

BAE Systems (Land and Sea Systems) Limited

Annual report and financial statements

for the year ended 31 December 2015

Registered Number: 02536912

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Directors' report

Company registration

BAE Systems (Land and Sea Systems) Limited is a private company, limited by shares and registered in England and Wales with the registered number 02536912.

The Company acts as a holding company within the BAE Systems Group. There was no trading activity during the year.

Results and dividends

The Company's loss for the financial year is £4,747,102 (2014: profit £1,573,000).

The directors do not propose a dividend for 2015 (2014: £nil).

Principal risks and uncertainties.

The management of the business and the execution of the Company's strategy are subject to a number of risks. The Company is part of the BAE Systems Group and the principal risks and uncertainties affecting the Group are discussed in more detail in the annual report of the Group. Additional specific principal risks and uncertainties facing the Company concern the possible impairment of the value of its investment in BAE Systems Group subsidiary companies.

Key performance indicators (KPIs)

The Company is part of the BAE Systems 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.

Going concern

As highlighted within note 1 to the accounts the Company has net liabilities of £14,017,000 (2014: £9,270,000). The ultimate parent company, BAE Systems plc, has confirmed that it will provide sufficient working capital to allow the Company to meet any liabilities for a period of 12 months from the date of approval of these financial statements. Thus the directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors and their interests

The directors who held office during the period and at the date of this report were:

D S Parkes

A-L Holding

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.

Auditor

The auditor, KPMG 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.

On behalf of the Board



D S Parkes

Director

28th July 2016

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

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including 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; and
- make judgements and estimates that are reasonable and prudent.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of BAE Systems (Land and Sea Systems) Limited

We have audited the financial statements of BAE Systems (Land and Sea Systems) Limited for the year ended 31 December 2015 set out on pages 8 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Directors' report:

- we have not identified material misstatements in that report; and
- in our opinion, that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.



Mike Barradell (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP

15 Canada Square

London E14 5GL

28th July 2016

Income statement

for the year ended 31 December 2015

	Notes	2015 £'000s	2014 £'000s
Income from subsidiary undertakings	3	-	1,578
Loss on disposal of fixed asset investments		-	(5)
Operating costs	2	(4,747)	-
(Loss)/profit before finance costs and taxation		(4,747)	1,573
Taxation expense	5	-	-
(Loss)/profit for the year		(4,747)	1,573
Other comprehensive income			
Other comprehensive income, net of tax		-	-
Comprehensive (loss)/ income		(4,747)	1,573

All amounts derive from continuing activities.

The notes on pages 11 to 19 form part of the financial statements.

Balance sheet

as at 31 December 2015

	Notes	2015 £'000s	2014 £'000s
Non-current assets			
Other investments	6	8,393	13,140
Current assets			
Trade and other receivables	7	16,778	16,778
Total assets		25,171	29,918
Current liabilities			
Trade and other payables	8	(39,188)	(39,188)
Net Liabilities		(14,017)	(9,270)
Capital and reserves			
Issued share capital		12,001	12,001
Other reserves	9	12,098	12,098
Retained earnings		(38,116)	(33,369)
Total Equity		(14,017)	(9,270)

Approved by the Board on 28th July 2016 and signed on its behalf by:



D S Parkes

Director

Registered Number: 02536912

Statement of changes in equity
for the year ended 31 December 2015

	Note	Issued Share Capital £'000s	Other reserves £'000s	Retained Earnings £'000s	Total Equity £'000s
At 1 January 2014 (as previously stated)		12,001	12,098	(34,942)	(10,843)
Effect of transition to FRS 101		-	-	-	-
At 1 January 2014 (restated)		12,001	12,098	(34,942)	(10,843)
Profit for the year		-	-	1,573	1,573
At 31 December 2014 (restated)		12,001	12,098	(33,369)	(9,270)
Loss for the year		-	-	(4,747)	(4,747)
At 31 December 2015		12,001	12,098	(38,116)	(14,017)

Notes to the accounts

1 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework. Amendments to FRS 101 (2013/14 Cycle), issued in July 2014, and effective for periods beginning on or after 1 January 2015, has been applied. Amendments to FRS 101 (2014/15 cycle and other minor amendments), issued in July 2015, and effective for periods beginning on or after 1 January 2016, has been early adopted and applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the EU (EU-adopted 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 IFRS 7, Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13, Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements, to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16 Property, Plant and Equipment; paragraph 118(e) of IAS 38 Intangible Assets; and paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1, Presentation of Financial Statements;
- the requirements of IAS 7, Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24, Related Party Disclosures; and
- the requirements in IAS 24, Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

In its transition to FRS 101, the Company has applied IFRS 1, whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the Company's reported financial performance and position is provided in note 11.

Notes to the accounts (continued)

1 Accounting policies (continued)

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

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

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

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £14,017,000 (2014: £9,270,000), which the directors believe to be appropriate as the Company is dependent for its working capital on funds provided to it by BAE Systems plc, the ultimate parent company. BAE Systems plc has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and will not seek repayment of the amounts currently made available. The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other Group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Lease costs

Payments, including any incentives, made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Lease incentives granted are charged to the income statement over the term of the lease.

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.

Notes to the accounts (continued)

1 Accounting policies (continued)

Impairment

The carrying amounts of the Company's intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment as required by IAS 36, Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, impairment testing is performed annually.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the income statement.

