

BAE Systems (MEH) Limited

Annual Report and Financial Statements

For the year ended 31 December 2020

Registered number: 04313897



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Strategic Report

Review of business and principal activities

The Company is an investment holding company for a number of subsidiaries located in Saudi Arabia and is itself a wholly owned subsidiary of BAE Systems plc. Going forward, the Company expects to maintain its holdings in Saudi Arabian subsidiaries, having completed its sale of shares in Overhaul & Maintenance Company Holding to a 51% ownership (2019: 76.47%).

Key performance indicators

The Company is part of the BAE Systems 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. As a holding company, 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. The Company is a holding company and as such is not engaged in any commercial activities. The Company manages its business through its subsidiaries.

Principal risks and uncertainties

The Company's principal risks are identified below.

The Company is subject to risk from a failure to comply with laws and regulations

The Company and its subsidiaries operate in a highly-regulated environment and are subject, without limitation, to regulations relating to import-export controls, money laundering, false accounting, anti-bribery and anti-boycott provisions. It is important that the Company maintains a culture in which it focuses on embedding responsible business behaviours and that all employees act in accordance with the requirement of the Company's policies, including the Code of Conduct, at all times.

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

Contagious diseases can have an adverse effect on the Company's business, financial condition and results of operations. There is currently a COVID-19 coronavirus pandemic across the world. Governments are taking a number of steps to mitigate the impact of this pandemic, including implementing quarantines. Many people have contracted the disease across the world and many deaths have occurred. It is not clear for how long this pandemic will last or how much more extensive it will become, or the further measures that will be taken by governments and others to seek to control this pandemic and its impact.

The COVID-19 coronavirus pandemic could also result in changes to the outlook in the Company and its subsidiaries markets. Areas of the Company and its subsidiaries business that could be impacted include a decrease in defence spending by the customer, the failure to obtain awards for defence contracts, the failure of suppliers to deliver parts, the requirement for the Company, subsidiaries or its suppliers to close plants, the inability of the Company and its subsidiaries 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 and its subsidiaries were unable to obtain appropriate funding, they 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 and its subsidiaries, financial condition and results of operations.

The Company could be negatively impacted by information technology security threats

The security threats faced by the Company include threats to its information technology infrastructure, unlawful attempts to gain access to its proprietary or classified information and the potential for business disruptions associated with information technology failures.

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.

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.

Fostering business relationships with suppliers, customers and others

The directors recognise that fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the Company's success. The Company has a close relationships with its customer, suppliers and industry partners which help us to create best-in-class services and solutions.

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 Company 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 and our employees, allowing us to make a positive difference and have an impact where it counts. In particular, the Company is a major employer in Barrow and the directors recognise the significance of the Company in the local community.

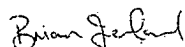
We recognise that our operations have an impact on the environment – from the energy and resources we use, to the waste that we generate. As an organisation, the BAE Systems Group is committed to reducing the environmental impact of its operations and products, minimising its environmental footprint and, in turn, decreasing its operational costs. Through the Operational Framework the Company implements the requirements of the BAE Systems Group's Environmental Policy, which details our commitment to high standards of environmental management.

These 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 climate change" and "Fostering strong community partnerships" sections (pages 40-42 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. 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 us 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 "Ethics and business conduct" section on pages 38-39.

Approved by the Board and signed on its behalf by:

B Wierland
Director

30 June 2021

Directors' Report

The directors present their Report, together with the financial statements, for the year ended 31 December 2020.

Company registration

BAE Systems (MEH) Limited (the Company) is a private company, limited by shares and registered in England and Wales with the registered number 04313897.

Company Address

Warwick House PO BOX 87, Farnborough Aerospace Centre, Farnborough, Hampshire, GU14 6YU

Results and dividends

The Company's profit for the financial year is £20,165k (2019: £50,168k). Subsequent to the year end, the directors have proposed a dividend of £34,024,092 approx 47 pence per share in respect of the current financial year. The company authorised and paid a dividend of £56,523,381 approx 79 pence per share in 2020 relating to 2019 performance.

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.

These engagement activities form part of the Company's implementation of the BAE Systems Group-wide employee engagement processes and policies which are described in the Employee Engagement section (on pages 35-36, 83, 95-97 and 116) of BAE Systems plc's Annual Report 2020 (available at: www.baesystems.com/investors).

Looking forward

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. The impact of Brexit on the Company is expected to be limited. The Company has relatively limited UK-EU trading and the majority of persons employed in the Company are UK nationals, with only limited movement of EU nationals into and out of 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 with regard to the potential future impact of the COVID-19 pandemic. 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 employed were as follows:

P D Murphy (Resigned on 30 April 2021)

C J Kelly (Appointed on 30 April 2021)

B W Ireland

The Board is not aware of any contract of significance in relation to the Company in which any director has, or has had, a material interest.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken to make himself 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.

