

Registration No. 2082545

BAE SYSTEMS PROJECTS (CANADA) LIMITED
(Formerly VSEL Overseas Projects Limited)

Report and Financial Statements

For the Year Ended 31 December 2003

BAE SYSTEMS PROJECTS (CANADA) LIMITED
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hants
GU14 6YU



BAE SYSTEMS PROJECTS (CANADA) LIMITED
(Formerly VSEL Overseas Projects Limited)

Report and Financial Statements

For the Year Ended 31 December 2003

BAE SYSTEMS Projects (Canada) Limited
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BAE SYSTEMS Projects (Canada) Limited
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DIRECTORS' REPORT

The Directors present their report and the financial reports of the Company for the year ended the 31 December 2003.

Results

The profit for the year after taxation amounted to £0.6m (2002:£0.2m). The Directors do not recommend the payment of a dividend. (2002:nil).

Principal Activity

The principal activities of the Company are defence export contracting.

Review of the Company

The Company focused on the support of the three submarines delivered to Canada during 2003. In particular, support to extended work periods for HMCS VICTORIA and HMCS WINDSOR took up most of the effort. Once delivered, HMCS CORNER BROOK remained at sea until late in the year before entering an extended work period at the beginning of 2004.

Directors & Directors Interests

The present members of the Board are Messrs R.C.M.Fisher, W.Hamilton and J.M.Hartley. Messrs R.C.M. Fisher and W.Hamilton were elected to the Board on 4 July 2002. Messr A.Osbourne resigned from the board on 15 April 2004 and Messr J.M Hartley was elected to the board on 15 April 2004. Mr. W Hamilton resigned on 30/04/2004.

The directors who held office at the end of the year, and the beneficial, including family, interests in the share capital of BAE SYSTEMS plc, the company's ultimate parent undertaking, were as follows:-

Capital Amortising Loan Stock

	1 January 2003 Number	31 December 2003 Number
W.Hamilton	301	0

Ordinary Shares at 2.5p each Fully Paid

	1 January 2003 Number	31 December 2003 Number
R.C.M.Fisher	88	88
W.Hamilton	1000	1000

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None of the directors had any non beneficial interests in the share capital of BAE SYSTEMS plc during the year.

Directors' share options

The directors' interests in the share options of BAE SYSTEMS plc were as follows:

	1 January 2003	Granted	Exercised	31 December 2003	Weighted average exercise price £	Range of exercise price £	Date at which first exercisable	Expiry date
		Number of Options						
R.C.M.Fisher	87,089	101,745	1,453	187,381	2.5023	0.93-4.015	04/10/02	- 30/09/13
W.Hamilton	21,028	11,750	633	32,145	2.8714	1.72-3.98	03/05/03	- 30/09/13
A.Osborne	34,663	14,818	633	48,848	2.9398	0.93-3.98	03/05/03	- 30/09/13

R.C.M.Fisher's share options exercised/lapsed during the year were exercised at a Weighted Average of 293p.

W.Hamilton's share options exercised/lapsed during the year were exercised at 93p.

A.Osbourne's share options exercised/lapsed during the year were exercised at 257p.

The mid-market price of BAE SYSTEMS plc shares at 31 December 2003 was 168.25p (2002: 124p) and the range during the year was 101.48p to 196.5p

Payments of Creditors

The Companies Act 1985, as amended, requires the Company to make a statement of its policy and practice on the payment of creditors.

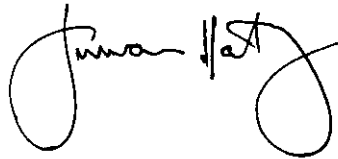
It is and will continue to be the policy of the Company to negotiate with suppliers so as to obtain the best available terms taking account of quality, delivery, price and period of settlement and, having agreed those terms, to abide by them.

**BAE SYSTEMS Projects (Canada) Limited
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Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to read 'J.M. Hartley', with a large, stylized flourish at the end.

