

BAE Systems (Overseas Holdings) Limited

Directors' report and financial statements
for the year ended 31st December 2010

Registered Number 2775320



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Directors' report

The directors present their annual report, together with the audited financial statements, for the year ended 31 December 2010

Principal activities and business review

The Company acts as an intermediate holding company of principally overseas subsidiaries and equity investees

Results and dividends

The profit for the financial year amounted to £36,798,000 (2009 £67,295,000). An interim dividend in respect of the year ended 31 December 2010 of £6,203,000 (2009 £3,792,000) and a final dividend of £153,200,000 (2009 £nil) in respect of the year ended 31 December 2009 were declared during the year. The directors have proposed a final dividend in respect of the current financial year of £30,711,000 (2009 £153,200,000), subject to shareholder approval.

An impairment review of fixed asset investments has resulted in no impairment releases (2009 £28,872,000) and no impairment creations (2009 £31,000).

Principal risks and uncertainties

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

Key performance indicators (KPIs)

The Company is part of the BAE Systems plc Group and the key performance indicators used to monitor and review the business are set by the Group and discussed in more detail in the annual report of the Group. The directors do not consider it necessary to provide additional key performance indicators at a company level for an understanding of the development, performance or position of the business.

Going concern

The Company has considerable financial resources to allow it to continue in operational existence for the foreseeable future. Thus the directors consider it is appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Post Balance Sheet Event

The Company's Articles of Association were amended on 28 March 2011 and removed the requirement for the Company to have an authorised share capital, the concept of which was abolished under the Companies Act 2006.

Directors

The directors who served during the year and at the date of this report were

Mr D S Parkes
Miss A-L Holding

Auditors

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and in accordance with section 487 (2) of the Companies Act 2006 have been re-appointed.

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 auditors are unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board



D S Parkes
Director

Date 23 June 2011

Registered Number 2775320

Registered Office
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hants GU14 6YU

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of BAE Systems (Overseas Holdings) Limited

We have audited the financial statements of BAE Systems (Overseas Holdings) Limited for the year ended 31 December 2010 set out on pages 5 to 10. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Paul Sawdon (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

London

23 June 2011

Profit and loss account

for the year ending 31st December 2010

		2010 £'000	2009 £'000
Administrative expenses	Note 4	-	168
Operating profit		-	168
Income from shares in group undertakings	Note 3	36,887	40,543
Amounts written back to investments	Note 8	-	28,840
Loss on disposal of fixed asset investments	Note 8	-	(87)
Profit on ordinary activities before interest and taxation		36,887	69,464
Other interest receivable and similar income	Note 5	-	630
Interest payable and similar charges	Note 6	(2)	(2,787)
Profit on ordinary activities before taxation		36,885	67,307
Tax on profit on ordinary activities	Note 7	(87)	(12)
Profit for the financial year		36,798	67,295

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents

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

The notes on pages 6 to 10 form part of the financial statements

Balance sheet

as at 31st December 2010

		2010 £'000	2009 £'000
Fixed assets			
Investments	Note 8	623,329	593,471
Current assets			
Debtors	Note 9	31,526	25,204
Creditors amounts falling due within one year	Note 10	(550,178)	(391,393)
Net current liabilities		(518,652)	(366,189)
Total assets less current liabilities		104,677	227,282
Net assets		104,677	227,282
Capital and reserves			
Called up share capital	Note 12	46,090	46,090
Share premium account	Note 13	54	54
Other reserves	Note 13	17,127	17,127
Profit and loss account	Note 13	41,406	164,011
Equity shareholders' funds		104,677	227,282

These financial statements were approved by the Board on
signed on its behalf by:

23 June 2011

and were


P S Parkes
Director

The notes on pages 6 to 10 form part of the financial statements

Notes (forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards and under the historical cost convention and on a 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 England and Wales. Accordingly these financial statements present information about the Company as an individual undertaking and not as a group

As the Company is a wholly owned subsidiary of BAE Systems plc it is exempt from presenting disclosures under Financial Instruments Disclosures (FRS 29) as full equivalent disclosures are presented on a group basis within the consolidated financial statements

Cash flow statement

The Company is exempt from the requirement of FRS 1 - Cashflow Statements (FRS 1) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of BAE Systems plc and the cash flows are included within the consolidated cash flow statement of that company

Related party transactions

As the Company is a wholly owned subsidiary of BAE Systems plc, the Company has taken advantage of the exception contained in FRS 8 - Related party transactions (FRS 8) and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or if hedged forward at the rate of exchange under the related forward currency contract. The Company uses foreign currency borrowings and other financial instruments to provide a hedge against its foreign equity investments. Where this is the case and subject to the provisions in Statement of Standard Accounting Practice 20 the equity investments are denominated in the appropriate underlying foreign currencies with exchange differences arising on translations taken to reserves, together with netting exchange differences arising on hedging currency borrowings and other financial instruments. Other exchange differences are taken to the profit and loss account

