

BAE Systems Land Systems (Finance) Limited

Annual Report and Financial Statements

31 December 2021

Registered number: 02639638



BAE Systems Land Systems (Finance) Limited
Annual Report and Financial Statements
31 December 2021

Contents

	Page
Strategic Report	1 - 4
Directors' Report	5 - 6
Directors' Responsibilities Statement	7
Independent Auditor's Report to the Members of BAE Systems Land Systems (Finance) Limited	8 - 11
Income Statement and Statement of Comprehensive Income	12
Balance Sheet	13
Statement of Changes in Equity	14
Notes to the Financial Statements	15 - 25

Strategic Report
for the year ended 31 December 2021

Review of business and principal activities

BAE Systems Land Systems (Finance) Limited (the "Company") is an investment holding company and a member of the BAE Systems plc Group ("BAE Systems Group or Group") of companies and is itself wholly owned by BAE Systems plc.

There has been fluctuation in the income statement which is driven by the foreign exchange movements on loans in the financial period.

Key performance indicators

The Company is part of the BAE Systems Group ("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 (available at: www.baesystems.com/investors). 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.

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 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.

The outbreak of contagious diseases may have a material adverse effect on the Company's Group's business, financial condition and results of operations

Many people have contracted COVID-19 across the world and many deaths have occurred as a result of the COVID-19 pandemic. Although there has been an effective roll-out of vaccination programmes in certain countries, it is still not clear how long this pandemic will last or how enduring its long-term impact will be, or the further measures that will be taken by governments and others to seek to control this pandemic and its impact. The uncertainties surrounding the development of this pandemic make it difficult to predict the extent to which the Company may be affected.

Areas of the Company's Group's business that could be impacted include a decrease in spending by the Company's Group's major defence customers; an increase in taxation by governments; the failure to obtain awards for defence contracts; the failure of suppliers to deliver parts to the Company's Group; the requirement for the Company's Group or its suppliers to reduce site operational levels or close sites; the inability of the Company's Group 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's Group were unable to obtain appropriate funding either internally or externally 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.

Since the outbreak of the COVID-19 coronavirus pandemic, the Company's Group 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 Group's employees are working from home.

By taking these measured actions to build in resilience for a prolonged period of disruption, the Company's Group has continued to deliver critical work for its customers and, where operations were impacted, ensured that site-critical workers have now been able to safely return to work where possible.

Strategic Report (continued)
for the year ended 31 December 2021

Support for the defence industry from the governments in the Company's Group's key markets has been strong around prioritisation of capabilities, cash flows, recognising the need to maintain a strong supply chain and working collaboratively to maintain critical defence and security programmes.

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:

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

Decision making

The BAE Systems Group Operational Framework sets out the principles of good governance to which BAE Systems 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 contribute towards this process for the respective businesses of the Company for which they are responsible and are also responsible for identifying and managing principal and emerging risks in such businesses. In so doing the directors 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

The Company itself has no employees but is the parent of a group of companies with more than 250 employees. Through the implementation by the Company's Group of the BAE Systems Group-wide employee processes and policies referred to below, the directors of the Company are satisfied that employee engagement is a primary focus for management of the Company's Group and that regard is had to the interests of employees – connecting employees to the strategy and purpose of the Company's Group and the BAE Systems Group and empowering them to contribute to improving performance and creating an environment in which everyone can fulfil their potential. The employees of the Company's Group are kept informed about what is happening across the BAE Systems Group (including the Company's Group) through the Group's intranet and through email, podcasts, newsletters, and leadership blogs and briefings.

Keeping employees connected, informed and engaged has never been more important as the Company's Group's employees continued to experience major impacts on their personal circumstances and ways of working through the pandemic. The Company's Group used a range of channels to make sure its employees had access to the information and support they needed throughout the year, as well as keeping employees informed about the performance, developments and prospects of the business and the BAE Systems Group. This included engagement through the Group intranet, employee app, email, videos, podcasts, newsletters, leadership communications, virtual discussions and briefings, and through Group line managers who played a key role in keeping their teams connected and engaged. This includes continuing to focus on two-way communications, ensuring there are channels through which employees can express their views, feedback and any concerns, helping the Company's Group understand employee sentiment on an ongoing basis and respond appropriately. These engagement activities form part of the Company's Group's implementation of the BAE Systems Group-

Strategic Report (continued)
for the year ended 31 December 2021

wide employee engagement processes and policies which are described on (pages 11, 18, 23, 56-58 and 153) of BAE Systems plc's Annual Report 2021 (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 Group's employees.