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

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

Other investments

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

Trade and other receivables

Trade and other receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Receivables with a short-term duration are not discounted.

Notes to the accounts (continued)

1 Accounting policies (continued)

A loss on provision for bad debt is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Trade and other payables

Trade and other payables are stated at their cost.

Tax

Income 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 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 or substantively 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.

Notes to the accounts (continued)

1 Accounting policies (continued)

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.

2 Operating costs

	2015 £'000s	2014 £'000s
Impairment	(4,747)	-
Operating costs	(4,747)	-

The auditor's remuneration of £3,038 (2014: £3,000) has been borne by BAE Systems plc, the ultimate parent company.

3 Income from subsidiary undertakings and participating interests

	2015 £'000s	2014 £'000s
Dividend received from BAE Systems Electronics Limited	-	1,578

4 Employees

None of the directors received any emoluments from the Company during the year (2014: £nil). All directors who served during the year were employed by BAE Systems plc and were remunerated through that company. There were no employees during the year (2014: nil).

Notes to the accounts (continued)

5 Taxation

The Company has not provided for corporation tax for the year as any profits will be covered by the surrender of losses from other Group companies, in respect of which no payment will be made.

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

	2015 £'000s	2014 £'000s
(Loss)/profit before tax	(4,747)	1,573
UK Corporation tax rate	20.25%	21.50%
Expected income tax credit/(expense) on (loss)/profit	961	(338)
Expenses not tax effected	(961)	(1)
Income not subject to tax	-	339
Imputed interest expense	95	82
Losses (surrendered) to group companies	(95)	(82)
Taxation (expense)	-	-

Provision for deferred tax is not required.

6 Other investments

	£'000s
Cost	
At 1 January 2015 and 31 December 2015	46,944
Impairment	
At 1 January 2015	(33,804)
Provision for impairment	(4,747)
At 31 December 2015	(38,551)
Net book value	
At 31 December 2015	8,393
At 31 December 2014	13,140

Notes to the accounts (continued)

6 Other investments (continued)

Impairment testing

During the year, management conducted an impairment review of the investments held by the Company. As a result of this review, an impairment charge was created of £4,747,102 in respect of BAE Systems Electronics Limited, where the current recoverable amount exceeded its carrying value and consequently has been written down.

The recoverable amounts of the investments held by the Company have been calculated with reference to their value-in-use calculations. The value-in-use calculations use risk-adjusted future cash flow projections based on the Company's five-year Integrated Business Plan (IBP) and include a terminal value based on the projections for the final year of that plan, with growth rate assumptions applied. The IBP process includes the use of historic experience, available government spending data and the Group's order backlog. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 7.47% (2014 7.12%) (adjusted for risks specific to the market in which the Cash-Generating Unit (CGU) operates), have been used in discounting these projected risk-adjusted cash flows.

Subsidiary undertakings and participating interests at 31 December 2015

In accordance with section 409 of the Companies Act 2006, a full list of subsidiaries as at 31 December 2015 is disclosed below. The year end is 31 December and the address of the registered office is Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire, GU14 6YU, United Kingdom

Company name	Class of shares	Proportion of class	Equity interest held	Nature of business
BAE Systems Electronics Limited	Ordinary Shares £0.50	1%	1%	Electronics Manufacturer

7 Trade and other receivables

	2015 £'000s	2014 £'000s
Amounts owed by group subsidiaries	16,778	16,778
	16,778	16,778

Notes to the accounts (continued)

8 Trade and other payables

	2015 £'000s	2014 £'000s
Amount owed to ultimate parent company	15,000	15,000
Amounts owed to Group undertakings	24,188	24,188
	39,188	39,188

9 Share capital and other reserves

	2015 £'000s	2014 £'000s
Issued and fully paid		
6,000,072 'A' Ordinary shares of £1 each	6,000	6,000
6,000,072 'B' Ordinary shares of £1 each	6,000	6,000
1,000 1% non-cumulative participating Preference	1	1
	12,001	12,001

The directors do not propose a dividend for 2015.

Other reserves

	Share Capital £'000s	Special Capital Reserve £'000s	Total £'000s
At 1 January and 31 December 2015	3,125	8,973	12,098

Notes to the accounts (continued)

10 Operating lease commitments

The Company's total of future minimum lease payments under non-cancellable operating leases for assets were as follows:

	2015	2014
	£'000s	£'000s
Leases Expiring:		
Later than one year and not later than five years	3,636	6,060

BAE Systems Properties Limited has undertaken to settle these obligations as they fall due in exchange for the Company's rights under this lease agreement.

11 Explanation of transition to FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information for the year ended 31 December 2014 and the opening FRS 101 balance sheet at 1 January 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheets, the Company has reviewed the requirement to adjust amounts reported in financial statements prepared in accordance with its previous basis of accounting. The transition to FRS 101 has had no effect on the Company's financial performance and position as previously reported.

12 Ultimate parent undertaking

The immediate parent company is BAE Systems (Holdings) Limited and the ultimate parent company is BAE Systems plc, a company incorporated in Great Britain and registered in England and Wales.

The consolidated accounts of BAE Systems plc are available to the public and may be obtained from the Registered Office at the following address:

BAE Systems plc,
6 Carlton Gardens
Stirling Square
London
SW1Y 5AD

Website: www.baesystems.com