J.M.Hartley
Director

28 January 2005

Registered Office:
Warwick House
P O Box 87
Farnborough Aerospace Centre
FARNBOROUGH
Hampshire
GU14 6YU
England

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare accounts 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 accounts, 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985.

They have a 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 AUDITORS' REPORT
to the members of BAE SYSTEMS Projects (Canada) Limited

We have audited the financial statements on pages 6 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the 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 Acts. 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 2003 and of its profit for the 12 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Re

31 / 1 / 2005

KPMG Audit plc
Chartered Accountants
Registered Auditors

Edward VII Quay
Navigation Way
Ashton-on-Ribble
Preston
Lancashire PR2 2YF

BAE SYSTEMS Projects (Canada) Limited
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PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	Note	2003 £m	2002 £m
Turnover		<u>31.2</u>	<u>12.4</u>
Operating profit	2	1.1	0.5
Profit on ordinary activities before taxation		<u>1.1</u>	<u>0.5</u>
Taxation on profit on ordinary activities	3	<u>(0.5)</u>	<u>(0.3)</u>
Profit on ordinary activities after taxation retained for the financial year	9	<u>0.6</u>	<u>0.2</u>

There were no recognised gains or losses other than those reported above. The above results relate entirely to the continuing activities of the Company. There is no difference between the profit on ordinary activities before taxation and the retained profit for the financial year stated above, and their historical cost equivalents.

BAE SYSTEMS Projects (Canada) Limited
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BALANCE SHEET

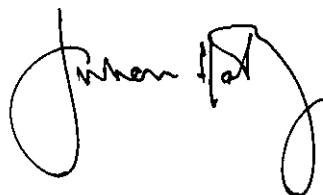
As at 31 December 2003

	Note	31 December 2003 £m	31 December 2002 £m
Current assets			
Stocks and contracts in progress	5	-	-
Debtors	6	1.3	1.2
Cash at bank and in hand		4.2	10.1
		<u>5.5</u>	<u>11.3</u>
Creditors: amounts falling due within one year	7	<u>(4.1)</u>	<u>(10.5)</u>
Net current assets		1.4	0.8
Total assets less current liabilities		<u>1.4</u>	<u>0.8</u>
Capital and reserves			
Called up share capital	8	-	-
Profit and loss account	9	1.4	0.8
Equity shareholders' funds	10	<u>1.4</u>	<u>0.8</u>

Approved by the Board of Directors on

28 January 2005

J.M.HARTLEY



Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

1. ACCOUNTING POLICIES

The accounts have been prepared on the historical cost basis in accordance with applicable accounting standards in the United Kingdom. The Company is a wholly owned subsidiary of BAE SYSTEMS plc, consequently the Company is exempt under the terms of Financial Reporting Standard 1 (Revised 1996) from the requirement to publish its own cash flow statement.

The more important accounting policies, which have been consistently applied, are summarised below to facilitate the interpretation of the financial statements and are in addition to the policies explained in the notes to the accounts.

a. Turnover

The Company records transactions as turnover when title passes to customers or when there is a contractual right to invoice. Turnover is exclusive of VAT.

b. Stock and contracts in progress

Stock and contracts in progress are valued at the lower of cost, inclusive of appropriate overheads, and estimated net realisable value. Provisions are made for any losses incurred. Profit on long-term contracts in progress is taken when a sale is recorded on part-delivery of products or part-performance of services, provided that the outcome of the contract can be assessed with reasonable certainty. Advance payments received from customers are shown as creditors until there is a right of set-off against the value of work carried out, any excess being included with payments received in advance.

c. Taxation

The charge for taxation is based on the profit for the year and takes account of taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised on an undiscounted basis in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date where there is an obligation to pay more tax, or a right to pay less tax, in the future.

d. Related party transactions

The directors have taken advantage of the exemption in Financial Reporting Standard number eight, paragraph 3(a) and have not disclosed transactions or balances between group entities that have been eliminated on consolidation.

