director
16 June 2020



Directors' Report

Company registration

BAE Systems (International) Limited is a private company, limited by shares and registered in England and Wales with the registered number 02385987.

Results and dividends

The Company's profit for the financial year is £492,000 (2018: £725,000). The directors propose a final dividend of £nil (2018: £500,000).

Going concern

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue operational existence for the at least twelve 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. The impact on the Company to date is set out in Note 16. 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.

Overseas branch offices

During the year the Company had overseas offices in the following countries:

Bahrain	Germany	Saudi Arabia
Belgium	Indonesia	Singapore
Brunei	Iraq	Slovakia
Chile	Japan	South Korea
Czech Republic	Malaysia	Thailand
Egypt	Oman	
Finland	Qatar	

The international nature of the Company's business means it is exposed to volatility in currency exchange rates.

Financial Risk Management

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.

Post Balance Sheet Events

Post Balance Sheet Events are discussed in Note 16 of the Financial Statements.

Directors and their interests

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

S J Clifford (Resigned 31 May 2019)

D S Parkes

A-L Holding

M P Turner (Appointed 31 May 2019)

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 provision 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:


DS Parkes
Director
16 June 2020

Registered office:
BAE Systems (International) Limited
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU
United Kingdom

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 Statement (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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems (International) Limited (the Company)

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit 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; and
- the related notes 1 to 17.

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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

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 BAE Systems (International) 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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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



Peter McDermott FCA, Senior Statutory Auditor

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

16 June 2020

Income Statement

for the year ended 31 December 2019

	Notes	2019 £000's	2018 £000's
Revenue	2	10,682	15,191
Operating costs	3	(10,032)	(14,286)
Operating profit		650	905
Financial income	5	-	1
Financial expense	6	(19)	(24)
Profit before tax		631	882
Tax expense	7	(139)	(157)
Profit for the year		492	725

Statement of Comprehensive Income

for the year ended 31 December 2019

		2019 £000's	2018 £000's
Profit for the year		492	725
Other comprehensive income			
Items that may be reclassified to the Income Statement:			
Currency translation on foreign currency branches	14	(421)	208
Total other comprehensive income/(loss) for the year (net of tax)		(421)	208
Total comprehensive income for the year		71	933

The notes on pages 12 to 23 form part of the financial statements.

The results for 2019 and 2018 arise from continuing activities.

Balance Sheet
as at 31 December 2019

	Notes	2019 £000's	2018 £000's
Non-current assets			
Property, plant and equipment	8	76	227
Deferred tax assets	9	90	82
Right-of-use assets	10	493	-
		659	309
Current assets			
Trade and other receivables	11	732	1,506
Cash and cash equivalents		1,164	1,373
		1,896	2,879
Total assets		2,555	3,188
Non-current liabilities			
Trade and other payables	12	(172)	(156)
Lease liabilities	10	(356)	-
		(528)	(156)
Current liabilities			
Trade and other payables	12	(867)	(564)
Current tax		(13)	(12)
Provisions	13	(89)	(1,110)
Lease liabilities		(141)	-
		(1,110)	(1,686)
Total liabilities		(1,638)	(1,842)
Net assets		917	1,346
Capital and reserves			
Issued share capital	14	250	250
Foreign translation reserve	14	(1,306)	(885)
Retained earnings		1,973	1,981
Total equity		917	1,346

Approved by the Board on 16 June 2020 and signed on its behalf by:



D S Parkes
Director

Registered number: 02385987

Statement of Changes in Equity
for the year ended 31 December 2019

	Notes	Issued share capital £000's	Foreign translation reserve £000's	Retained earnings £000's	Total equity £000's
At 1 January 2018		250	(1,093)	2,006	1,163
Profit for the year		-	-	725	725
Total other comprehensive income/(loss) for the year		-	208	-	208
Ordinary share dividend	14	-	-	(750)	(750)
At 31 December 2018		250	(885)	1,981	1,346
Profit for the year		-	-	492	492
Total other comprehensive income for the year		-	(421)	-	(421)
Ordinary share dividend	14	-	-	(500)	(500)
At 31 December 2019		250	(1,306)	1,973	917

Notes to the Financial Statements

1 Accounting policies

BAE Systems (International) Limited (the Company) is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is BAE Systems plc. The address of the Company's registered office is shown on page 6. The principal activity of the Company is the provision of marketing and support services for the BAE Systems plc Group (Group) via branches in overseas locations.

