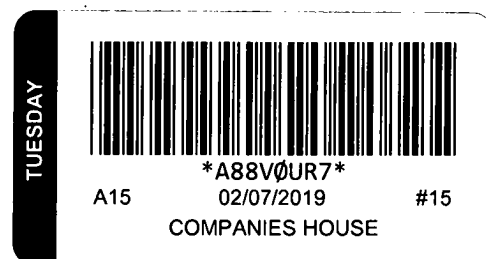


BAE Systems Project Services Limited

Annual Report and Financial Statements

31 December 2018

Registered number: 00553146



BAE Systems Project Services Limited
Annual Report and Financial Statements
31 December 2018

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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 £12k (2017 £172k profit). The directors do not propose a dividend for 2018 (2017 £8,000,000).

Principal activity

The principal activity of the Company is the provision of spares parts and to carry out repairs associated with various contracts.

Looking forward

The Company expects to continue with its current contracts for the foreseeable future.

The terms of the UK's exit from the EU are currently uncertain, rendering it difficult for the Company to prepare for potential changes in the regulatory environment. In particular, a no-deal Brexit could have an impact on programmes which depend on the movement of goods between the UK and the EU but near-term impacts for the Company are likely to be limited.

Going concern

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue operational existence for at least 12 months from the approval of the financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Small companies exemption

The Directors' Report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006, and consequently a Strategic Report has not been prepared.

Directors and their interests

The directors who served throughout the year and up to date of signing, except as noted were as follows:

D E Bristow (appointed 1 March 2018)
C N J Sparkes (resigned 1 March 2018)
D J Mitchard
A P Varney

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 they ought to have taken to make themselves 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 S418 of the Companies Act 2006.

Directors' Report (continued)

Auditor

Following a Group audit retender by the Company's ultimate parent company, BAE Systems plc, Deloitte LLP was appointed as auditor to the Company on 10 September 2018.

Deloitte LLP have indicated their willingness to be re-appointed as the Company's auditor and a resolution proposing their re-appointment will be put to the members.

Approved by the Board and signed on its behalf by:

D E Bristow

D E Bristow
Director

14 June 2019

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

Directors' Responsibilities Statement

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 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 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
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.

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 Project Services Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems Project Services Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 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 Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- 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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's Report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

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.

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has 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 Directors' Report.

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

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; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

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.



Colin Gibson CA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Glasgow

United Kingdom

Date: 20 June 2014

Income Statement
for the year ended 31 December 2018

	Note	2018 £'000	<i>As restated</i> 2017 £'000
Revenue	2	68	276
Operating income/(costs)	3	(44)	(99)
Operating profit		<u>24</u>	<u>177</u>
Tax	5	(12)	(5)
Profit for the financial year		<u><u>12</u></u>	<u><u>172</u></u>

The notes on pages 11 to 26 form part of these financial statements.

* Prior year comparatives have been restated upon the Company's adoption of ("IFRS") 15 revenue from contracts with customers. See note 11 for details regarding the restatement.

BAE Systems Project Services Limited
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Statement of Comprehensive Income
for the year ended 31 December 2018

	2018	<i>As restated</i>
	£'000	2017
		£'000
Profit for the year	12	172
Total comprehensive income for the year	12	172

The notes on pages 11 to 26 form part of the financial statements.

The results for 2018 and 2017 arise from continuing activities.

BAE Systems Project Services Limited
Annual Report and Financial Statements
31 December 2018

Balance Sheet
as at 31 December 2018

	Note	2018 £'000	<i>As restated</i> 2017 £'000
Current assets			
Trade, contract and other receivables	6	602	8,584
Deferred tax		-	12
		<u>602</u>	<u>8,596</u>
Current liabilities			
Trade and other payables	7	(85)	(91)
Provisions	8	(37)	(37)
		<u>(122)</u>	<u>(128)</u>
Net assets		<u>480</u>	<u>8,468</u>
Capital and reserves			
Issued share capital	10	-	-
Retained earnings		480	8,468
Total equity		<u>480</u>	<u>8,468</u>

* Prior year comparatives have been restated upon the Company's adoption of ("IFRS") 15 revenue from contracts with customers. See note 11 for details regarding the restatement.