BAE SYSTEMS Projects (Canada) Limited
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 31 December 2003

2. OPERATING PROFIT

	2003	2002
	£m	£m
Sales	<u>31.2</u>	<u>12.4</u>
Decrease in stocks of finished goods and work in progress	-	(3.5)
Raw materials and consumables	(27.6)	(6.2)
Staff Costs (note 4)	(1.8)	(1.1)
Other external and operating charges	<u>(0.7)</u>	<u>(1.1)</u>
Operating profit and profit on ordinary activities before taxation	<u>1.1</u>	<u>0.5</u>

NOTE: Auditors remuneration is paid wholly by another group company.

3. TAXATION ON PROFIT

	2003	2002
	£m	£m
UK Corporation Tax	0.3	0.2
Less: Double taxation relief	<u>(0.3)</u>	<u>(0.2)</u>
	-	-
Overseas tax for current year	0.5	0.3
Overseas tax for prior year	-	-
Tax on the results	<u>0.5</u>	<u>0.3</u>

BAE SYSTEMS Projects (Canada) Limited
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 31 December 2003

4. DIRECTORS AND EMPLOYEES

	Year Ended 31 December 2003 No.	Year Ended 31 December 2002 No.
Total average number of employees	<u>52</u>	<u>35</u>
	<u>£m</u>	<u>£m</u>
Total remuneration	1.6	1.1
State and social security costs	0.1	-
Other pension costs	0.1	-
	<u>1.8</u>	<u>1.1</u>

The Directors are full time executives of other Group Companies. They do not receive any remuneration for their services as Directors of the Company and it is not practical to allocate their emoluments for other services.

5. STOCK AND CONTRACTS IN PROGRESS

	December 2003 £m	December 2002 £m
Long-term contract work in progress	-	0.6
Payments on accounts	-	(0.6)
	<u>-</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 31 December 2003

6. DEBTORS

	December 2003 £m	December 2002 £m
Amounts falling due within one year:		
Trade debtors	1.3	1.2
Amounts owed from holding and fellow subsidiary companies	-	-
	<u>1.3</u>	<u>1.2</u>

7. CREDITORS

	December 2003 £m	December 2002 £m
Amounts falling due within one year:		
Trade Creditors	0.1	0.1
Payments received in advance	0.0	2.4
Amounts owed to holding and fellow subsidiary companies	3.7	8.0
Overseas Taxation	0.3	-
	<u>4.1</u>	<u>10.5</u>

8. CALLED UP SHARE CAPITAL

	Authorised £	Issued £
Share Capital		
At 1 January 2003 and 31 December 2003	100	2
Shares of £1 each fully paid	<u>100</u>	<u>2</u>

BAE SYSTEMS Projects (Canada) Limited
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 31 December 2003

9. RESERVES

**MOVEMENT ON PROFIT AND LOSS ACCOUNT
RESERVE**

	£m
At 1 January 2003	0.8
Retained profit for the financial year	0.6
At 31 December 2003	<u>1.4</u>

10. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	December 2003 £m	December 2002 £m
Profit for the financial year	0.6	0.2
Net increase in equity shareholders' funds	0.6	0.2
Opening equity shareholders' funds	0.8	0.6
Closing equity shareholders' funds	<u>1.4</u>	<u>0.8</u>

11. ULTIMATE PARENT UNDERTAKING & IMMEDIATE PARENT UNDERTAKING

The Company's ultimate parent company and controlling entity is BAE SYSTEMS plc, which is registered in England and Wales. The BAE SYSTEMS group is the only group of which the Company is a member for which group accounts are prepared. Copies of the accounts of BAE SYSTEMS plc are available from the registered office, BAE SYSTEMS plc, 6, Carlton Gardens, London, SW1Y 5AD.

The company's immediate parent undertaking is BAE SYSTEMS Marine (Holdings) Limited, holding 100% of the share capital.

Pursuant to the exemption granted by Financial Reporting Standard 8 "Related Party Disclosures", transactions with other undertakings within, and related parties of, the BAE SYSTEMS group have not been disclosed in these financial statements.