

Registration No. 06135651

BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

Directors' Report and Financial Statements

For the Year Ended 31 December 2008

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BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

CONTENTS	PAGE
DIRECTORS' REPORT	1
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS	2
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED	3
PROFIT AND LOSS ACCOUNT	4
BALANCE SHEET	5
NOTES TO THE ACCOUNTS	6-10

BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

DIRECTORS' REPORT

The Directors present their report, together with the financial statements, for the year ended 31 December 2008.

Business review and principal activities

The principal activity of the company during the financial year was that of acting as a holding company for subsidiary companies engaged in shipbuilding and naval support.

Results and dividends

The Company's profit for the year to 31 December 2008 is £78,000 (ten month period ended 31 December 2007: loss of £65,221,000). The Directors do not recommend the payment of a dividend (2007: £nil).

Post balance sheet events

On the 24 September 2009 BAE Systems and VT Group plc signed the agreement under which VT Group has exercised its option to sell its 45% shareholding in BVT Surface Fleet Limited (BVT). The transaction is subject to regulatory approval with completion expected to take place in the fourth quarter of this year.

Future outlook

It is anticipated that any future contracts will be handled by other Group companies and that this Company will continue to be a non-trading company.

Directors

The directors who held office during the period and up to the date of signing the report were:

Mr D S Parkes
Ms A L Holding

Disclosure of information to auditors

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 ought to have taken to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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.

By Order of the Board



D S Parkes
Director

Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire GU14 6YU

Date: *27 October* 2009

BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

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).

The financial statements are required by law to 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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 SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

We have audited the financial statements of BAE SYSTEMS Surface Fleet Solutions (Holdings) Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

KPMG Audit Plc

27 October 2009

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

PROFIT AND LOSS ACCOUNT

For the year ending 31 December 2008

	Notes	Year ended 31 December 2008 £'000	Ten months to 31 December 2007 £'000
Turnover		-	-
Operating costs	2	(26,872)	(65,221)
Operating loss		(26,872)	(65,221)
Income from fixed asset investments	3	26,950	-
Profit/(loss) on ordinary activities before taxation		78	(65,221)
Taxation charge on loss on ordinary activities	4	-	-
Profit/(loss) for the financial year	10	78	(65,221)

There were no recognised gains or losses other than those reported above.

The above results relate entirely to the activities of the Company.

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

BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

BALANCE SHEET

As at 31 December

	Notes	2008 £'000	2007 £'000
Investments	5	421,300	421,300
Current assets			
Debtors	6	-	15,709
Current liabilities			
Creditors: amounts falling due within one year	7	(486,443)	(502,230)
Net current liabilities		(486,443)	(486,521)
Net liabilities		(65,143)	(65,221)
Capital and reserves			
Called up share capital	8	-	-
Profit and loss reserve	10	(65,143)	(65,221)
Equity shareholders' funds	11	(65,143)	(65,221)

Approved by the Board of Directors on *27 October* 2009.



D S Parkes
Director

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

BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2008

1. ACCOUNTING POLICIES

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with the Companies Act 1985 and applicable accounting standards.

Going concern

The financial statements have been prepared under the historical cost convention, and on the going concern basis, notwithstanding net liabilities of £65,143,000, which the directors believe to be appropriate for the following reasons.

The company is dependent for its working capital on funds provided to it by BAE SYSTEMS PLC, the company's ultimate parent. BAE SYSTEMS PLC has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available.

The directors consider that this should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any Company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Cash Flow Statement

The Company is exempt from the requirement of Financial Reporting Standard 1 (Revised) - Cash flow statements (FRS 1) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of BAE SYSTEMS plc, and its cash flows are included within the consolidated cash flow statement of that company.

Related Party Transactions

In accordance with paragraph 3c of Financial Reporting Standard 8 - Related Party Transactions (FRS 8), the Company is exempt from disclosing details of arrangements with other companies in the Group.

Financial Instruments

As the Company is a wholly owned subsidiary of BAE SYSTEMS plc, it is exempt from presenting FRS 29 disclosures as full equivalent disclosures are presented on a group basis within the consolidated financial statements.

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.

BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS (Continued)

For the year ended 31 December 2008

1. ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction or, where forward cover contracts have been arranged, at the contracted rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date or at a contracted rate if applicable and any exchange differences arising are taken to the profit and loss account.

