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**BAE SYSTEMS (INSURANCE) LIMITED**  
**FORMERLY BRITISH AEROSPACE (INSURANCE) LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31st DECEMBER 2000**

Company Registered Number 999757

## **BAE SYSTEMS (INSURANCE) LIMITED**

### **BOARD OF DIRECTORS as at 28 February 2001**

M A Finlayson	Director
P W McDonald	Chairman
E M N Thody	Director/Joint Secretary
D S Parkes	Joint Secretary

### **DIRECTORS' REPORT**

The Directors present their annual report together with the audited financial statements for the year ended 31st December 2000. The Directors consider the state of the Company's affairs to be satisfactory.

### **BUSINESS REVIEW**

The principal activity of the Company is the underwriting of authorised classes of insurance in respect of the property and the employees of BAE SYSTEMS Public Limited Company and its group undertakings. Following the merger the company changed its name from British Aerospace (Insurance) Limited to BAE SYSTEMS (Insurance) Limited on 23 February 2000. The company ceased underwriting new business on 01 January 2001 and is now in run-off.

### **PROFITS AND APPROPRIATIONS**

	<b><u>2000</u></b> <b><u>£000</u></b>	<b><u>1999</u></b> <b><u>£000</u></b>
Profit for the financial year	<u>2,675</u>	<u>617</u>

### **PROPOSED DIVIDEND**

The Directors are not proposing to pay a final dividend for the year. (1999 - Nil). The retained profit for the year of £2,675,000 (1999 - £617,000) will be transferred to reserves.

## **BAE SYSTEMS (INSURANCE) LIMITED**

### **DIRECTORS' REPORT**

#### **DIRECTORS**

The Directors of the Company during the year were Mr J H Meyrick-Jones (Chairman), Mr M A Finlayson, Mr S Hobson, Mr P W McDonald, Mr M J Pratt (Managing Director), Mr P V Thompson and Miss H J Turner. Mr J H Meyrick-Jones resigned as Chairman on 30 November 2000, Mr P V Thompson resigned on 04 July 2000 and Miss H J Turner and Mr M J Pratt (Managing Director) resigned on 31 December 2000.

On 19 January 2001 Mr S Hobson resigned and Mrs E M N Thody was appointed Director.

None of the Directors has (or has held) any beneficial interest in the share capital of the Company (or any other subsidiary undertaking of BAE SYSTEMS plc).

The Directors' beneficial interests in the share capital of the Company's ultimate parent undertaking, BAE SYSTEMS plc, were as follows:-

	<b><u>At 31 December 2000</u></b>		<b><u>At 1 January 2000</u></b>	
	<b>Ord Shares of 2.5p each</b>	<b>Share Options</b>	<b>Ord Shares Of 10p each</b>	<b>Share Options</b>
M A Finlayson	1,241	7,681	153	8,440
S Hobson	241	2,400	153	9,592
P W McDonald	241	14,102	153	6,632
J H Meyrick-Jones	1,180	12,053	7,243	12,053
M J Pratt	2,352	6,441	1,264	19,569
P V Thompson	241	4,616	64	4,616

Under the Profit Sharing scheme on 31 March 2000 Mr M A Finlayson, Mr S Hobson, Mr P W McDonald, Mr J H Meyrick-Jones, Mr M J Pratt and Mr P V Thompson each were awarded 88 shares.

Share Options were granted during the year under the BAE SYSTEMS Executive Share Option Scheme and The BAE SYSTEMS SAYE Share Options Scheme as follows:

Mr M A Finlayson was granted 241 share options on 28 October 2000 exercisable at a subscription price of £3.21 between 01 December 2002 and 01 June 2003.

Mr P W McDonald was granted 7470 share options on 04 October 1999 exercisable at a subscription of £4.015 between 04 October 2002 and 03 October 2009.

Mr M J Pratt exercised 11,320 option on 04 October 1999 at £2.65 (market price £4.0175), 656 on 08 October 1999 at £2.7475 (market price £4.05).

**BAE SYSTEMS (INSURANCE) LIMITED**

**DIRECTORS' REPORT**

There have been no changes in the interests of the Directors of the Company between 31 December 2000 and the date of this report.

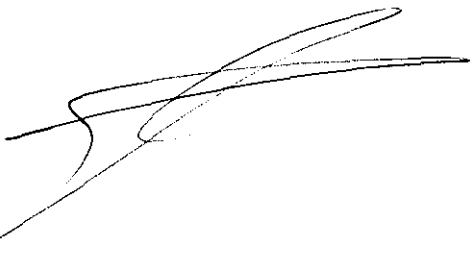
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the 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.