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

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 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 of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the 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 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.

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 judgements and key sources of estimation uncertainty

The preparation of financial statements under FRS 101 requires the use of accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The directors consider that there are no critical accounting judgements in applying the Company's accounting policies and that there are no key sources of estimation uncertainty.

Changes in accounting policies

IFRS 16 Leases became effective on 1 January 2019. The impact of adoption is set out in note 15.

Several other standards, interpretations and amendments to existing standards became effective on 1 January 2019, none of which had a material impact on the Company.

Notes to the Financial Statements (continued)

1 Accounting policies (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.

Revenue and profit recognition

Revenue represents the recovery of costs and expenses derived from the provision of marketing and support services to the Group during the year together with an agreed mark-up on costs to reflect a reasonable arm's length return on total costs over the financial period. The mark-up ranges from 5 -10% for each of the overseas offices and is agreed in the Service Level Agreements made between the Company and the Group. The revenue is recognised as related costs are incurred.

Lease costs

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

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

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

The carrying amounts of the Company's right-of-use assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

Payments in respect of short-term leases, low-value leases and leases of intangible assets are charged to the Income Statement on a straight-line basis over the lease term.

Comparative amounts for the year ended 31 December 2018 have not been restated on adoption of IFRS 16 Leases and are presented in accordance with IAS 17 Leases, whereby lease payments made under operating leases are recognised in the Income Statement on a straight-line basis over the lease term. See note 10 for further details.

Interest income and borrowing costs

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

Dividends

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

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the Balance Sheet date. These exchange differences are recognised in the Income Statement. The assets and liabilities of foreign currency branches are translated at the exchange rates ruling at the Balance Sheet date. The Income Statements of these branches are translated at average rates of exchange during the year. All resulting exchange differences are recognised in the foreign translation reserve.

Property, plant and equipment

Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment.

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:

Leasehold improvements	- up to 50 years, or the lease term if shorter
Motor vehicles	- 4 years
Equipment, fixtures and fittings	- 5 years

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

Notes to the Financial Statements (continued)

Impairment

The carrying amounts of the Company's property, plant and equipment and right-of-use assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in the Income Statement.

An impairment loss is only reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount.

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

Trade and other 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.

Cash and cash equivalents

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

Trade and other payables

Trade and other payables are stated at amortised cost.

Provisions

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate.

Tax

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

Current tax

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

Deferred tax

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

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to 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 (continued)

2 Revenue

Revenue by customer location

	2019 £000's	2018 £000's
United Kingdom	10,682	15,191

Revenue by category

	2019 £000's	2018 £000's
Marketing and Support services	10,682	15,191

3 Operating costs

	Notes	2019 £000's	2018 £000's
Staff costs	4	5,497	7,210
Depreciation		46	111
Depreciation on right-of-use assets		396	-
Operating Lease Expense		547	1,182
Reorganisation costs	13	(455)	1,074
Other operating charges		4,001	4,709
Operating costs		10,032	14,286

The remuneration of the auditor for the year ended 31 December 2019 for auditing of the financial statements was £85,700 (2018: £84,000) and £nil (2018: £nil) in respect of non-audit work. This has been borne by BAE Systems plc, the ultimate parent company.

4 Employees

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

	2019	2018
Secondees	13	48
Local Employees	41	17
	54	65

The aggregate staff costs of Company employees were as follows:

	2019 £000's	2018 £000's
Wages and salaries	4,867	6,405
Social security costs	384	487
Pension costs	246	318
	5,497	7,210

During the year, the Company had 3 directors in office (2018: 3). None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by BAE Systems plc and were remunerated through that company. The directors did not provide any material qualifying services to the Company.