Approved by the Board on 19 June 2019 and signed on its behalf by:

D E Bristow

D E Bristow
Director

Registered number: 00553146

BAE Systems Project Services Limited
Annual Report and Financial Statements
31 December 2018

Statement of Changes in Equity
for the year ended 31 December 2018

	Issued share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017 (As restated (see note 11))	-	8,296	8,296
Total comprehensive income for the year	-	172	172
At 31 December 2017	-	8,468	8,468
Total comprehensive income for the year	-	12	12
Dividends: Equity capital (note 10)	-	(8,000)	(8,000)
At 31 December 2018	-	480	480

The notes on pages 11 to 26 form part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

BAE Systems Project Services 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 address of the Company's registered office is shown on page 2. The principal activity of the Company is set out in the Directors' Report on page 1.

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities. These financial statements have been prepared using the going concern basis of accounting.

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.

Notes to the Financial Statements

1. Accounting policies (continued)

1.1 Basis of preparation (continued)

Critical accounting policies

Certain of the Company's significant accounting policies are considered by the directors to be critical because of the level of complexity, judgement or estimation involved in their application and their impact on the financial statements. The critical accounting policies are listed below:

Critical accounting policy	Description
Revenue and profit recognition	The Company accounts for revenue in accordance with IFRS 15, Revenue from Contracts with Customers. For most of the Company's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired. The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks, which are reliant on the knowledge and experience of the Company's project managers, engineers, and finance and commercial professionals. Material changes in these estimates could affect the profitability of individual contracts. Revenue and cost estimates are reviewed and updated at least quarterly, and more frequently as determined by events or circumstances. See note 1.2.

Judgements made in applying accounting policies

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the financial statements.

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. The Company does not have any key assumptions concerning the future, or other key sources of estimation uncertainty, in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Changes in accounting policies

IFRS 9, Financial instruments and IFRS 15, Revenue from Contracts with Customers became effective on 1 January 2018. The impact of adoption is set out in note 11.

Several other standards, interpretations and amendments to existing standards became effective on 1 January 2018, none of which had a material impact on the Company.

Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Company's financial performance and position.

Notes to the Financial Statements

1. Accounting policies (continued)

1.2 Revenue and profit recognition

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Company to customers in exchange for consideration in the ordinary course of the Company's activities.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract. The Company provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Company's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are typically no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Company's pricing principles. Whilst payment terms vary from contract to contract, on many of the Company's contracts, an element of the transaction price is received in advance of delivery. The Company therefore has significant contract liabilities. The Company's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price either as a result of UK Ministry of Defence contracting rules which prohibit the inclusion of financing in the sales price or negotiations on competitive international export contracts which do not make allowance for the cash payment profile.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer. For each performance obligation within a contract, the Company determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs;
- the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date.

Notes to the Financial Statements

1. Accounting policies (continued)

1.2 Revenue and profit recognition (continued)

The Company has determined that most of its contracts satisfy the over-time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs (typically services or support contracts) or the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date (typically development or production contracts).

For each performance obligation to be recognised over time, the Company recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Company has determined that this method faithfully depicts the Company's performance in transferring control of the goods and services to the customer.

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

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

Contract modifications

The Company's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Company's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

1. prospectively, as an additional, separate contract; or
2. prospectively, as a termination of the existing contract and creation of a new contract; or
3. as part of the original contract using a cumulative catch-up.

The majority of the Company's contract modifications are treated under either 1 (for example, the requirement for additional distinct goods or services) or 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

Costs to obtain a contract

The Company expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Company does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Costs to fulfil a contract

Contract fulfillment costs in respect of over-time contracts are expensed as incurred. Contract fulfillment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

Notes to the Financial Statements

1. Accounting policies (continued)

1.3 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.

1.4 Trade and other receivables

Trade and 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 trade 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.

1.5 Trade and other payables

Trade and other payables are stated at their amortised cost.

1.6 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.

Notes to the Financial Statements

1. Accounting policies (continued)

1.7 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.

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.

