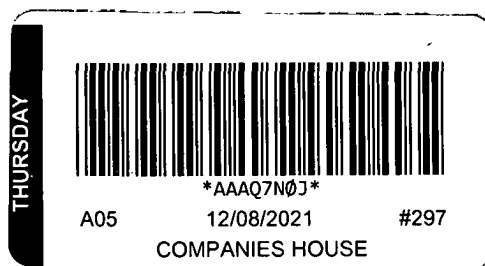


BAE Systems Land Systems (Finance) Limited

Annual Report and Financial Statements

31 December 2020

Registered number: 02639638



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Strategic Report
for the year ended 31 December 2020

Review of business and principal activities

BAE Systems Land Systems (Finance) Limited (the "Company") is an investment holding company and is itself wholly owned by BAE Systems plc. There has been no significant change in the nature of activities during the period. Whilst business income has returned to normal levels following the dividend received due to the formation of the Rheinmetall joint venture, there has been significant foreign exchange gain in year due to the fluctuation in exchange rates.

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. 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

Contagious diseases can have an adverse effect on the Company's Group's business, financial condition and results of operations. While the Company's Group is liaising closely with its customers and suppliers to understand any changes in requirements and priorities during this time, the uncertainties surrounding the development of this pandemic make it difficult to predict the extent to which the Company's Group 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 and commercial customers; an increase in taxation by governments; the failure to obtain awards for defence and commercial 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.

Support for the defence industry from the governments in the Company's Group's key markets has been strong

Strategic Report (continued)

for the year ended 31 December 2020

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 or she 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 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. In making such decisions 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 (Company's Group). 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.

In 2020, in light of the COVID- 19 pandemic, the principal focus for the directors of the Company's Group was the health and wellbeing of its employees. They introduced a number of measures to return employees safely back to work where their role could not be carried on from home. To assist home-working, they developed guides to support employees in maintaining their safety, security, wellbeing and productivity whilst working effectively from home. The directors of the Company's Group were pleased to see the rapid deployment of various means of communication across the Company's Group:

These engagement and other activities regarding the interests of employees form part of the implementation by the Company's Group of the BAE Systems Group-wide employee engagement processes and policies which are described on pages 30-31, 43-47, 100-101 and 116-117 of BAE Systems plc's annual report 2020 (available at: www.baesystems.com/investors).

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.

Strategic Report (continued)

for the year ended 31 December 2020

In particular, in light of the COVID-19 pandemic, a priority of the directors of the Company's Group was to support the Company's Group's customers and suppliers. Through providing safe on-site working environments and scaled up homeworking capabilities, they continued to deliver critical work for their customers.

The directors of the Company's Group co-ordinated closely with their supply chains to mitigate disruptions where possible and maintain resilience. Maintaining cash flow through the supply chain was critical to the well-being of many companies within their supply chain that had to cope with hugely challenging conditions.

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, together with its procurement and supply chain function, 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 and management meet with key suppliers and work with the BAE Systems Group's procurement function to develop deeper relationships with business in the supply chain and develop strategic relationships with key suppliers.

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 the building and nurturing of mutually beneficial relationships between the Company's Group's business, its 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 the 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 used, to the products manufactured and the waste generated. As an organisation, the BAE Systems Group is committed to reducing the environmental impact of our operations and products, minimising our environmental footprint and, in turn, decreasing our operational costs. Through the Operational Framework the directors are satisfied that the Company's Group implements the requirements of the BAE Systems Group's Environmental Policy, which details BAE Systems' 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.

These activities form part of the Company's Group'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 36-39 and 48-52 respectively) of BAE Systems plc's annual report 2020 (available at: www.baesystems.com/investors).

Maintaining a reputation for high standards of business conduct

The BAE Systems Group aims to be a recognised leader in business conduct which helps us to earn and maintain stakeholder trust and sustain business success. The directors consider it fundamental to maintain a culture focused on embedding responsible business behaviours. The Company's directors and employees of the Company's Group 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's Group 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 2020 (available at: www.baesystems.com/investors) and in particular the Governance and business conduct section on page 53-55.

Strategic Report (continued)
for the year ended 31 December 2020

Approved by the Board and signed on its behalf by:



G J Edwards
Director

Date: 24th June 2021

Directors' Report

Company registration

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

Results and dividends

The Company's profit for the financial year is £23,503,668 (2019 £78,338,217 profit). The directors propose a dividend of £23,503,668 (2019 £78,338,217).

Looking forward

There has been no significant change in the nature of activities during the period. Whilst business income has returned to normal levels following the dividend received due to the formation of the Rheinmetall joint venture, there has been significant foreign exchange gain in year due to the fluctuation in exchange rates.

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.

Going concern

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. The Company and its ultimate parent entity BAE Systems plc continue to conduct ongoing risk assessments in relation to their business operations and liquidity, including in relation to the potential future impact of the COVID-19 pandemic. Having undertaken these assessments, the directors consider that the Company will be able to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Directors and their interests

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

A R Collins	(resigned 21 August 2020)
J B Osbaldestin	(resigned 06 April 2020)
G E P Plant	(appointed 06 April 2020 and resigned 20 October 2020)
G J Edwards	(appointed 20 October 2020)
N J Stewart	(appointed 20 October 2020)

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.