Fostering business relationships with suppliers, customers and others

The Company is a holding company and thus has no suppliers and customers itself. The directors recognise that fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the success of the Company's Group and are satisfied that the Company's Group has close relationships with its customers, suppliers and industry partners which help create best-in-class, cost-effective equipment, goods, services and solutions.

The Company's Group's largest customers are governments. Strong and collaborative relationships and regular contact by management with principal government customers help the Company's Group to identify its customers' requirements and help position it as a trusted provider.

The Company's Group works with its suppliers and their supply chains to provide equipment goods and services that meet its customers' requirements. These supplier relationships are often long-term due to the length of the product life-cycles. Management within the Company's Group work with their supply chain teams and with the BAE Systems Group's procurement function to develop strategic relationships with key suppliers. The value of long-term supplier partnerships was shown during 2021, with the Group's long-term global supply agreements, put in place prior to the pandemic, being of particular assistance in maintain supply of critical components. A pro-active approach was taken to manage supplier relationships with the Group working closely with suppliers to anticipate issues and take action where possible to ensure continuity of supply.

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 directors are satisfied that the Company's Group 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's Group and its employees, allowing them to make a positive difference and have an impact where it counts.

The directors recognise that the Company's Group's manufacturing operations have an impact on the environment – from the energy and resources we use, to the products we manufacture and the waste that we generate. As an organisation, the BAE Systems Group is committed to reducing the environmental impact of its operations and products, minimising its environmental footprint and, in turn, decreasing its operational costs. Through the Operational Framework the directors are satisfied that the Company's Group implements the requirements of the BAE Systems Group's Environmental Policy, which details our commitment to high standards of environmental management. In particular, the Company's Group is supporting the Group's target of achieving net zero greenhouse gas emissions across the Group's operations (scope 1 and 2) by 2030 and its target of working towards a net zero value chain by 2050.

All the above 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 "Social" sections (pages 38 - 47 and 58 - 63 respectively) of BAE Systems plc's Annual Report 2021 (available at: www.baesystems.com/investors).

Maintaining a reputation for high standards of business conduct

Strategic Report (continued)
for the year ended 31 December 2021

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 the Company 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 2021 (available at: www.baesystems.com/investors) and in particular the "Governance and business conduct" section on pages 64 - 66.

Approved by the Board and signed on its behalf by:



G J Edwards
Director

Date: 27 June 2022

Directors' Report

Company registration

BAE Systems Land Systems (Finance) Limited is a private company, limited by shares and registered in England and Wales with the registered number 02639638.

Results and dividends

The Company's loss for the financial year is £16,311,104 (2020: £23,503,668 profit). The directors do not propose a dividend for 2021 (2020: £23,503,668).

The dividend proposed per share is £nil (2020: £0.24).

Looking forward

There has been no significant change in the nature of activities during the period. The Company will continue to act as a holding company for the foreseeable future.

The Company continues to monitor the COVID-19 pandemic and its potential future impact to ensure appropriate actions can be taken to mitigate risks to the Company.

Events after the reporting period

Since the Balance Sheet date, several countries in which the Company's Group operates have announced or are making plans to increase spending to counter the elevated and evolving threat environment on multiple fronts. This has been determined to be a non-adjusting post balance sheet event. It is not currently possible for the Company to estimate the potential future financial impact of such changes.

Since the Balance Sheet date, there has been an increase globally in supply chain and inflationary pressures for businesses. This has been determined to be a non-adjusting post balance sheet event. The Company's Group is currently mitigating the major financial impacts of this issue and seeks to continue to do so.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £275,580k, 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 funds as are needed by the Company to meet its liabilities as they fall due and in particular will not seek repayment of amounts currently made available.

Directors and their interests

The directors who served throughout the year and up to the date of this Directors' Report, were as follows:

G J Edwards
N J Stewart

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)

Energy and carbon reporting exemption

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed on pages 38 - 47 in the 2021 consolidated accounts of its ultimate parent, BAE Systems plc (available at www.baesystems.com/investors).