2. Revenue

	2018 £'000	As restated 2017 £'000
Revenue by geographical location		
Europe	5	237
Middle east	63	39
	68	276

Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 11 for details regarding the restatement.

Notes to the Financial Statements

3. Operating costs

	2018 £'000	<i>As restated</i> 2017 £'000
Other operating charges	44	99
	<u>44</u>	<u>99</u>

The remuneration of the auditor for the year ended 31 December 2018 for auditing of the financial statements was £1,000 (2017 £1,000) and £nil (2017 £nil) in respect of non-audit work and was borne by fellow group undertaking, BAE Systems Surface Ships Limited. As noted in the Directors' Report, Deloitte LLP was appointed as statutory auditor for 2018, replacing KPMG LLP, who resigned following the 2017 audit. Accordingly, references related to 2018 relate to Deloitte LLP and 2017 to KPMG LLP.

Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 11 for details regarding the restatement.

4. Employees

The weekly average number of Company employees was nil (2017 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 another group company and were remunerated through those companies. The directors did not provide any material qualifying services to the Company.

Notes to the Financial Statements

5. 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.

	2018 £'000	As restated 2017 £'000
Current tax		
UK:		
Current tax	-	-
	-	-
Deferred tax		
Origination and reversal of temporary differences	(12)	(5)
	(12)	(5)
Tax (expense)	(12)	(5)

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 rates that are expected to apply to temporary differences when they reverse, based on laws enacted or substantially enacted by the reporting date.

The following reconciles the expected tax (expense), using the UK corporation tax rate, to the reported tax expense:

	2018 £'000	As restated 2017 £'000
Profit before tax	24	177
UK corporation tax rate	19.00%	19.25%
Expected tax (expense) on profit	(4)	(34)
Imputed interest (income)	(20)	(29)
Losses received from BAE Systems plc group companies free of charge	12	58
	(12)	(5)
Tax (expense)	(12)	(5)

* Prior year comparatives have been restated upon the Company's adoption of ("IFRS") 15 revenue from contracts with customers. See note 11 for details regarding the restatement.

Notes to the Financial Statements

6. Trade and other receivables

	2018	<i>As restated</i> 2017
	£'000	£'000
Current		
Amounts owed by BAE Systems plc subsidiaries	594	8,555
Prepayments and accrued income	8	29
	<u>602</u>	<u>8,584</u>

Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 11 for details regarding the restatement.

7. Trade and other payables

	2018	<i>As restated</i> 2017
	£'000	£'000
Current		
Trade creditors	85	91
	<u>85</u>	<u>91</u>

Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 11 for details regarding the restatement.

Notes to the Financial Statements

8. Provisions

	Warranties and after-sales service £'000
At 1 January 2018	37
At 31 December 2018	37

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.

9. Deferred taxation

Provided

The deferred tax asset, which has been recognised in the financial statements is made up as follows:

	2018 £'000	2017 £'000
Other	-	12
	-	12

Movement in temporary differences during the year

	At 1 January 2018 £'000	Recognised in income £'000	At 31 December 2018 £'000
Other	12	(12)	-
	12	(12)	-

Notes to the Financial Statements

9. Deferred taxation (continued)

	<i>At 1 January 2017 £'000</i>	<i>Recognised in income £'000</i>	<i>At 31 December 2017 £'000</i>
Other*	17	(5)	12
	<u>17</u>	<u>(5)</u>	<u>12</u>

* Prior year comparatives have been restated upon the Company's adoption of ("IFRS") 15 revenue from contracts with customers. See note 11 for details regarding the restatement.

Unprovided

The deferred tax asset, which has not been recognised in the financial statements due to uncertainty over its recoverability, is made up as follows:

	2018 £'000	2017 £'000
Provisions	36	36
Property, plant and equipment	1	1
	<u>37</u>	<u>37</u>

The UK corporation tax rate has been reduced from 20% to 19% with effect from 1 April 2017, and will be reduced to 17% with effect from 1 April 2020. The rate applying to the unrecognised deferred tax asset is 17% (2017: 17%).

