BAE Systems Project Services Limited

Annual Report and Financial Statements

31 December 2017

Registered Number: 00553146

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Directors' Report

Company registration

BAE Systems Project Services Limited (the "Company") is a private company, limited by shares and registered in England and Wales with the registered number 00553146.

Results and dividends

The Company's profit for the financial year is £153k (2016: profit £659k). The directors propose a dividend of £8,000,000 for 2017 (2016: £nil).

Looking forward

The principal activity of the Company is the design, manufacture and supply of mission critical command, control and management systems, radar sensors, simulation and training systems to defence forces throughout the world.

The Company's strategic plan is to continue to deliver solid financial performance via its remaining contracts.

Going concern

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue 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 during the year and at the date of this Report were as follows:

M J Howarth (resigned 10 February 2017)

C N J Sparkes (resigned 01 March 2018)

D J Mitchard (appointed 13 February 2017)

A P Varney

P C Burke (resigned 25 August 2017)

D E Bristow (appointed 01 March 2018)

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.

Auditor

Following an audit retender which concluded in 2017, Deloitte LLP was selected as the auditor for the BAE Systems Group. Accordingly it is intended that Deloitte LLP will be appointed to replace KPMG LLP as auditor for the year ending 31 December 2018.

On behalf of the Board

D.E. Bristow

D E Bristow
Director

15 May 2018

Registered office:
BAE Systems Project Services Limited
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU
United Kingdom

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), including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.'

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 Project Services Limited

Opinion

We have audited the financial statements of BAE Systems Project Services Limited ("the Company") for the year ended 31 December 2017 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and Related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework;* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Directors' Report

The directors are responsible for the Directors' Report. Our opinion on the financial statements does not cover that Report and we do not express an audit opinion thereon.

Our responsibility is to read the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Directors' Report;
- in our opinion the information given in that Report for the financial year is consistent with the financial statements; and
- in our opinion that Report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a Strategic Report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Andrew Bradshaw

Andrew Bradshaw
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square
London
E14 5GL

5 JULY 2018

Income Statement
for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Revenue	2	**207**	212
Operating costs	3	**(54)**	(247)
Other income	4	**-**	668
Profit before tax		**153**	633
Tax	6	**-**	26
Profit for the year		**153**	659

Statement of Comprehensive Income
for the year ended 31 December 2017

	2017 £'000	2016 £'000
Profit for the year	**153**	659
Total other comprehensive income for the year (net of tax)	**-**	-
Total comprehensive income for the year	**153**	659

The notes on pages 10 to 15 form part of the financial statements.

The results for 2017 and 2016 arise from continuing activities.

Balance Sheet
as at 31 December 2017

	Notes	2017 £'000	2016 £'000
Current assets			
Trade and other receivables including amounts due from customers for contract work	7	**8,560**	8,410
Total assets		**8,560**	8,410
Current liabilities			
Trade and other payables	8	**(3)**	(20)
Provisions	10	**(37)**	(23)
Total liabilities		**(40)**	(43)
Net assets		**8,520**	8,367
Capital and reserves			
Issued share capital	11	**-**	-
Retained earnings		**8,520**	8,367
Total equity		**8,520**	8,367

Approved by the Board on 15 May 2018 and signed on its behalf by:

D.E.Bristow

D E Bristow

Director

Registered number: 00553146

Statement of Changes in Equity
for the year ended 31 December 2017

	Retained earnings	Total equity
	£'000	£'000
At 1 January 2016	7,708	7,708
Profit for the year	659	659
At 31 December 2016	8,367	8,367
Profit for the year	153	153
At 31 December 2017	**8,520**	**8,520**

Notes to the Financial Statements

1 Accounting policies

Basis of preparation
These financial statements were prepared in accordance with FRS 101 Reduced Disclosure Framework issued in September 2015. The amendments to FRS 101 (2015/16 cycle) issued in July 2016 and FRS 101 (2016/17 cycle) issued in July 2017 have no impact on the Company.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the EU (EU-adopted 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 the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1, Presentation of Financial Statements, to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16, Property, Plant and Equipment; paragraph 118(e) of IAS 38, Intangible Assets; and paragraphs 76 and 79(d) of IAS 40, Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1, Presentation of Financial Statements;
- the requirements of IAS 7, Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24, Related Party Disclosures;
- the requirements in IAS 24, Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, Impairment of Assets.

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

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.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments). The going concern basis has been applied in these financial statements.

Revenue and profit recognition
Revenue represents income derived from the provision of goods and services by the Company.

Long-term contracts
The majority of the Company's long-term contract arrangements are accounted for under IAS 11, Construction Contracts. Sales are recognised when the Company has obtained the right to consideration in exchange for its performance, which is usually when title passes or a separately identifiable phase (milestone) of a contract or development has been completed.

Profit is calculated by reference to reliable estimates of contract revenue and forecast costs after making suitable allowances for technical and other risks related to performance milestones yet to be achieved. No profit is recognised until the outcome of a contract can be reliably estimated. Profit is recognised progressively as risks have been mitigated or retired.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Revenue and profit recognition *(continued)*

Goods supplied and services rendered

Revenue is measured at the fair value of the consideration received or receivable, net of returns, rebates and other similar allowances.

Revenue from the sale of goods not under a long-term contract is recognised in the Income Statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, there is no continuing management involvement with the goods, and the amount of revenue and costs can be measured reliably. Profit is recognised at the time of sale.