5 Financial income

	2019 £000's	2018 £000's
Interest on VAT refund	-	1
Financial income	-	1

Notes to the Financial Statements (continued)

6 Financial expense

	2019 £000's	2018 £000's
Bank interest payable	(1)	(24)
Interest expense on lease liabilities	(18)	-
Financial expense	(19)	(24)

7 Tax

	2019 £000's	2018 £000's
Current tax		
UK:		
Current tax	-	(118)
Double tax relief	-	118
	-	-
Overseas:		
Current tax	(124)	(165)
Adjustments in respect of prior years	(26)	(4)
	(149)	(169)
Deferred tax		
Overseas:		
Origination and reversal of temporary differences	11	12
Tax expense	(139)	(157)

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

Reconciliation of tax expense

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

	2019 £000's	2018 £000's
Profit before tax	631	882
UK corporation tax rate	19.00%	19.00%
Expected tax expense	(120)	(167)
Expenses not tax effected	(30)	(37)
Losses received from fellow group companies	(52)	101
Property, plant and equipment	12	4
Provisions and accruals	189	(19)
Overseas deferred tax provided	11	12
Adjustments in respect of prior years	(26)	(4)
Effect of tax rates in foreign jurisdictions	(123)	(47)
Tax expense	(139)	(157)

Notes to the Financial Statements (continued)

8 Property, plant and equipment

	Motor vehicles £000's	Equipment, fixtures and fittings £000's	Leasehold improvements £000's	Total £000's
Cost				
At 1 January 2019	376	450	559	1,385
Additions	30	1	-	31
Disposals	(315)	(29)	(105)	(449)
At 31 December 2019	91	422	454	967
Depreciation				
At 1 January 2019	274	432	452	1,158
Depreciation charge	22	5	19	46
Disposals	(251)	(20)	(42)	(313)
At 31 December 2019	45	417	429	891
Net book value				
At 31 December 2019	46	5	25	76
At 31 December 2018	102	18	107	227

9 Deferred tax

The UK deferred tax asset which has not been recognised in the accounts is as follows:

	2019 £000's	2018 £000's
Property, plant and equipment	108	137
Provisions and accruals	40	44
Unrelieved foreign taxes	62	-
Deferred tax asset	210	181

The unprovided deferred tax asset has been prepared applying a closing tax rate of 17% on the basis that any deferred assets or liabilities released or settled are likely to reverse after April 2020. However, in the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the Balance Sheet date, its effects are not included in these financial statements and the rate of 17% is used.

The overseas deferred tax asset which has been provided for in the accounts is as follows:

Deferred tax asset

	2019 £000's	2018 £000's
At 1 January	82	64
Foreign exchange movements	(3)	6
Deferred tax provided	11	12
Deferred tax asset	90	82

Notes to the Financial Statements (continued)

9 Deferred tax (continued)

Movement in temporary differences during the year

	At 1 January 2019 £000's	Recognised in income £000's	At 31 December 2019 £000's
Property, plant and equipment	27	7	34
Provisions and accruals	55	1	56
	82	8	90

	At 1 January 2018 £000's	Recognised in income £000's	At 31 December 2018 £000's
Property, plant and equipment	16	11	27
Provisions and accruals	48	7	55
	64	18	82

10 Right-of-Use Assets and Leases

IFRS 16 Leases became effective on 1 January 2019. The impact of adoption is set out in note 15.

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

	Land and buildings £000's	Motor vehicles £000's	Total £000's
Additions during the year	771	118	889
Depreciation expense for the year	(355)	(41)	(396)
Net book value	416	77	493

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.

	Total £'000
Payments due:	
Within one year	357
Between one and five years	146
	503

Notes to the Financial Statements (continued)

10 Right-of-Use Assets and Leases(continued)

Amounts recognised in the Income Statement:

	Total £000's
Included in operating costs:	
Depreciation on right-of-use assets	396
Short-term lease expense	547
	943
Included in net finance costs:	
Interest expense on lease liabilities	18

11 Trade and other receivables

	2019 £000's	2018 £000's
Current		
Amounts owed by BAE Systems plc	-	602
Amounts owed by BAE Systems (Operations) Limited	35	54
Amounts owed by BAE Systems Saudi Limited	38	40
Prepayments and accrued income	148	115
Other receivables	511	695
	732	1,506

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

12 Trade and other payables

	2019 £000's	2018 £000's
Non-current		
Other payables	172	156
	172	156
Current		
Amounts owed to BAE Systems plc	176	-
Amounts owed to BAE Systems Oman LLC	532	72
Accruals and deferred income	137	439
Other payables	22	53
	867	564

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

Notes to the Financial Statements (continued)

13 Provisions

	Reorganisation	Legal, contractual and environmental	Total
	£000's	£000's	£000's
At 1 January 2019	1,070	40	1,110
Utilised	(563)	-	(565)
Released	(457)	(1)	(456)
At 31 December 2019	50	39	89
Represented by:			
Current	50	39	89

Reorganisation

The provision relates to the closure of the Offices in Turkey and France and is expected to be utilised in 2020.