By order of the Board of Directors



E M N Thody  
Director/Joint Secretary

28 February 2001

## **BAE SYSTEMS (INSURANCE) LIMITED**

### **Auditors' report to the members of BAE SYSTEMS (Insurance) Limited**

We have audited the financial statements on pages 5 to 16

#### ***Respective responsibilities of directors and auditors***

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

#### ***Basis of audit opinion***

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of the Company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**KPMG Audit Plc**

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London

28 February 2001

**BAE SYSTEMS (INSURANCE) LIMITED**

**PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT - GENERAL BUSINESS**

for the year ended 31st December 2000

	Note	Continuing Activities			
		2000	1999		
		£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	3	10,706		10,725	
Outward reinsurance premiums		<u>(7,385)</u>		<u>(7,181)</u>	
			3,321		3,544
Change in the gross provision for unearned premiums		324		13	
Change in the provision for unearned premiums, reinsurers' share		<u>(88)</u>		<u>3</u>	
			236		16
Net earned premium			<u>3,557</u>		<u>3,560</u>
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(3,421)		(6,248)	
Reinsurers' share		<u>1,420</u>		<u>3,944</u>	
		<u>(2,001)</u>		<u>(2,304)</u>	
Change in the provision for claims					
Gross amount		(1,089)		(2,804)	
Reinsurers' share		<u>1,418</u>		<u>2,373</u>	
		<u>329</u>		<u>(431)</u>	
Net incurred claims			(1,672)		(2,735)
Net operating expenses	6		(930)		(1,594)
Balance on the technical account for general business			<u>955</u>		<u>(769)</u>

**BAE SYSTEMS (INSURANCE) LIMITED**

**PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT**

for the year ended 31st December 2000

	Note	Continuing Activities	
		2000 £000	1999 £000
Balance on the general business technical account		955	(769)
Investment income	5, 7	<u>1,720</u>	<u>1,386</u>
Profit on ordinary activities before tax	7	2,675	617
Tax on profit on ordinary activities	8	0	0
Profit for the financial year		<u>2,675</u>	<u>617</u>
Retained profit for the financial year transferred to reserves		<u>2,675</u>	<u>617</u>

There were no recognised gains and losses for the year other than the profit for the financial year.

**RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS**

	2000 £000	1999 £000
Opening shareholder's funds	17,403	16,786
Profit for the financial year	2,675	617
Closing shareholder's funds	<u>20,078</u>	<u>17,403</u>

**BAE SYSTEMS (INSURANCE) LIMITED****BALANCE SHEET**

as at 31st December 2000

	Note	2000		1999	
		£000	£000	£000	£000
Assets					
Investments					
Deposits with credit institutions	9		27,000		23,500
Reinsurers' share of technical provisions					
Provision for unearned premiums		0		88	
Claims outstanding	15	<u>5,226</u>		<u>3,808</u>	
			5,226		3,896
Debtors					
Debtors arising out of direct					
Insurance operations	10	75		382	
Debtors arising out of					
Reinsurance operations	11	1,578		525	
Other debtors		<u>72</u>		<u>1</u>	
			1,725		908
Other assets					
Cash at bank and in hand	12	<u>1,223</u>		<u>2,363</u>	
			1,223		2,363
Prepayments and accrued income					
Accrued interest		136		343	
Deferred acquisition costs		<u>0</u>		<u>29</u>	
			136		372
Total assets			<u>35,310</u>		<u>31,039</u>



**BAE SYSTEMS (INSURANCE) LIMITED****BALANCE SHEET (CONTINUED)**

as at 31st December 2000

	Note	2000		1999	
		£000	£000	£000	£000
Liabilities					
Capital and reserves					
Called up share capital	13	5,700		5,700	
Profit and loss account	14	<u>14,378</u>		<u>11,703</u>	
Shareholder's funds attributable to Equity interests			20,078		17,403
Technical provisions	15				
Provision for unearned premiums		0		324	
Claims outstanding		<u>8,030</u>		<u>6,941</u>	
			8,030		7,265
Creditors					
Creditors arising out of reinsurance operations		0		197	
Other creditors including taxation and social security	16	7,123		6,100	
Accruals and Deferred Income	17	<u>79</u>		<u>74</u>	
			7,202		6,371
Total liabilities			<u>35,310</u>		<u>31,039</u>

These financial statements were approved by the board of Directors on 28 February 2001 and were signed on its behalf by:



P W McDonald  
Chairman



M A Finlayson  
Director

## **BAE SYSTEMS (INSURANCE) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2000

#### **1 Basis of preparation**

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments and comply with the revised Statement of Recommended Practice issued by the Association of British Insurers.