Taxation

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

Investments

Investments in associated undertakings, other fixed asset investments and the Company's investment in shares in Group companies are stated at cost less provisions for impairments

2 Employees and directors

None of the directors received any emoluments from the Company during the year (2009: £nil). The Company has no employees

3 Income from shares in group undertakings

	2010 £'000	2009 £'000
Dividends received from MBDA (Holdings) SAS	13,714	21,068
Dividends received from BAE Systems (Operations) Limited	10,272	3,791
Dividends received from BAE Systems (Operations) Singapore Pte. Limited	2,017	2,989
Dividends received from Granada Enterprises Limited	7,778	11,646
Dividends received from BAE Systems (Gripen Overseas) Limited	750	-
Dividends received from BAE Systems Holding GmbH	1,424	-
Dividends received from BAE Systems Saudi Arabia Limited	932	1,049
	36,887	40,543

4 Operating profit

The auditors' remuneration of £4,500 (2009: £4,500) has been borne by BAE Systems plc, the ultimate parent company

Included within Administrative expenses at 31 December 2009 was an amount of £238,770 which relates to the release of costs accrued for on behalf of a subsidiary company in the preceding year, following an indemnity claim made against a subsidiary of the Company

5 Other interest receivable and similar income

	2010 £'000	2009 £'000
Interest receivable from group undertakings	-	630
	-	630

Notes (forming part of the financial statements) continued**6 Interest payable and similar charges**

	2010 £'000	2009 £'000
Interest on late payment of withholding tax	2	-
Net exchange losses	-	2 787
	<u>2</u>	<u>2 787</u>

7 Taxation

No provision for UK corporation tax is required as the dividend income received during the year is exempt. The company has surrendered its losses which principally arise from imputed interest on intercompany balances to fellow subsidiary companies free of charge.

A provision for deferred tax is not required.

	2010 £'000	2009 £'000
UK tax (charge) for the period at 28% (2009: 28.5%)	-	(130)
Double taxation relief	-	130
	<u>-</u>	<u>-</u>
Overseas taxation	(87)	(12)
	<u>(87)</u>	<u>(12)</u>

The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below:

Profit before taxation	<u>36,885</u>	<u>67 307</u>
Tax (charge) on profit at UK rate of 28% (2009: 28%)	(10,328)	(18,846)
Exempt dividend income	10,328	15,873
Expenses not deductible	(1)	24
Imputed interest expense	3,637	2,400
Group losses surrendered/(received) free of charge	(1,766)	3,780
Double taxation relief	-	97
Attributable profits from controlled foreign companies	(1,870)	(3 328)
Overseas taxes	(87)	(12)
Current tax (charge) for the year	<u>(87)</u>	<u>(12)</u>

8 Fixed Assets - Investments

	Subsidiary undertakings £'000	Participating interests £'000	Investments other than loans £'000	Total £'000
Cost of investments				
At 1 January 2010	398 268	75,396	307,421	781,085
Additions	-	-	-	-
Disposals	-	-	(600)	(600)
Exchange rate movements	29,858	-	-	29,858
At 31 December 2010	<u>428,126</u>	<u>75,396</u>	<u>306,821</u>	<u>810,343</u>
Provision for impairment				
At 1 January 2010	(344)	(8,495)	(178,775)	(187,614)
Provision for impairment	-	-	-	-
Impairment provision released	-	-	-	-
Disposals	-	-	600	600
At 31 December 2010	<u>(344)</u>	<u>(8,495)</u>	<u>(178,175)</u>	<u>(187,014)</u>
Carrying value at 31 December 2010	<u>427,782</u>	<u>66,901</u>	<u>128,646</u>	<u>623,329</u>
Carrying value at 1 January 2010	<u>397,924</u>	<u>66,901</u>	<u>128,646</u>	<u>593,471</u>

The exchange rate movement credit of £29,858 000 (2009: credit of £3,107,000) on the investment in BAE Systems Sweden AB has been taken to reserves and offset exactly against the equivalent exchange movement arising from the retranslation of the loan used to finance this investment.

In January 2010 the Company disposed of its 30% holding in Hivex Limited. The investment had no cost and no proceeds were received so no profit or loss has arisen on disposal.

In September 2010 the Company acquired 50% of the share capital of BAE Systems Regional Aircraft Colombia SAS.

In December 2010 the Company disposed of its 25% holding in Global Eagle Medical Corporation (Pty) Limited. The investment had no cost and no proceeds were received so no profit or loss has arisen on disposal.