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 provisions 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:



G J Edwards
Director

Date: 27 June 2022

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

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 Standard 101 ("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;
- 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 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 Land Systems (Finance) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems Land Systems (Finance) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its loss 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;
- the Statement of Accounting Policies; and
- the related notes 1 to 15.

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

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

Independent Auditor's Report to the Members of BAE Systems Land Systems (Finance) Limited
(continued)

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act 2006 and the Corporation Tax Act 2010; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

Independent Auditor's Report to the Members of BAE Systems Land Systems (Finance) Limited
(continued)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

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:

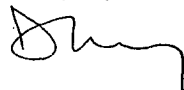
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law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

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

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.



Douglas King (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

The Hanover Building
Corporation Street
Manchester
United Kingdom
M4 4AH

27 June 2022

Income Statement and Statement of Comprehensive Income
for the year ended 31 December 2021

	Note	2021 £000	2020 £000
Operating costs	3	(77)	-
Gross (loss)/profit		<u>(77)</u>	<u>-</u>
Financial income	4	2,616	23,528
Financial expense	5	(18,850)	(25)
(Loss)/profit before tax		<u>(16,311)</u>	<u>23,503</u>
Tax	7	-	-
(Loss)/profit for the financial year		<u><u>(16,311)</u></u>	<u><u>23,503</u></u>
 Total comprehensive income for the year		 <u><u>(16,311)</u></u>	 <u><u>23,503</u></u>

The notes on pages 15 to 25 form part of these financial statements.

BAE Systems Land Systems (Finance) Limited
Annual Report and Financial Statements
31 December 2021

Balance Sheet
as at 31 December 2021

	Note	2021 £000	2020 £000
Non-current assets			
Investments	8	95,226	95,231
Other receivables	9	284,221	324,012
Total assets		<u>379,447</u>	<u>419,243</u>
Current liabilities			
Other payables	10	(275,580)	(286,895)
Total liabilities		<u>(275,580)</u>	<u>(286,895)</u>
Net assets		<u>103,867</u>	<u>132,348</u>
Capital and reserves			
Issued share capital	11	97,081	97,081
Non-distributable reserves *		11,334	11,339
Retained (deficit)/earnings		(4,548)	23,928
Total equity		<u>103,867</u>	<u>132,348</u>

Approved by the Board on 27 June 2022 and signed on its behalf by:



G J Edwards
Director

Registered number: 02639638

The notes on pages 15 to 25 form part of these financial statements.

*For further details on the re-presentation of non-distributable reserves in the prior year, please refer to Note 13.

Statement of Changes in Equity
for the year ended 31 December 2021

	Issued share capital £000	Non- distributable reserves * £000	Retained deficit £000	Total equity £000
At 1 January 2020 *re-presented	97,081	10,404	78,763	186,248
Profit for the year	-	-	23,503	23,503
Dividends	-	-	(78,338)	(78,338)
Capital contribution	-	935	-	935
At 31 December 2020 *re-presented	97,081	11,339	23,928	132,348
Loss for the year	-	-	(16,311)	(16,311)
Dividends	-	-	(12,165)	(12,165)
Capital contribution	-	(5)	-	(5)
At 31 December 2021	97,081	11,334	(4,548)	103,867

The notes on pages 15 to 25 form part of these financial statements.

The non-distributable portion of retained earnings is £11,334k (2020: £11,339k).

Capital contribution relates to the cost of share options issues by the Company's ultimate parent company, BAE Systems plc, to employees of the Company's operating subsidiary companies.

*For further details on the re-presentation of non-distributable reserves in the prior year, please refer to Note 13.

Notes to the Financial Statements

1. General information

BAE Systems Land Systems (Finance) Limited is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is disclosed in note 15. The address of the Company's registered office is shown on page 6.

The principal activity of the Company is set out in the Strategic Report on page 1. 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.

2. Accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with FRS 101. The Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS"), 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 paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- 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 Presentation of Financial Statements;
- 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 paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- 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)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (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 financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments).

These financial statements have been prepared using the going concern basis of accounting.

Critical accounting policies

There were no significant accounting policies that are considered by the directors to be critical because of the level of complexity, judgement or estimation involved in their application and their impact on the financial statements.

