

(Registered Number: 02536912)

BAE Systems (Land and Sea Systems) Limited

Directors' report and financial statements

for the year ended 31 December 2014

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DIRECTORS' REPORT

Page 1

The directors present their report and the audited financial statements for the year ended 31 December 2014.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

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 profit for the year is £1,573,000 (2013: £3,837,000). The directors do not recommend the payment of a dividend (2013: £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 plc 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 plc 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 £9,270,000 (2013: £10,843,000). The 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

AUDITOR

KPMG LLP have indicated their willingness to be re-appointed as auditors of the Company and a resolution proposing their re-appointment will be put to the member(s).

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 he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board



A-L Holding
Company Secretary

9th June 2015

Registered number: 02536912

Registered office :
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU

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).

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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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 2014 set out on pages 4 to 9. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 auditors' 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 2, 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 (APB'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 2014 and of its profit 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.

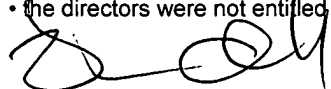
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 in not preparing 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

9th June 2015

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2014

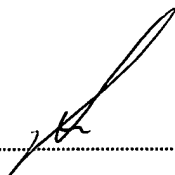
		<u>2014</u> £'000	<u>2013</u> £'000
	Notes		
Income from shares in group undertakings	9	1,578	3,837
Loss on disposal of fixed asset investments	5	(5)	-
Profit on ordinary activities before interest and taxation		<u>1,573</u>	<u>3,837</u>
Taxation	3	-	-
Profit for the financial year		<u>1,573</u>	<u>3,837</u>

There have been no recognised gains or losses attributable to the shareholders other than the results for the current and preceding period and accordingly, no statement of total recognised gains and losses is shown. All amounts derive from continuing activities.

BALANCE SHEET AS AT 31 DECEMBER 2014

	Notes	<u>2014</u> £'000	<u>2013</u> £'000
FIXED ASSETS			
Investments	5	13,140	13,145
CURRENT ASSETS			
Debtors	6	<u>16,778</u>	<u>15,200</u>
		16,778	15,200
CREDITORS (amounts falling due within one year)	7	<u>(39,188)</u>	<u>(39,188)</u>
NET CURRENT LIABILITIES		<u>(22,410)</u>	<u>(23,988)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(9,270)</u>	<u>(10,843)</u>
NET LIABILITIES		<u>(9,270)</u>	<u>(10,843)</u>
CAPITAL AND RESERVES			
Called up share capital	8	12,001	12,001
Other reserves	10	12,098	12,098
Profit and loss account	10	<u>(33,369)</u>	<u>(34,942)</u>
EQUITY SHAREHOLDER'S FUNDS	11	<u>(9,270)</u>	<u>(10,843)</u>

The financial statements were approved by the Board on 9th June 2015 and were signed on its behalf by:



D S Parkes
Director

Registered number: 02536912

The notes on pages 6 to 9 form part of these financial statements.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2014**1 ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

i BASIS OF PREPARATION

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £9,270,000 (2013: £10,843,000), 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.

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.

As the Company is a wholly owed subsidiary of BAE Systems plc, it is exempt from presenting FRS 29 disclosures as full equivalent disclosures are presented on a Group basis within the consolidated financial statements.

ii CHANGES IN ACCOUNTING POLICY

A new financial reporting framework in the UK was effective on 1 January 2015. As a result BAE Systems (Land and Sea Systems) Limited has adopted FRS 101 Reduced Disclosures Framework for the year ending 31 December 2015. Whilst management is in the process of reviewing the impact that this new framework will have on the company, it is not expected to have a material impact.

iii TAXATION

The charge for taxation is based on the profit for the year and takes account of taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised on an undiscounted basis in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date where there is an obligation to pay more tax, or a right to pay less tax, in the future.

iv INVESTMENTS IN GROUP AND ASSOCIATED UNDERTAKINGS

Investments in Group and associated undertakings are included at cost, less provision for permanent diminution in value. Impairment reviews of investments are undertaken if there are indicators that the carrying values may not be recoverable.

v RELATED PARTY TRANSACTIONS

As the Company is a wholly owned subsidiary of BAE Systems plc, it is exempt from presenting disclosures under FRS 8 - Financial Instruments: Disclosures (FRS 8) as the full equivalent disclosures are presented on a group basis within the consolidated financial statements.

vi CASH FLOW STATEMENT

Under FRS 1 - Cashflow Statements (FRS 1) (revised) the Company is exempt from the requirement to prepare a cashflow statement on the grounds that the ultimate parent undertaking (BAE Systems plc) includes the Company in its own published consolidated financial statements.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2014 (continued)**2 EMPLOYEES AND DIRECTORS**

None of the directors received any emoluments from the Company during the year (2013: £nil) and there were no employees during the year (2013: nil).