Notes (forming part of the financial statements) continued**Note 8 (continued)****Subsidiary undertakings**

The Company's investments in subsidiary undertakings at 31 December 2010 are 100% interests in the ordinary share capital of the following companies, unless otherwise stated

	Country of incorporation	Principal activity
BAE Systems Insurance (Isle of Man) Limited	Isle of Man	Insurance Services
BAE Systems Holdings BV	Holland	Intermediate Holding Company
BAE Systems (Sweden) AB	Sweden	Intermediate Holding Company
Detica France SAS	France	Intermediate Holding Company
BAE Systems Holding GmbH	Germany	Intermediate Holding Company
BAE Systems Zephyr Corporation	USA	Intermediate Holding Company
BAE Systems Zephyr Second Corporation	USA	Intermediate Holding Company
BAE Systems Zephyr Third Corporation	USA	Intermediate Holding Company
BAE Systems Zephyr Fourth Corporation	USA	Intermediate Holding Company
BAE Systems Zephyr Fifth Corporation	USA	Intermediate Holding Company
BAE Systems Holdings (South Africa) (Pty) Limited	South Africa	Intermediate Holding Company
BAE Systems do Brasil Ltda	Brazil	Intermediate Holding Company
BAE Systems (Gripen Overseas) Limited	England	Intermediate Holding Company
BAE Systems (Poland) Sp. z o.o.	Poland	Intermediate Holding Company
BAE Systems (Operations) Singapore Pte. Limited	Singapore	Defence & Commercial Aerospace
BAE Systems India (Services) Private Limited	India	Defence & Commercial Aerospace
BAE Systems Logistica Ltda (99.9%)	Brazil	Intermediate Holding Company
BAE Systems (Malaysia) Sdn Bhd	Malaysia	Intermediate Holding Company

Notes (forming part of the financial statements) continued**Note 8 (continued)**

BAE Systems Saudi Arabia Limited (90%)			England	Shared services facilities
Granada Enterprises Limited (90%)			England	Property holding
BAE Systems Reinsurance (Isle of Man) Limited			Isle of Man	Insurance Company
BAE Systems (Oman) LLC			Oman	Intermediate Holding Company
Gnpen Venture Capital AB			Sweden	Venture Capital Company
BAE Systems Czech Republic s r o			Czech Republic	Defence & Commercial Aerospace
Participating interests	Class of Share	Share of Ownership	Country of Incorporation	Principal activity
MBDA Holdings SAS	Ordinary shares	25%	France	Intermediate Holding Company
Exostar Corporation	Class B preferred stock	17.6%	USA	Intermediate Holding Company
Tirs Mateen & Co LLC	Ordinary shares	50%	Oman	Intermediate Holding Company
BAE Systems Regional Aircraft Colombia SAS	Ordinary shares	50%	Colombia	Intermediate Holding Company
Investments other than loans	Class of Share	Share of Ownership	Country of Incorporation	Principal activity
BAE Systems Electronics Limited	Ordinary shares	6.67%	England	Manufacture of electronic defence equipment
BAE Systems (Operations) Limited	Ordinary A shares	1%	England	Defence & Commercial Aerospace

9 Debtors: amounts due within one year

	2010 £'000	2009 £'000
Withholding tax due	1,414	-
Amounts owed by group undertakings	30,112	25,204
	31,526	25,204

10 Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Amounts owed to ultimate parent company	387,789	382,564
Amounts owed to immediate parent company	156,992	3,792
Amounts owed to group undertakings	5,352	4,992
Taxation and social security	45	45
	550,178	391,393

11 Dividends

	2010 £'000	2009 £'000
Interim dividend	6,203	3,792
Final dividend	153,200	-
	159,403	3,792

During the year an interim dividend of 13.46p (2009: 8.23p) per ordinary share was declared and a final dividend in respect of the year to 31 December 2009 of 332.39p (2009: nil) per share.

Notes (forming part of the financial statements) continued**12 Share capital**

	Ordinary shares of £1 each	Nominal value £'000
Authorised		
At 1 January 2010 and at 31 December 2010	<u>100 000 000</u>	<u>100 000</u>
Allotted, called up and fully paid		
At 1 January 2010 and at 31 December 2010	<u>46,090,015</u>	<u>46 090</u>

13 Reserves

	Share premium account £'000	Profit and loss account £'000	Other reserves £'000
At 1 January 2010	54	164,011	17,127
Profit for the financial year	-	36,798	-
Dividend declared (see note 11)	-	(159,403)	-
At 31 December 2010	<u>54</u>	<u>41,406</u>	<u>17,127</u>

14 Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Retained profit for the year	36 798	67,295
Dividends	<u>(159 403)</u>	<u>(3 792)</u>
Net increase in shareholders' funds	(122 605)	63 503
Opening shareholders' funds	<u>227 282</u>	<u>163 779</u>
Closing shareholders' funds	<u>104,677</u>	<u>227,282</u>

15 Ultimate Parent Company

The Company is a wholly owned subsidiary undertaking of its immediate parent undertaking BAE Systems (Holdings) Limited with the ultimate parent company being BAE Systems plc, a company incorporated in Great Britain and registered in England and Wales

The consolidated accounts of BAE Systems plc are available to the public and may be obtained from

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