

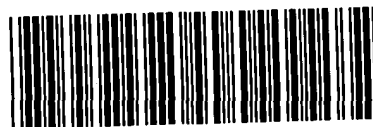
# **BAE Systems (Land and Sea Systems) Limited**

## **Annual Report and Financial Statements**

**31 December 2017**

Registered Number: 02536912

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## **Directors' Report**

### **Company registration**

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

### **Review of business**

The Company acts as a holding company and is itself wholly owned by BAE Systems plc.

### **Results and dividends**

The Company's loss for the financial year is £1,170,000 (2016: profit £1,293,000). The directors do not propose a dividend for 2017 (2016: £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. Specific principal risks and uncertainties facing the Company concern the possible impairment of the value of its investment in BAE Systems Group subsidiary companies. 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.

### **Key performance indicators**

The management of the business and the execution of the Company's strategy are subject to a number of risks. Specific principal risks and uncertainties facing the Company concern the possible impairment of the value of its investments in BAE Systems Group subsidiary companies.

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.

### **Going concern**

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £13,894,000, which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. 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 in particular 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.

### **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.

### **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.

## **Directors' Report (continued)**

### **Auditor**

Following an audit retender which concluded in 2017, Deloitte LLP was selected as the auditor for the BAE Systems Group. Accordingly it is intended that Deloitte LLP will be appointed to replace KPMG LLP as auditor for the year ending 31 December 2018.

### **On behalf of the Board**



D S Parkes

Director

22 June 2018

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;
- make judgements and estimates that are reasonable and prudent;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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**

### **Opinion**

We have audited the financial statements of BAE Systems (Land and Sea Systems) Limited (the "Company") for the year ended 31 December 2017 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### **Directors' Report**

The directors are responsible for the Directors' Report. Our opinion on the financial statements does not cover that Report and we do not express an audit opinion thereon.

Our responsibility is to read the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Directors' Report;
- in our opinion the information given in that Report for the financial year is consistent with the financial statements; 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**

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

## **Independent Auditor's Report to the Members of BAE Systems (Land and Sea Systems) Limited (continued)**

### **Directors' responsibilities**

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)

### **The purpose of our audit work and to whom we owe our responsibilities**

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.



**Andrew Bradshaw (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

KPMG LLP

15 Canada Square

London E14 5GL

22 June 2018

**Income Statement and Statement of Comprehensive Income**  
for the year ended 31 December 2017

	Notes	2017 £'000s	2016 £'000s
Operating costs	2	(4,457)	1,178
<b>Operating (loss)/profit</b>		<b>(4,457)</b>	<b>1,178</b>
Income from subsidiary undertakings	3	3,287	115
<b>(Loss)/profit before tax</b>		<b>(1,170)</b>	<b>1,293</b>
Tax	5	-	-
<b>(Loss)/profit for the year</b>		<b>(1,170)</b>	<b>1,293</b>
<hr/>			
<b>Total comprehensive (loss)/income for the year</b>		<b>(1,170)</b>	<b>1,293</b>

The notes on pages 11 to 15 form part of the financial statements.

The results for 2017 and 2016 arise from continuing activities.



**Balance Sheet**  
as at 31 December 2017

	Notes	2017 £'000s	2016 £'000s
<b>Non-current assets</b>			
Investments	6	5,229	9,686
<b>Current assets</b>			
Trade and other receivables	7	20,065	16,778
<b>Total assets</b>		<b>25,294</b>	<b>26,464</b>
<b>Current liabilities</b>			
Trade and other payables	8	(39,188)	(39,188)
<b>Net liabilities</b>		<b>(13,894)</b>	<b>(12,724)</b>
<b>Capital and reserves</b>			
Issued share capital	9	12,001	12,001
Other reserves	9	12,098	12,098
Retained earnings		(37,993)	(36,823)
<b>Total equity</b>		<b>(13,894)</b>	<b>(12,724)</b>

The financial statements were approved by the Board on 22 June 2018 and were signed on its behalf by:



D S Parkes

Director

Registered Number: 02536912

**Statement of Changes in Equity**  
for the year ended 31 December 2017

	<b>Issued share capital</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
At 1 January 2016	12,001	12,098	(38,116)	(14,017)
Profit for the year	-	-	1,293	1,293
At 31 December 2016	12,001	12,098	(36,823)	(12,724)
Loss for the year	-	-	(1,170)	(1,170)
<b>At 31 December 2017</b>	<b>12,001</b>	<b>12,098</b>	<b>(37,993)</b>	<b>(13,894)</b>

The non-distributable portion of retained earnings is £nil (2016: £214,000).

## Notes to the Financial Statements

### 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 (2015/16 cycle and other minor amendments) and Amendments to FRS 101 (2016/17 cycle), both effective for periods beginning on or after 1 January 2017, have been 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 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;
- 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.

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

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 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 current liabilities of £13,894,000 (2016: £12,724,000), 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 made under operating leases, including any incentives granted, are recognised in the income statement on a straight-line basis over the lease term.