Notes to the Financial Statements

10. Share capital and other reserves

	£0.05 Ordinary shares	Nominal value £
Issued and fully paid		
At 1 January and 31 December 2018	40	2

Dividends

	2018 £'000	2017 £'000
Dividends paid in respect of prior years	8,000	-

The directors do not propose a dividend for the current year (2017 £8,000,000)

Notes to the Financial Statements

11. Change in accounting policies

This note explains the impact of the adoption of IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, on the Company's financial statements.

Impact on financial statements

As a result of changes in the Company's accounting policies, prior year comparative information has been restated for the adoption of IFRS 15 Revenue from Contracts with Customers. As explained below, IFRS 9 was adopted without restating comparative information. The following tables show the adjustments recognised for each individual line item. Line items that are not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Income Statement (extract)

	2017 As previously reported £'000	Impact of IFRS 15 £'000	2017 Restated on adoption of IFRS 15 £'000
Revenue	207	69	276
Operating costs	(54)	(45)	(99)
Tax	-	(5)	(5)
	<u>153</u>	<u>19</u>	<u>172</u>

Notes to the Financial Statements

11. Change in accounting policies (continued)

Balance Sheet (extract)

	2017 As previously reported £'000	Impact of IFRS 15 £'000	2017 Restated on adoption of IFRS 15 £'000
Non-current assets			
Deferred tax	-	12	12
	-	12	12
Current assets			
Trade, contract and other receivables	8,560	24	8,584
	8,560	24	8,584
Current liabilities			
Trade and other payables	(3)	(88)	(91)
	(3)	(88)	(91)
Capital and reserves			
Retained earnings	8,520	(52)	8,468
	8,520	(52)	8,468

Notes to the Financial Statements

11. Change in accounting policies (continued)

IFRS 9 Financial instruments – impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9, Financial Instruments from 1 January 2018 resulted in changes in accounting policies; however, no adjustments were required to the amounts recognised in the financial statements in previous periods. The accounting policies applied from 1 January 2018 are set out in note 1. The changes had no material impact on the Company.

Classification and measurement

On 1 January 2018, the Company has classified its financial instruments in the appropriate IFRS 9 categories.

Impairment of financial assets

The Company has three types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables;
- contract receivables;
- amounts owed by BAE Systems plc and its subsidiaries;

Trade receivables and contract receivables do not contain a significant financing element and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables.

The Company has assessed credit risk in relation to defence-related sales to government customers or sub-contractors to governments and believes it to be extremely low as the possibility of default is insignificant; therefore the provision for expected credit losses is immaterial in respect of receivables from these customers. The Company considers expected credit losses for non-government commercial customers, however this risk is not material to the financial statements.

While amounts owed by BAE Systems plc and its subsidiaries also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

There was no IFRS 9 impact on retained earnings at 1 January 2018.

Notes to the Financial Statements

11. Change in accounting policies (continued)

IFRS 15, Revenue from Contracts with Customers – impact of adoption

The Company has adopted IFRS 15 fully retrospectively in accordance with paragraph C3(a). The following expedients have been used in accordance with paragraph C5:

- revenue in respect of completed contracts that begin and end in the same accounting period has not been restated;
- revenue in respect of completed contracts with variable consideration reflects the transaction price at the date the contracts were completed; and
- the transaction price allocated to unsatisfied and partially unsatisfied performance obligations as at 31 December 2017 is not disclosed.

The accounting policy in respect of revenue applied from 1 January 2018 is set out in note 1.

The impact of adoption on the Company's comparative Income Statement, Balance Sheet and Statement of Comprehensive Income is shown above.

The impact of adoption on the Company's retained earnings at 31 December 2017 and 31 December 2016 is as follows:

	2017 £'000	2016 £'000
Retained earnings – as previously reported	8,520	8,367
Recognition of revenue for over time contracts based on costs incurred and including attributable margin	24	-
Tax on recognition of revenue for over time contracts based on costs incurred and including attributable margin	(5)	-
Adjustment to retained earnings upon adoption of IFRS 15	(88)	(88)
Tax on adjustment to retained earnings upon adoption of IFRS 15	17	17
Retained earnings – IFRS 15 (restated)	8,468	8,296

12. Controlling parties

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