As a wholly owned subsidiary of another company incorporated in Great Britain, the Company is exempt from preparing group accounts under Section 228 of the Companies Act 1985.

#### **2 Accounting policies**

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

##### *Basis of accounting for underwriting activities*

All business written is accounted for on an annual basis.

##### *Premiums*

Under the annual basis of accounting, written premiums, gross of commission payable to intermediaries, comprise the premiums on contracts entered in a financial year, regardless of whether such amounts may relate in whole or in part to a later financial year, exclusive of taxes and duties levied on premiums.

Premiums written include adjustments to premiums written in prior accounting periods and estimates for "pipeline" premiums. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

##### *Unearned premiums*

For business accounted for on the annual basis, the provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method and taking into account the risk profile of the contracts.

## **BAE SYSTEMS (INSURANCE) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2000

#### **2 Accounting Policies (continued)**

##### *Acquisition Costs*

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date.

##### *Claims incurred*

Claims incurred includes all claims and claims settlement expense payments made in respect of the financial period, and the movement in provision for outstanding claims and settlement expenses and includes claims incurred but not reported, net of salvage and subrogation recoveries.

##### *Claims outstanding*

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses. Where applicable, prudent estimates are made for salvage and subrogation recoveries, which are shown in the balance sheet as assets.

##### *Investment Income, expenses and charges*

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit.

##### *Investments*

All investments are stated at their current value.

##### *Deferred taxation*

Provision for deferred tax is made using the liability method to the extent that the net deferred tax asset or liability is expected to crystallise in the foreseeable future.

##### *Future run off expenditure*

No provision for future run-off costs is made as projected investment income is estimated to cover the future expenses.

# **BAE SYSTEMS (INSURANCE) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2000

- 3 Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance of the classes of business written by the Company.

	<b>2000 Gross Premiums Written £000</b>	<b>2000 Gross Premiums Earned £000</b>	<b>2000 Gross Claims Incurred £000</b>	<b>2000 Gross Operating Expenses £000</b>	<b>2000 Reinsurance Balance £000</b>
Direct insurance:					
Accident & health	1,373	1,410	796	(296)	(3)
Fire & other damage to property	5,818	5,818	3,377	(934)	1,670
Miscellaneous - Business Interruption	2,853	2,853	311	(458)	1,764
Other	662	949	26	(152)	364
	<b>10,706</b>	<b>11,030</b>	<b>4,510</b>	<b>(1,770)</b>	<b>3,795</b>

	<b>1999 Gross Premiums Written £000</b>	<b>1999 Gross Premiums Earned £000</b>	<b>1999 Gross claims Incurred £000</b>	<b>1999 Gross operating Expenses £000</b>	<b>1999 Reinsurance Balance £000</b>
Direct insurance:					
Accident & health	1,427	1,421	(1,294)	(319)	(199)
Fire & other damage to property	5,336	5,336	(7,171)	(1,198)	(2,042)
Miscellaneous - Business Interruption	2,605	2,605	(33)	(585)	1,845
Other	1,356	1,375	(589)	(309)	440
	<b>10,724</b>	<b>10,737</b>	<b>(9,087)</b>	<b>(2,411)</b>	<b>44</b>

4. Prior years' net claims provisions

Over/(under) provisions for claims at the beginning of the year compared to payments and provisions at the end of the year in respect of prior years' claims were:

	<b>2000 £000</b>	<b>1999 £000</b>
Accident & health	(175)	(85)
Fire and other damage to property	(471)	192
Marine, Aviation and transport	227	13
Miscellaneous - Business Interruption	(42)	97
	<b>(461)</b>	<b>217</b>

**BAE SYSTEMS (INSURANCE) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2000

	<b>2000 £000</b>	<b>1999 £000</b>
5 Investment income		
Income from other investments	<u>1,720</u>	<u>1,386</u>
	<b>2000 £000</b>	<b>1999 £000</b>
6 Net operating expenses		
Acquisition costs	938	983
Change in gross deferred acquisition costs	28	2
Administrative expenses	<u>804</u>	<u>1,426</u>
Gross operating expenses	1,770	2,411
Reinsurance commissions and profit participation	(837)	(817)
Change in deferred reinsurance commission	<u>(3)</u>	<u>Nil</u>
	<u>930</u>	<u>1,594</u>

In 1999 operating costs include an allocation of disbursements by the holding company on the company's behalf including £170,000 in respect of directors' emoluments. The company did not pay any remuneration to the directors. The company had no employees during the year. Operating costs also include auditors' remuneration for audit services of £11,100 (1999 - £10,575).