#### 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 Financial Statements (continued)

### 1 Accounting policies (continued)

#### Investments

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

The carrying amounts of the Company's investments 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.

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 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.

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

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

### 2 Operating costs

	2017 £'000s	2016 £'000s
Impairment	(4,457)	-
Impairment reversal	-	1,294
Loss on disposal of investment	-	(1)
Other operating charges	-	(115)
<b>Operating costs</b>	<b>(4,457)</b>	<b>1,178</b>

The auditor's remuneration of £3,160 (2016: £3,077) and £nil (2016: £nil) in respect of non-audit work has been borne by BAE Systems plc, the ultimate parent company.

## Notes to the Financial Statements (continued)

### 3 Income from subsidiary undertakings and participating interests

	2017 £'000s	2016 £'000s
Dividend received from BAE Systems Electronics Limited	3,287	-
Dividend received from Yard Limited	-	115
<b>Income from subsidiary undertakings</b>	<b>3,287</b>	<b>115</b>

### 4 Directors and employees

During the year, the Company had two directors in office (2016: two) and no employees (2016: nil).

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 Tax

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

The following reconciles the expected tax result, using UK corporate tax rate, to the reported tax result.

	2017 £'000s	2016 £'000s
(Loss)/profit before tax	(1,170)	1,293
UK corporation tax rate	19.25%	20.00%
Expected tax income/(expense) on (loss)/profit	225	(259)
Expenses not tax effected	(858)	(23)
Income not subject to tax	633	282
Imputed interest expense	68	76
Losses (surrendered) to fellow group companies	(68)	(76)
<b>Tax result</b>	<b>-</b>	<b>-</b>

The UK corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017.

## Notes to the Financial Statements (continued)

### 6 Investments

	£'000s
<b>Cost</b>	
At 1 January 2017 & 31 December 2017	47,157
<b>Impairment</b>	
At 1 January 2017	(37,471)
Impairment	(4,457)
At 31 December 2017	(41,928)
<b>Net book value</b>	
At 31 December 2017	5,229
At 31 December 2016	9,686

The Company holds a 1% investment in the ordinary share capital BAE Systems Electronics Limited.

#### 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 of £4,457,260 was made against BAE Systems Electronics Limited. This impairment was primarily due to a reduction in the value of BAE Systems Integrated System Technologies Limited ("Insyte"), a company wholly owned by BAE Systems Electronics Limited. Insyte declared a £245m dividend which resulted in a lower net assets valuation.

In 2016 an impairment review was been carried out which resulted in the reversal of the impairment in the Company's investment in BAE Systems Electronics Limited of £1,294,289. The reversal was as a result of the increase in the value of BAE Systems Electronics Limited, a company 89% owned by Meslink Limited, due to discounting improved cash flow projections in MBDA SAS, a company 25% indirectly owned by BAE Systems Electronics Limited, at a lower weighted average cost of capital.

The recoverable amount of the investments held by the Company has been calculated with reference to their value in use. The value in use calculations use risk-adjusted future cash flow projections based on the 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 in the range 0% to 2% 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 6.60% (2016: 7.01%) (adjusted for risks specific to the market in which the cash-generating unit operates), have been used in discounting these projected risk-adjusted cash flows.

### 7 Trade and other receivables

	2017 £'000s	2016 £'000s
<b>Current</b>		
Amounts owed by group subsidiaries	20,065	16,778

### 8 Trade and other payables

	2017 £'000s	2016 £'000s
<b>Current</b>		
Amount owed to ultimate parent company	38,294	38,294
Amounts owed to group subsidiaries	894	894
	39,188	39,188

## Notes to the Financial Statements (continued)

### 9 Share capital and other reserves

#### Share Capital

	2017 £'000s	2016 £'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 Preference shares	1	1
	<b>12,001</b>	<b>12,001</b>

The directors do not propose a dividend for 2017 (2016: £nil).

#### Other reserves

	Share premium £'000s	Special capital reserve £'000s	Total £'000s
<b>At 1 January and 31 December 2017</b>	<b>3,125</b>	<b>8,973</b>	<b>12,098</b>

The special capital reserve relates to unrealised gains on the sale of shares.

### 10 Operating lease commitments

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

	2017 £'000s	2016 £'000s
Leases expiring:		
Within one year	-	264

This lease agreement came to an end in 2017. BAE Systems Properties Limited had, until the end of the lease, undertaken to settle these obligations as they were due in exchange for the Company's rights under the lease agreement.

### 11 Controlling parties

The immediate parent company is BAE Systems (Holdings) Limited and the ultimate parent company is BAE Systems plc, which is the only parent company preparing group financial statements. Both companies are incorporated in Great Britain and registered in England and Wales.

The consolidated Annual Report of BAE Systems plc is available to the public and may be obtained from:

6 Carlton Gardens  
London  
SW1Y 5AD

Website: [www.baesystems.com](http://www.baesystems.com)