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 in the 2020 annual report of its ultimate parent, BAE Systems plc, on pages 36 – 39.

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.

Directors' Report (continued)

Approved by the Board and signed on its behalf by:



G J Edwards
Director

Date: 24th June 2021

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

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting 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 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 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.

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

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

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 identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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, which included the UK Companies Act, pension legislation and taxation legislation; 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, including in respect of export controls, defence contracting and anti-bribery and corruption legislation.

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.

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

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

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 concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and understanding the impact of COVID-19 and remote working on the nature and operation of controls, to inform our risk assessment and conclusions on their effectiveness; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

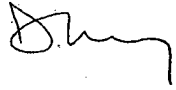
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law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

We have nothing to report in respect of these matters.

Use of our report

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

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



Douglas King (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor

Manchester
UK

Date: 24th June 2021

BAE Systems Land Systems (Finance) Limited
Annual Report and Financial Statements
31 December 2020

Income Statement

for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Other income	4	-	5,676
Other operating charges	5	-	(30,399)
Operating profit/(loss)		-	(24,723)
Income from subsidiary undertakings and participating interests	6	-	120,597
Financial income	7	23,528	2,044
Financial expense	8	(25)	(19,580)
Profit/(loss) before tax		23,503	78,338
Tax	10	-	-
Profit/(loss) for the year		23,503	78,338

Statement of Comprehensive Income

for the year ended 31 December 2020

	2020 £000	2019 £000
Profit for the financial year	23,503	78,338
Total comprehensive income/(expense) for the year	23,503	78,338

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

The results for 2020 and 2019 arise from continuing activities.

BAE Systems Land Systems (Finance) Limited
Annual Report and Financial Statements
31 December 2020

Balance Sheet
as at 31 December 2020

	Note	2020 £000	2019 £000
Non-current assets			
Investments	11	95,231	94,296
Other receivables ¹	12	324,012	378,822
Current assets			
Total assets		<u>419,243</u>	<u>473,118</u>
Current liabilities			
Other payables	13	(286,895)	(286,870)
Total liabilities		<u>(286,895)</u>	<u>(286,870)</u>
Net assets		<u>132,348</u>	<u>186,248</u>
Capital and reserves			
Issued share capital	14	97,081	97,081
Retained earnings		35,267	89,167
Total equity		<u>132,348</u>	<u>186,248</u>

Approved by the Board on 24th June 2021 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.

¹Amounts due from subsidiary undertakings for the year ended 31 December 2019 have been reclassified from current to non-current trade and other receivables. [See note 12 for details.]

Statement of Changes in Equity
for the year ended 31 December 2020

	Issued share capital £000	Retained earnings £000	Total equity £000
At 1 January 2019	97,081	10,829	107,910
Profit for the year	-	78,338	78,338
At 31 December 2019	<u>97,081</u>	<u>89,167</u>	<u>186,248</u>
Profit for the year	-	23,503	23,503
Share-based payments	-	935	935
Dividends	-	(78,338)	(78,338)
At 31 December 2020	<u>97,081</u>	<u>35,267</u>	<u>132,348</u>

The non-distributable portion of retained earnings is £11,339k (2019 £10,404k).

Notes to the Financial Statements

1. General information

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

The principal activity of the Company is 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 Reduced Disclosure Framework. The Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- the 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 International Accounting Standard (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 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 and on the going concern basis.

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

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 that these estimates prove to be incorrect, there may be an adjustment to the carrying amounts of assets and liabilities within the next financial year.

There are none recognised in the financial statements.

Changes in accounting policies

There are no amendments to existing standards, or interpretations that became effective on 1 January 2020 and have had a material impact on the Company.

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.

2.2 Interest income and borrowing costs

Interest income and borrowing costs are recognised in the Income Statement 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.

Notes to the Financial Statements

2. Accounting policies (continued)

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 Trade and other receivables

Trade and 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 Trade and other payables

Trade and other payables are stated at their amortised cost.

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.

Notes to the Financial Statements

2. Accounting policies (continued)

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.

3. Operating costs

The remuneration of the auditor for the year ended 31 December 2020 for auditing the financial statements was £5,000 (2019 £5,000) and £nil (2019 £nil) in respect of non-audit work. These fees were borne by fellow group company, BAE Systems Global Combat Systems Munitions Limited, and not recharged.

4. Other income

	2020 £000	2019 £000
Release of prior year accrual	-	15
Impairment reversal	-	5,661
	<u>-</u>	<u>5,676</u>

5. Other operating charges

	2020 £000	2019 £000
Loss on disposal of shares	-	30,399
	<u>-</u>	<u>30,399</u>

Prior year loss on disposal arose on the sale of 55% of the investment in BAE Systems Global Combat Systems Limited to Rheinmetall AG (now Rheinmetall BAE Systems Land Limited) on 1 July 2019 for £31.5m

Notes to the Financial Statements

6. Income from subsidiary undertakings and participating interests

	2020 £000	2019 £000
Dividend received from Rheinmetall BAE Systems Land Limited	-	120,597
	<u>-</u>	<u>120,597</u>

The prior year dividend was received prior to sale of 55% of the investment in BAE Systems Global Combat Systems Limited (now Rheinmetall BAE Systems Land Limited).