Legal, contractual and environmental

The provision relates to the restoration of the Japan Office to its original state when the office lease expires in 2020.

14 Share capital and other reserves

Share capital

	£1 Ordinary shares '000's	Nominal value £000's
Authorised		
At 1 January 2018, 31 December 2018 and 31 December 2019	250	250
Issued and fully paid		
At 1 January 2018, 31 December 2018 and 31 December 2019	250	250

Equity dividends

	2019 £	2018 £
Final dividend per ordinary share paid in respect of the previous year	2	3
	2	3

	2019 £000's	2018 £000's
Final dividend for ordinary shares paid in respect of the previous year	500	750
	500	750

The directors propose a dividend of £nil for 2019 (2018: £2/Share, £500,000).

Other reserves – foreign translation reserve

	Total £000's
At 1 January 2019	(885)
Currency translation on foreign currency branches	(421)
At 31 December 2019	(1,306)

Foreign translation reserve

The foreign translation reserve comprises all foreign currency differences arising from the translation of the results of foreign operations.

Notes to the Financial Statements (continued)

15 Changes in accounting policies

IFRS 16 Leases became effective on 1 January 2019 and replaced IAS 17 Leases, and related interpretations. It results in almost all leases being recognised on the Balance Sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, a right-of-use asset and a financial liability for future lease payments have been recognised. The only exceptions are short-term leases, low-value leases and leases of intangible assets.

The Company has applied the modified retrospective transition approach and has not restated comparative amounts for the year ended 31 December 2018. The Company has elected to measure right-of-use assets at the amount of the lease liability on adoption (adjusted for any lease prepayments or accrued lease expenses, onerous lease provisions, and leased assets which have subsequently been subleased).

The Company has elected to adopt the following practical expedients on transition:

- not to capitalise a right-of-use lease asset or related lease liability where the lease expires before 31 December 2019;
- not to reassess contracts to determine if the contract contains a lease and not to separate lease and non-lease elements;
- where an onerous lease provision is in existence, to utilise this provision to reduce the right-of-use asset value rather than undertaking an impairment review;
- to use hindsight in determining the lease term;
- to exclude initial direct costs from the measurement of the right-of-use asset; and
- to apply the portfolio approach where a group of leases has similar characteristics.

Accounting policy

The accounting policy in respect of leases applied from 1 January 2019 is set out in note 1. Comparative amounts for the year ended 31 December 2018 have not been restated and are presented in accordance with IAS 17 Leases, whereby lease payments made under operating leases are recognised in the Income Statement on a straight-line basis over the lease term.

Reconciliation between operating lease commitments and lease liability

The following table explains the difference between the operating lease commitments disclosed applying IAS 17 at 31 December 2018 and the lease liability recognised on adoption of IFRS 16 at 1 January 2019.

	£000's
Total minimum lease payments reported at 31 December 2018 under IAS17	1,392
Change in assessment of lease term under IFRS 16	(27)
Leases assessed as outside the scope of IFRS 16	(554)
Lease liability recognised on transition to IFRS 16 at 1 January 2019	811

The weighted average incremental borrowing rate applied to lease liabilities was 0.11% – 3.55%.

16 Post Balance sheet events

The outbreak of the COVID-19 coronavirus was confirmed to be a global pandemic by the World Health Organisation on 11 March 2020 and only after that date did major governments, such as the UK, start taking significant mitigating steps. As such the Company considers this to be a non-adjusting post balance sheet event. The full impact of the COVID-19 pandemic on medium- and long-term economic activity is not yet known, although is likely to be significant. The Company continues to monitor the impact on its business, however while the uncertainty continues, the Company is not able to quantify the possible financial effect of the pandemic. Some asset and liability carrying values may be impacted, particularly where they are reliant on management's use of estimates and judgements when applying accounting policies. Potential areas of the Company's financial statements which could be materially impacted may include, but are not limited to:

- The carrying value of property, plant and equipment, right-of-use assets, investment property and investments in other group companies;
- Potential credit losses on receivables; the valuation of other financial assets and liabilities; and
- Amendments to existing provisions, or new provisions, being required as a consequence of the pandemic.

17 Controlling parties

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

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

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Website: www.baesystems.com