Revenue from the provision of services not under a long-term contract is recognised in the Income Statement in proportion to the stage of completion of the contract at the reporting date. The stage of completion is measured on the basis of direct expenses incurred as a percentage of total expenses to be incurred for material contracts and labour hours delivered as a percentage of total labour hours to be delivered for time contracts.

Revenue and profits on intercompany trading are determined on an arm's length basis.

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.

Trade and other receivables
Trade and other receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Receivables with a short-term duration are not discounted.

A loss on provision for bad debt is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Amounts due from customers for contract work includes long-term contract balances and amounts due from contract customers, less attributable progress payments.

Long-term contract balances are stated at cost less provision for any anticipated losses. Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of long-term contract balances for that portion of the work which has already been completed, and the remainder is included as amounts due to long-term contract customers within trade and other payables. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

Progress payments are amounts received from customers in accordance with the terms of contracts which specify payments in advance of delivery and are credited, as progress payments, against any expenditure incurred for the particular contract. Any unexpended balance in respect of progress payments is held in trade and other payables as customer stage payments or, if the amounts are subject to advance payment guarantees unrelated to Company performance, as cash received on customers' account.

Amounts due from contract customers represent unbilled income and are stated at cost, plus attributable profit.

Trade and other payables
Trade and other payables are stated at their cost.

Tax
Tax expense comprises current and deferred tax. Current and deferred 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.

Current tax
Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- related to investments in subsidiaries and equity accounted investments to the extent that it is probable that they will not reverse in the foreseeable future; and
- arising on the initial recognition of goodwill.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Tax *(continued)*

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to corporate income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Provisions
A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate.

Warranties and after-sales service
Warranties and after-sales service are provided in the normal course of business with provisions for associated costs being made based on an assessment of future claims with reference to past experience. A provision for warranties is recognised when the underlying products and services are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Other
Other provisions include provisions for onerous contracts, which are recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

2 Segmental analysis

Revenue by customer location

	2017	2016
	£'000	£'000
Rest of Europe	207	211
Middle East	-	1
	207	212

3 Operating costs

	2017	2016
	£'000	£'000
Raw materials, subcontracts and other bought-in items	-	230
Change in inventories of finished goods and work-in-progress	41	-
Provision increase	13	16
Other operating charges	-	1
Operating costs	**54**	247

The remuneration of the auditor for the year ended 31 December 2017 for auditing of the financial statements was £1,000 (2016: £1,000) and £nil (2016: £nil) in respect of non-audit work and was borne by fellow group undertaking, BAE Systems Surface Ships Limited.

4 Other income

	2017	2016
	£'000	£'000
Release of accruals	-	668

Notes to the Financial Statements *(continued)*

5 Employees

The monthly average number of Company employees was nil (2016: nil).

None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by BAE Systems plc or other group companies and were remunerated by those companies. None of the directors provided any material qualifying services to the Company.

6 Tax

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

Taxation expense	2017 £'000	2016 £'000
Current taxation		
Overseas:		
Adjustments in respect of prior years	-	26
Tax result	**-**	26

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

	2017 £'000	2016 £'000
Profit before tax	**153**	633
UK corporation tax rate	**19.25%**	20%
Expected tax (expense) on profit	**(29)**	(127)
Imputed interest (income)	**(29)**	(29)
Property, plant and equipment	-	1
Adjustments in respect of prior years	-	26
Losses received from fellow group companies	**58**	155
Tax result	**-**	26

The UK current tax rate was reduced from 20% to 19% with effect from 1 April 2017.

7 Trade and other receivables

	2017 £'000	2016 £'000
Current		
Long-term contract balance	**42**	2
Amounts owed by BAE Systems plc subsidiaries	**8,518**	8,299
Other receivables	-	109
	8,560	8,410

Notes to the Financial Statements *(continued)*

8 Trade and other payables

	2017 £'000	2016 £'000
Current		
Amounts due to long-term contract customers	**3**	20
	3	20

9 Deferred tax

The deferred tax asset, which has not been recognised in the financial statements, is made up as follows:

	2017 £'000	2016 £'000
Pensions, provisions and accruals	**36**	36
Property, Plant and equipment	**1**	2
Deferred tax assets	**37**	38
Net deferred tax assets	**37**	38

The UK corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017, and will be reduced to 17% with effect from 1 April 2020. In line with these changes the deferred tax asset has been calculated at the tax rates that are expected to apply to temporary difference when they reverse, based on the laws enacted or substantially enacted by the reporting date.

10 Provisions

	Warranty £'000
At 1 January 2017	23
Created	14
At 31 December 2017	**37**

Warranties and after-sales service

Warranty and after-sales service costs are generally incurred within three years post-delivery. Whilst actual events could result in potentially significant differences to the quantum, but not the timing, of the outflows in relation to the provisions, management has reflected current knowledge in assessing the provision levels.

11 Share capital

	£0.05 Ordinary shares	**Nominal value £**
Issued and fully paid		
At 1 January and 31 December 2017	**40**	**2**

Notes to the Financial Statements *(continued)*

12 Controlling parties

The immediate parent company is BAE Systems Surface Ships (Holdings) Limited and the ultimate parent company is BAE Systems plc, which is the only parent company preparing group financial statements. Both companies are incorporated in Great Britain and registered in England and Wales.

The consolidated Annual Report of BAE Systems plc is available to the public and may be obtained from:

6 Carlton Gardens
London
SW1Y 5AD

Website: www.baesystems.com