7. Financial income

	2020 £000	2019 £000
Interest receivable from subsidiaries	2,623	2,044
Foreign exchange gains	20,905	-
	<u>23,528</u>	<u>2,044</u>

8. Financial expense

	2020 £000	2019 £000
Interest expense	25	30
Foreign exchange losses	-	19,550
	<u>25</u>	<u>19,580</u>

Notes to the Financial Statements

9. Employees

The monthly average number of Company employees was nil (2019 nil). The aggregate staff costs of Company employees were as follows:

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

	2020 £000	2019 £000
Directors' remuneration	10	-
Company contributions to defined benefit pension schemes	1	-
	11	-

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

	2020 Number of directors	2019 Number of directors
Money purchase schemes	1	-
Defined benefit schemes	4	-

	2020 Number of directors	2019 Number of directors
Number of directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	3	-

None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by BAE Systems plc and were remunerated through that company.

Notes to the Financial Statements

10. Tax

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

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

	2020 £000	2019 £000
Profit before tax	23,503	78,338
UK corporation tax rate	19.00%	19.00%
Expected tax expense on profit	(4,466)	(14,884)
Dividend income not subject to tax	-	22,913
Income not subject to tax	-	3
Loss on disposal of shares in Group company	-	(5,776)
Reversal of investment impairment	-	1,076
Imputed interest expense	288	678
Losses received from/(surrendered to) fellow group companies	4,178	(4,010)
Tax result	-	-

Notes to the Financial Statements

11. Investments

	Subsidiary companies £000
Cost	
At 1 January 2020	95,856
Additions	935
At 31 December 2020	96,791
Provision for impairment	
At 1 January 2020	(1,560)
At 31 December 2020	(1,560)
Net book value	
At 31 December 2020	95,231
At 31 December 2019	94,296

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 Group's order backlog. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 6.13% (2019 6.62%) (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

11. Investments (continued)

Subsidiary undertakings and participating interests at 31 December 2020

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2020 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	Ordinary shares	100%
<i>Box 5676, SE-114 86 Stockholm, Sweden</i>		
BAE Systems Land Systems (Logistics) Limited *	Ordinary shares	100%
BAE Systems Land Systems (Singapore Investments) Limited	Ordinary shares	100%
Rheinmetall BAE Systems Land Limited	Ordinary shares	45%
(formerly BAE Systems Global Combat Systems Limited)		
<i>Hadley Castle Works, PO Box 106, Telford, TF1 6QW</i>		
Indirect subsidiary undertakings and participating interests at 31 December 2020		
BAE Systems Bofors AB	Ordinary shares	100%
<i>SE-691 80, Karlskoga, Sweden</i>		
BAE Systems Bofors Holdings Sdn Bhd	Ordinary shares	100%
<i>Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia</i>		
BAE Systems SWS Defence AB	Ordinary shares	100%
<i>SE-691 80, Karlskoga, Sweden</i>		
BAE Systems Hagglunds AB	Ordinary shares	100%
<i>SE-691 80, Karlskoga, Sweden</i>		
BAE Systems C-ITS AB	Ordinary shares	100%
<i>Box 5676, SE-114 86, Stockholm, Sweden</i>		
Pitch Technologies AB	Ordinary shares	100%
<i>Repslagaregatan 25, SE-582 22, Linköping, Sweden</i>		
Pitch Technologies Limited	Ordinary shares	100%
<i>Sweden House, 5 Upper Montagu Street, London, WH1 2AG</i>		
Hagglunds Vehicle GMBH	Ordinary shares	100%
<i>Ernst-Grote Strasse 13, 30916 Isernhagen, Germany</i>		
H-B Utveckling, H-B Development AB	Ordinary shares	100%
<i>Nybrogaten 7, SE-114 34 Stockholm, Sweden</i>		

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

Notes to the Financial Statements

12. Other receivables

	2020	2019
	£000	£000
Non-current		
Amounts owed by BAE Systems plc and its subsidiaries ¹	324,012	378,822

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

¹Amounts owed by subsidiary undertakings of £44,410 were previously presented within current receivables in 2019. Given that these items are not expected to be settled within the Company's normal operating cycle, these should have been presented in non-current receivables in the prior period. Accordingly amounts presented in current receivables in 2019 have been reclassified to non-current receivables.

13. Other payables

	2020	2019
	£000	£000
Current		
Amounts owed to BAE Systems plc and its subsidiaries	286,895	286,870

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

Notes to the Financial Statements

14. Share capital

	£1 Ordinary shares	Nominal value £000
Issued and fully paid		
At 1 January 2019, 31 December 2019 and 31 December 2020	<u>97,081,206</u>	<u>97,081</u>
Equity dividends		
	2020	2019
	£000	£000
Final dividend for ordinary shares paid in respect of previous year	<u>78,338</u>	<u>-</u>

The directors propose a dividend of £23,503k for 2020 (2019 £78,338k).

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