2. OPERATING COSTS

	2008 £'000	2007 £'000
Impairment on investment	(15,700)	(65,221)
Legal fees	(11,172)	-
	<u>(26,872)</u>	<u>(65,221)</u>

The audit fee for the year ended 2008 was borne by the ultimate parent company, BAE Systems plc.

3. INCOME FROM FIXED ASSET INVESTMENTS

	2008 £'000	2007 £'000
Dividends receivable from BVT Surface Fleet Limited	<u>26,950</u>	<u>-</u>

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

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

BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS (Continued)

For the year ended 31 December 2008

5. INVESTMENTS

	2008 £'000	
As at 1 January 2008	421,300	
Additions	15,700	
Impairment	(15,700)	
As at 31 December 2008	421,300	

	£'000	Percentage of total shareholding owned
Investment in BVT Surface Fleet Limited (formerly known as BAE SYSTEMS Surface Fleet Solutions Limited)	421,299	100.0%
Investment in BAE SYSTEMS Surface Fleet Solutions Oldco No. 1 Limited	-	50.0%
Investment in BAE SYSTEMS Surface Fleet Oldco Limited	1	99.9%
	421,300	

During the year the investment BAE Systems Surface Fleet Solutions Limited (SFSL) changed its name to BVT Surface Fleet Limited (BVT).

All of the investments listed above were in statutory entities which were incorporated within the UK at the year ended 31 December 2008.

On 1 July 2008, a 45% shareholding in BVT Surface Fleet Limited was exchanged as consideration for the injection of trade and assets previously forming VT Group plc's shipbuilding and naval support businesses. A valuation of the business was subsequently performed in October 2008. This valuation formed the basis on which the original carrying value of the Company's investment in BVT at 31 December 2007 was assessed.

On the 24 September 2009 BAE Systems and VT Group plc signed an agreement under which VT Group has exercised its conditional option to sell its 45% shareholding in BVT. The transaction is subject to regulatory approval with completion expected to take place in the fourth quarter of this year.

During the year there was an addition of £15,700,000 which related to the subscription of 1,570,000,000 ordinary shares of £0.01 each in BVT. This has subsequently been impaired to bring the recoverable amount in line with the valuation derived in October 2008.

In the period since the last valuation underperformance on contracts injected into the business has come to light. This underperformance relates to conditions in place at the time of the business combination and so would originally indicate a requirement for an impairment review. However the initial agreement included the requirement for further compensatory injections in such circumstances and post balance sheet events indicate these terms are being followed.

There are no other indications of impairment therefore no further impairment review has been undertaken.

BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS (Continued)

For the year ended 31 December 2008

6. DEBTORS

	2008 £'000	2007 £'000
Amounts owed by fellow group companies	-	15,709

7. CREDITORS

	2008 £'000	2007 £'000
Amounts falling due within one year:		
Amounts owed to ultimate parent undertaking	(486,443)	(502,230)

8. CALLED UP SHARE CAPITAL

	Authorised £	Issued £
Share Capital		
At 31 December 2008		
Ordinary shares of £1.00 each fully paid	1,000	100

9. DIRECTORS AND EMPLOYEES

Directors' emoluments for the year ended 31 December 2008 were £nil (2007: £nil). Mr D S Parkes and Ms A L Holding were full time executives of other Group companies and did not receive any remuneration for services provided to this Company. It is not practicable to allocate the emoluments for other services. Retirement benefits were accruing to the two Directors under a defined benefit scheme at 31 December 2008 (31 December 2007: 2).

For the year ended 31 December 2008 and 2007 the Company had no employees.

10. RESERVES – PROFIT AND LOSS

	2008 £'000	2007 £'000
As at 1 January	(65,221)	-
Profit/(loss) for the financial year	78	(65,221)
At 31 December	(65,143)	(65,221)

BAE SYSTEMS SURFACE FLEET SOLUTIONS (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS (Continued)

For the year ended 31 December 2008

11. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2008 £'000	2007 £'000
Profit/(loss) for the financial year	78	(65,221)
Opening equity shareholders funds	(65,221)	-
Closing equity shareholders funds	(65,143)	(65,221)

12. ULTIMATE PARENT UNDERTAKING

The ultimate parent company and controlling entity is BAE SYSTEMS plc, a company incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of BAE SYSTEMS plc are available to the public and may be obtained from the registered office: 6 Carlton Gardens, London, SW1Y 5AD.