Energy and Carbon Reporting exemption

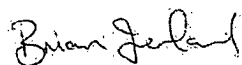
The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the Annual Report of its ultimate parent, BAE Systems plc on pages 36 – 39.

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:

B W Ireland



Director

30 June 2021

Registered office:
BAE Systems (MEH) Limited
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire GU14 6YU
England
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 or result 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 (MEH) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems (MEH) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31st 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 profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 12.

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 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 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

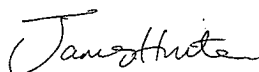
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.



James Hunter FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, UK
30 June 2021

Income Statement

for the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Income and other amounts received from investments	2	18,969	55,725
Operating costs	3	(502)	(6,524)
Operating profit		18,467	49,201
Profit on disposal of investments	6	(82)	1,708
Finance costs		(566)	-
Profit before tax		17,819	50,909
Tax	5	2,346	(741)
Profit for the year		20,165	50,168

Statement of Comprehensive Income

for the year ended 31 December 2020

	2020 £000	2019 £000
Profit for the year	20,165	50,168
Total comprehensive income for the year	20,165	50,168

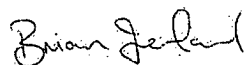
The notes on pages 11 to 16 form part of the financial statements.

The results for 2020 and 2019 arise from continuing activities.

Balance Sheet
as at 31 December 2020

	Notes	2020 £000	2019 £000
Non-current assets			
Investments	6	101,646	152,390
Current assets			
Tax receivables	5	2,346	-
Other receivables	7	31,230	26,150
Total assets		135,222	178,540
Current liabilities			
Other payables	8	(1,591)	(8,551)
Total liabilities		(1,591)	(8,551)
Net assets		133,631	169,989
Equity			
Issued share capital	9	71,854	71,854
Retained earnings		61,777	98,135
Total equity		133,631	169,989

Approved and authorised for issue by the Board on 30 June 2021 and signed on its behalf by:



B W Jerland
Director

Registered number: 04313897

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	71,854	81,389	153,243
Total profit and comprehensive income for the year	-	50,168	50,168
Ordinary share dividends	-	(33,422)	(33,422)
At 31 December 2019	71,854	98,135	169,989
Total profit and comprehensive income for the year	-	20,165	17,798
Ordinary share dividends	-	(56,523)	(56,523)
At 31 December 2020	71,854	61,777	133,631

Retained earnings includes a non-distributable amount of £27,751,965 (2019: £41,611,622).

The directors have proposed a dividend of £34,024,092 approx 47 pence per share in respect of the current financial year (2019: £56,523,381 approx 79 pence per share).

Notes to the Financial Statements

1 Accounting policies

BAE Systems (MEH) 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 principal activity of the Company is set out in the Strategic Report on page 1. The address of the Company's registered office is shown on page 3.

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 pound.

Basis of preparation

These financial statements were 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 IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of International Account Standard (IAS) 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures; and
- the requirements in IAS 24 Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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

The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, BAE Systems plc, a company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual undertaking and not as a group.

The financial statements have been prepared under the historical cost convention. The going concern basis has been applied in these financial statements.

The following paragraphs summarise the main accounting policies of the Company and have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Financial Statements *(continued)***1 Accounting policies** *(continued)***Critical judgements in applying accounting policies**

There are no critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts 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.

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.

Significant accounting policies**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.

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.

Investments

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

The carrying amounts of the Company's investments are reviewed at each Balance Sheet date to determine whether there is any indication of impairment as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in the Income Statement.

An impairment loss is only reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Other receivables

Other receivables are stated at amortised cost including a provision for expected credit losses. The Company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Company writes off a 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.

Other payables

Other payables are stated at their cost.

Current 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 prior years.

Notes to the Financial Statements (continued)**2 Income and other amounts received from investments**

	2020 £000	2019 £000
Dividends received	18,969	55,725
	18,969	55,725

3 Operating costs

The auditor's remuneration for the year ended 31 December 2020 for auditing of the financial statements of £11,235 (2019: £11,235) and £nil (2019: £nil) in respect of non-audit work has been borne by another group company, BAE Systems (Operations) Limited.

4 Employees

During the year, the Company had two directors in office (2019: two) and no employees (2019: nil).

Neither of the directors received any emoluments from the Company during the year. The directors who served during the year were employed by BAE Systems plc or other group companies and were remunerated through those companies.

The directors did not provide any material qualifying services to the Company.

5 Tax

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

On 3 March 2021, the Government announced that the UK corporation tax rate would be increased from 19% to 25% with effect from 1 April 2023. As this rate change was not enacted at the Balance Sheet date, the impact of the higher rate has not been taken into account in the calculation of the unrecognised deferred tax asset and the rate applying remains at 19%. The rate change may result in a significant change to the unrecognised deferred tax asset.