Judgements made in applying accounting policies

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The application of the Company's accounting policies requires the use of estimates. In the event these estimates prove to be incorrect, there may be an adjustment to the carrying amounts of assets and liabilities within the next financial year. The key risk of a material adjustment to the carrying amounts of assets and liabilities relates to the determination of the value in use of the Company's investments. The value in use calculation requires an assessment of future cash flows expected to be generated by the investment, as well as the appropriate discount rate to apply to these projections. Note 9 provides information on the key assumptions adopted by the Company in performing these calculations.

Changes in accounting policies

The following standards, interpretations and amendments to existing standards became effective on 1 January 2021 and have not had a material impact on the Company:

- Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform (Phase 2); and
- Amendments to IFRS 4 Insurance Contracts: deferral of IFRS9.

The following amendments to existing standards have been issued and became effective in the year as a response to the COVID-19 pandemic, but did not have a material impact on the Company:

- Amendment to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond June 2021, effective from 1 April 2021 and adopted by the UK Secretary of State for Business, Energy and Industrial Strategy on 21 May 2021.

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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Interest income and borrowing costs

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

2.3 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.

2.4 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.

2.5 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 or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the Income Statement.

An impairment loss in respect of 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 exceeds the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.6 Other receivables

Other receivables are stated at amortised cost.

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.

2.7 Other payables

Other payables are stated at their amortised cost.

Notes to the Financial Statements

2. Accounting policies (continued)

2.8 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 tax rates enacted at the reporting date, and any adjustment to tax payable in respect of the previous years.

2.9 Share-based payments

BAE Systems plc, the Company's ultimate parent company, issues equity-settled share options to employees of the Company's subsidiary undertakings.

Equity-settled share options and long-term incentive plan arrangements are measured at fair value at the date of grant using an option pricing model.

The fair value is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will actually vest.

The Company recognises an increase in its investments in subsidiary undertakings in respect of the cost of share-based payment awards issued by the Company's ultimate parent company, BAE Systems plc, to employees of the Company's operating subsidiary companies, with a corresponding entry to equity.

Notes to the Financial Statements

3. Operating costs

	2021	2020
	£000	£000
Professional fees	77	-

The remuneration of the auditor for the year ended 31 December 2021 for auditing of the financial statements was £7,500 (2020: £5,000) and £nil (2020: £nil) in respect of non-audit work and was borne by fellow group undertaking, BAE Systems Global Combat Systems Munitions Limited.

4. Financial income

	2021	2020
	£000	£000
Interest receivable from subsidiaries	2,616	2,623
Foreign exchange gains	-	20,905
	2,616	23,528

5. Financial expense

	2021	2020
	£000	£000
Interest expense	24	25
Foreign exchange losses	18,826	-
	18,850	25

Notes to the Financial Statements

6. Employees

The monthly average number of Company employees was nil (2020: nil).

The Company has no employees (2020: nil).

The disclosures below represent an allocation of the emoluments received by the directors to reflect their qualifying services to the Company.

	2021	2020
	£000	£000
Directors' remuneration	10	10
Company contributions to defined benefit pension schemes	1	1
	11	11

Retirement benefits are accruing to the following number of directors under:

	2021	2020
	Number of directors	Number of directors
Money purchase schemes	-	1
Defined benefit schemes	2	4

	2021	2020
	Number of directors	Number of directors
Number of directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	-	3

Notes to the Financial Statements

7. 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 income, using the UK corporation tax rate, to the reported tax result.

	2021	2020
	£000	£000
(Loss)/profit before tax	(16,311)	23,503
UK corporation tax rate	19.00%	19.00%
Expected tax income/(expense) on (loss)/profit	3,099	(4,466)
Expenses not tax effected	(15)	-
Imputed interest charge	638	288
Losses (surrendered to)/received from fellow group companies	(3,722)	4,178
Tax result	-	-

Notes to the Financial Statements

8. Investments

	Subsidiary companies £000
Cost	
At 1 January 2021	96,791
Share-based payments flowdown	(5)
At 31 December 2021	96,786
Impairment	
At 1 January 2021	1,560
At 31 December 2021	1,560
Net book value	
At 31 December 2021	95,226
At 31 December 2020	95,231

Impairment testing

During the year, management conducted an impairment review of the investments held by the Company. As a result of this review, there were no impairment charges or reversals recognised.

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 BAE Systems plc Group's order backlog. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 6.0% (2020 6.13%) (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.

Notes to the Financial Statements

8. Investments (continued)

Subsidiary undertakings and participating interests at 31 December 2021

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2021 is disclosed below. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned directly by the Company, unless otherwise stated, have a financial year end of 31 December and the address of their registered office is Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire, GU14 6YU, United Kingdom.