**BAE SYSTEMS (INSURANCE) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2000

7	Profit on ordinary activities before tax	<b>2000</b>	<b>1999</b>
		<b>£000</b>	<b>£000</b>
	Profit on ordinary activities before tax is stated:		
	after crediting		
	Income from deposits	<u>1,720</u>	<u>1,386</u>
	after charging		
	Auditors' remuneration:		
	Audit	11	11
	Other services	<u>9</u>	<u>8</u>
		<u>20</u>	<u>19</u>

8 Taxation

The company has not provided for corporation tax as any profits will be covered by losses surrendered from other group companies in respect of which no payment is to be made.

No provision for deferred tax is required.

9	Other financial investments	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
		<b>Market</b>	<b>Market</b>	<b>Cost</b>	<b>Cost</b>
		<b>Value</b>	<b>Value</b>		
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	Deposits with credit institutions	<u>27,000</u>	<u>23,500</u>	<u>27,000</u>	<u>23,500</u>

10	Debtors arising out of direct insurance operations	<b>2000</b>	<b>1999</b>
		<b>£000</b>	<b>£000</b>
	Amounts owed by intermediaries	<u>75</u>	<u>382</u>

**BAE SYSTEMS (INSURANCE) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2000

11	Debtors arising out of reinsurance operations	2000 £000	1999 £000
	Other reinsurance debtors	<u>1,578</u>	<u>525</u>
12	Cash at bank and in hand	2000 £000	1999 £000
	Cash at bank	1,223	2,201
	Escrow	<u>-</u>	<u>162</u>
		<u>1,223</u>	<u>2,363</u>
13	Called up share capital	2000 £000	1999 £000
	Authorised, allotted, called up and fully paid 5,700,000 (1999 : 5,700,000) ordinary shares of £1 each	<u>5,700</u>	<u>5,700</u>
14	Reserves		Profit & Loss Account £000
	At 1st January 2000		11,703
	Retained profit for the year		2,675
	At 31 <sup>st</sup> December 2000		<u>14,378</u>

**BAE SYSTEMS (INSURANCE) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2000

15 Technical provisions

	<b>Provision for Unearned Premiums £000</b>	<b>Claims Outstanding £000</b>	<b>Equalisation Provision £000</b>	<b>Total £000</b>
Gross amount				
At beginning of year	324	6,941	-	7,265
Movement in the Provision	(324)	1,089	-	765
At end of year	-	8,030	-	8,030
Reinsurance amount				
At beginning of year	(88)	(3,808)	-	(3,896)
Movement in the Provision	88	(1,418)	-	(1,330)
At end of year	-	(5,226)	-	(5,226)
Net technical Provisions				
At beginning of year	236	3,133	-	3,369
At end of year	-	2,804	-	2,804

Equalisation Provision

An equalisation provision is required to be established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. This is not a liability because it is in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, it is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet. There was no movement in the equalisation provision during the year (1999: reduction of £35,000) and no effect on the general business technical account result and the profit before taxation (1999: increase of £35,000).

16 Other creditors including taxation and social security

	<b>2000 £000</b>	<b>1999 £000</b>
Amounts due to parent undertaking	6,983	5,750
Other	140	350
	<u>7,123</u>	<u>6,100</u>



## **BAE SYSTEMS (INSURANCE) LIMITED**

for the year ended 31 December 2000

17 Accruals and Deferred Income

	<b>2000 £000</b>	<b>1999 £000</b>
Deferred reinsurance commissions	-	3
Other accrued expenses	79	71
	<u>79</u>	<u>74</u>

18 Ultimate parent company

The ultimate parent undertaking is BAE SYSTEMS Public Limited Company, a company incorporated in England and Wales. Copies of its Directors' Report and financial statements may be obtained from Warwick House, P O Box 87, Farnborough Aerospace Centre, Farnborough, Hants GU14 6YU

19 Cash Flow Statements

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a Cash Flow Statement on the grounds that it is a wholly owned subsidiary undertaking.

20 Related Parties

Under Financial Reporting Standard 8 the Company is exempt from the requirement to disclose related party transactions with other group companies on the grounds that it is a wholly owned subsidiary undertaking.