	2020 £000	2019 £000
Current tax		
UK adjustments in respect of prior years	2,346	-

Reconciliation of tax result

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

	2020 £000	2019 £000
Profit before tax	17,819	50,909
UK corporation tax rate	19.00%	19.00%
Expected tax expense on profit	(3,386)	(9,672)
Expenses not tax effected	(272)	(828)
Income not subject to tax	3,604	10,588
Transfer pricing adjustments	(15)	(35)
Losses received from/(surrendered to) fellow group companies	69	(53)
Adjustment in respect of prior years ¹	2,346	-
Tax result	2,346	-

¹The adjustment in respect of prior years arises in respect of the 2008 tax return which was refiled in 2010. The adjustment has been included in the current year on the grounds of materially.

In 2019, the Company made a payment on behalf of its subsidiary Aircraft Accessories and Components Company Limited (AACC). The payment related to an outstanding tax appeal for prior years Income Tax which has now been settled. The value of this settlement with the GAZT was £741,760.

Notes to the Financial Statements (continued)**6 Investments***Impairment of Investments*

During the year, management conducted an impairment review of the investments held by the Company, which requires estimates to be made of the value-in-use of its investments. As a result of this review, no impairment charges were created.

	£000
Cost	
At 1 January 2020	152,390
Disposals	(50,744)
At 31 December 2020	101,646

During the year, the Company sold 25.47% of its direct shareholding in Overhaul & Maintenance Company Holding (OMC) for a sum of £50,662k to a third party. The carrying value for the 25.47% share of OMC was £50,744k, resulting in the Company recognising a loss on disposal of £82k.

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

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 historical experience, available government spending data and the BAE Systems Group's (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%) (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.

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 along with the registered address. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned indirectly by the Company and have a financial year-end of 31 December. All shares held, unless otherwise stated, are ordinary shares. All subsidiary companies are trading entities, with the exception of Overhaul & Maintenance Company Holding which is a holding company.

Subsidiaries

Overhaul & Maintenance Company Holding (51.00%) *1
PO Box 1732, Riyadh 11441, Saudi Arabia

Advanced National Company for Aircraft Maintenance Limited (51.00%)
PO Box 1732, Riyadh 11441, Saudi Arabia

BAE Systems Saudi Development and Training Company Limited (50.49%)
PO Box 67775, Riyadh 11517, Saudi Arabia

BAE Systems SDT (UK) Limited (50.49%)
Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6YU

Granada Enterprises Limited (50.49%)
PO Box 1732, Riyadh 11441, Saudi Arabia

International Systems Engineering Company Limited (46.22%)
PO Box 54002, Riyadh 11514, Saudi Arabia

Saudi Maintenance & Supply Chain Management Company Limited (51%)*2
PO Box 1732, Riyadh 11441, Saudi Arabia

SMSCMC UK Limited (51%)
Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6YU

Notes to the Financial Statements (continued)**6 Investments (continued)****Significant holdings in undertakings other than subsidiary undertakings**

Advanced Electronics Company Limited (25.50%)
PO Box 90916, Riyadh 11623, Saudi Arabia

*¹ Directly owned by the Company but holding includes 10% held on the Company's behalf by another Group company, BAE Systems (Nominees) Limited, another group company.

*² Directly owned by the Company.

7 Other receivables

	2020 £000	2019 £000
Prepayments	552	-
Other debtors	23,952	-
Amounts owed from ultimate parent company	6,726	26,149
	31,230	26,149

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

8 Other payables

	2020 £000	2019 £000
Amounts owed to other BAE Systems Group subsidiaries	554	1,319
Other payables	1,037	7,232
	1,591	8,551

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

9 Share capital

	2020 £000	2019 £000
Authorised		
72,000,000 Ordinary Shares of £1 each	72,000	72,000
Issued and fully paid		
71,854,060 Ordinary shares of £1 each	71,854	71,854

Retained earnings represents the accumulated profits less dividends paid.

10 Dividends

	2020	2019
Paid in respect of prior years	£56,523,381	£33,421,406
Pence per share	79	47

Subsequent to the end of the year the directors propose a dividend for the year of £34,024,092 approx 47 pence per share

Notes to the Financial Statements *(continued)***11 Events after the reporting period**

On 23 February 2021, BAE Systems (MEH) Limited's direct subsidiary, Overhaul & Maintenance Company Holding, completed the sale of its 50% holding in Advanced Electronics Company, for a total consideration of SAR 1,105,515,068, realising a profit on disposal. The disposal of Advanced Electronics Company included net assets (SAR 362,190,000) along with an associated goodwill balance (SAR 73,901,000).

12 Controlling parties

The immediate parent company is BAE Systems (Holdings) Limited and the ultimate parent company and 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