The majority investments are with BAE Systems Holdings AB Limited (£44m) and Rheinmetall BAE Systems Land Limited (£50m).

Company name	Class of shares held	Proportion of class (%)
Direct subsidiary undertakings and participating interests at 31 December 2020		
Alvis Vickers Limited	Ordinary shares	100%
BAE Systems AB <i>Box 5676, SE-114 86 Stockholm, Sweden</i>	Ordinary shares	100%
BAE Systems Land Systems (Logistics) Limited *	Ordinary shares	100%
BAE Systems Land Systems (Singapore Investments) Limited *	Ordinary shares	100%
Rheinmetall BAE Systems Land Limited (formerly BAE Systems Global Combat Systems Limited) <i>Hadley Castle Works, PO Box 106, Telford, TF1 6QW</i>	Ordinary shares	45%
Indirect subsidiary undertakings and participating interests at 31 December 2020		
BAE Systems Bofors AB <i>SE-691 80, Karlskoga, Sweden</i>	Ordinary shares	100%
BAE Systems Bofors Holdings Sdn Bhd <i>Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia</i>	Ordinary shares	100%
BAE Systems SWS Defence AB <i>SE-691 80, Karlskoga, Sweden</i>	Ordinary shares	100%
BAE Systems Hagglunds AB <i>SE-691 80, Karlskoga, Sweden</i>	Ordinary shares	100%
BAE Systems C-ITS AB <i>Box 5676, SE-114 86, Stockholm, Sweden</i>	Ordinary shares	100%
Pitch Technologies AB <i>Repslagaregatan 25, SE-582 22, Linköping, Sweden</i>	Ordinary shares	100%
Pitch Technologies Limited <i>Sweden House, 5 Upper Montagu Street, London, WH1 2AG</i>	Ordinary shares	100%
Hagglunds Vehicle GMBH <i>Ernst-Grote Strasse 13, 30916 Isernhagen, Germany</i>	Ordinary shares	100%
H-B Utveckling, H-B Development AB <i>Nybrogaten 7, SE-114 34 Stockholm, Sweden</i>	Ordinary shares	100%

* in Members Voluntary Liquidation with effect from 7 January 2020.

Notes to the Financial Statements

9. Other receivables

	2021 £000	2020 £000
Non-current		
Amounts owed by BAE plc subsidiaries	<u>284,221</u>	<u>324,012</u>

Amounts owed by BAE Systems plc and its subsidiaries are payable on demand and are not expected to be settled in the Company's usual operating cycle of 12 months or less. No interest is applied to amounts owed.

10. Other payables

	2021 £000	2020 £000
Current		
Amounts owed to BAE Systems plc and its subsidiaries	<u>275,580</u>	<u>286,895</u>

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

11. Share capital

	£1 Ordinary shares	Nominal value £000
Issued and fully paid		
At 1 January 2020, 31 December 2020 and 31 December 2021	<u>97,081,206</u>	<u>97,081</u>

12. Equity dividends

	2021 £000	2020 £000
Final dividend for ordinary shares paid in respect of previous year	<u>12,165</u>	<u>78,338</u>

The directors do not propose a dividend for 2021 (2020: £0.24 per share totalling £23,503,668)

Notes to the Financial Statements

13. Change in classification of reserves

Non-distributable reserves, which relate to share based payments in subsidiaries, have been split out from retained earnings in the Statement of Changes in Equity, this is a presentational change in the 2021 accounts and 2020 comparative to better reflect the split of distributable and non-distributable reserves.

14. Events after the reporting date

Since the Balance Sheet date, several countries in which the Company's Group operates have announced or are making plans to increase spending to counter the elevated and evolving threat environment on multiple fronts. This has been determined to be a non-adjusting post balance sheet event. It is not currently possible for the Company to estimate the potential future financial impact of such changes.

Since the Balance Sheet date, there has been an increase globally in supply chain and inflationary pressures for businesses. This has been determined to be a non-adjusting post balance sheet event. The Company's Group is currently mitigating the major financial impacts of this issue and seeks to continue to do so.

15. Controlling parties

The immediate parent company is Alvis 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:

6 Carlton Gardens
London
SW1Y 5AD
Website: www.baesystems.com