3 TAXATION ON ORDINARY ACTIVITIES

The current tax (charge) for the year is lower (2013: lower) than the standard rate of corporation tax in the UK as explained below:

	2014 £'000	2013 £'000
Profit on ordinary activities before tax	<u>1,573</u>	<u>3,837</u>
Tax (charge) on profit at UK rate of 21.5 % (2013: 23.25%)	(338)	(892)
Expenses not tax effected	(1)	
Income not subject to tax	339	892
Imputed interest expense	82	115
Losses (surrendered) to group companies	(82)	(115)
Current tax for the period	<u>-</u>	<u>-</u>

Provision for deferred tax is not required.

4 OPERATING PROFIT

The auditor's remuneration of £3,000 (2013: £3,000) has been borne by BAE Systems plc, the ultimate parent company.

5 FIXED ASSET INVESTMENTS

	£'000
Cost of investment	
At 01 January 2014	46,949
Disposals	(5)
At 31 December 2014	<u>46,944</u>
Provision for impairment at 31 December 2013 and 31 December 2014	<u>(33,804)</u>
Net book value at 31 December 2014	<u>13,140</u>
Net book value at 31 December 2013	<u>13,145</u>

The recoverable amount of the investments held by the company have been calculated with reference to their value in use. The value-in-use calculations use risk-adjusted future cash flow projections based on the Group'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 book. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 7.12% (2013 7.96%) (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. The final year growth rate assumption in the value-in-use calculations is 0%.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2014 (continued)**5 FIXED ASSET INVESTMENTS (continued)**

Associated undertakings as at 31 December 2014 are listed below:

	Nature of business	Country of registration	Class of capital	% held
BAE Systems Electronics Limited	Electronics Manufacturer	England	Ordinary	1%

In the opinion of the directors the value of the investment in subsidiary undertakings (including debtor balances) is not less than that shown in the Company balance sheet.

6 DEBTORS (amounts falling due within one year)

	<u>2014</u> £'000	<u>2013</u> £'000
Amounts owed by Group undertakings	<u>16,778</u>	<u>15,200</u>
	<u>16,778</u>	<u>15,200</u>

7 CREDITORS (amounts falling due within one year)

	<u>2014</u> £'000	<u>2013</u> £'000
Amount owed to ultimate parent company	15,000	15,000
Amounts owed to Group undertakings	<u>24,188</u>	<u>24,188</u>
	<u>39,188</u>	<u>39,188</u>

8 SHARE CAPITAL

	<u>2014</u> £'000	<u>2013</u> £'000
Authorised		
6,000,072 'A' Ordinary shares of £1 each	<u>6,000</u>	<u>6,000</u>
6,000,072 'B' Ordinary shares of £1 each	<u>6,000</u>	<u>6,000</u>
1,000 1% non-cumulative participating Preference	<u>1</u>	<u>1</u>
Allotted 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
Total shares issued	<u>12,001</u>	<u>12,001</u>

NOTES TO THE ACCOUNTS - 31 DECEMBER 2014 (continued)**9 INCOME FROM SHARES IN GROUP UNDERTAKINGS**

	<u>2014</u>	<u>2013</u>
	£'000	£'000
Dividend received from BAE Systems Electronics Limited	<u>1,578</u>	<u>3,837</u>
	<u>1,578</u>	<u>3,837</u>

10 RESERVES

	Other reserves £'000	Profit & loss account £'000
At 1st January 2014	12,098	(34,942)
Retained profit for the financial year	-	1,573
At 31 December 2014	<u><u>12,098</u></u>	<u><u>(33,369)</u></u>

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	<u>2014</u>	<u>2013</u>
	£'000	£'000
Retained profit for the financial year	1,573	3,837
Opening shareholder's funds	<u>(10,843)</u>	<u>(14,680)</u>
Closing shareholders' funds	<u><u>(9,270)</u></u>	<u><u>(10,843)</u></u>

12 OPERATING LEASING COMMITMENTS

The Company's annual commitments under non-cancellable operating leases for assets were as follows:

	<u>2014</u>	<u>2013</u>
	£'000	£'000
Leases Expiring:		
Less than 5 years	2,424	2,424

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.

13 ULTIMATE PARENT COMPANY

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