

Registration No. 2082545

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

Report and Financial Statements

For the Year Ended 31 December 2000



BAE SYSTEMS Projects (Canada) Limited
(Formerly VSEL Overseas Projects 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 2000.

Results

The profit for the year after taxation amounted to £400,000. The Directors do not recommend the payment of a dividend.

Principal Activity

The principal activity of the Company is defence export contracting.

Review of the Company

The principal activity of the Company is the technical and logistics support of the VICTORIA (ex UPHOLDER) Class submarines in Canada.

During the year the first of four submarines was delivered to the Canadian Department of National Defence by the UK Government. The Company undertook a range of activities to support the Canadian Navy as it prepares to introduce the submarines into active service.

On 8 March 2001 the company changed its name to BAE SYSTEMS Projects (Canada) Limited.

Directors

The present members of the Board are Messrs R J Imms, D A Cole, T K Morgan, S N Kirby and R K Roberts. Messrs S N Kirby and T K Morgan were appointed to the Board of Directors on 1 November 2000 and 22 January 2001. Messrs R H Rigby and R A Leggetter resigned from the Board on 1 November 2000 and 22 January 2001.

According to the Register kept by the Company in accordance with Section 325 of the Companies Act 1985 the persons who were Directors on the 31 December 1999 had no disclosable interests in the shares of the Company's ultimate parent Company, BAE SYSTEMS plc or its subsidiaries, other than those shown below:

IN BAE SYSTEMS PLC		
	At 31 December 1999 or Date of Appointment	At 31 December 2000
	No.	No.
Capital Amortising Loan Stock		
D A Cole	2,792	2,792
S N Kirby	590	590
Ordinary Shares at 2.5p each Fully Paid		
D A Cole	663	2,504
S N Kirby	1,900	1,917
R K Roberts	6,829	6,888

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	At 31 December 1999 Or Date of Appointment No.	Options Granted No.	Options Exercised No.	At 31 December 2000 No.
Options in Respect of Ordinary Shares of 2.5p each				
Under the terms of the Executive Share Option Scheme				
D A Cole	-	21,655	-	21,655
R J Imms	21,378	5,646	-	27,024
S N Kirby	30,130	-	-	30,130
R K Roberts	48,545	8,470	-	57,015

The share options are exercisable in the years 2000 to 2010 at a subscription price between £2.75 and £4.21 per share.

Under the terms of the SAYE Share Option Scheme

D A Cole	-	1,103	-	1,103
R J Imms	-	633	-	633
S N Kirby	633	-	-	633
R K Roberts	7,893	-	-	7,893

The options are exercisable during the years 2001 to 2005 at a subscription price between £1.75 and £2.57 per share.

Shares

The middle market price of the holding company's ordinary shares on the London Stock Exchange was £3.82 on 31 December 2000. During the year ended 31 December 2000, the middle market prices of such shares on the London Stock Exchange ranged between a low of £2.81 and a high of £4.53.

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.

The total amount of trade creditors falling due within one year at 31 December 2000, excluding amounts owed to companies in the BAE SYSTEMS group is nil.

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Auditors

In accordance with Section 384 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 'D A Cole', written in a cursive style.

D A COLE
Director

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

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.



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Lancashire PR2 2YF
United Kingdom

Independent auditors' report to the members of BAE SYSTEMS Projects (Canada) Limited (formerly VSEL Overseas Projects Limited)

We have audited the financial statements on pages 6 to 11.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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 Act 1985. 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 Auditors

7 February

2002

BAE SYSTEMS Projects (Canada) Limited
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PROFIT AND LOSS ACCOUNT

Year ended 31 December 2000

	Note	December 2000 £m	December 1999 £m
Turnover		<u>4.1</u>	<u>2.1</u>
Operating profit	2	<u>0.4</u>	-
Profit on ordinary activities before taxation		<u>0.4</u>	-
Taxation on profit on ordinary activities		<u>-</u>	<u>-</u>
Profit on ordinary activities after taxation retained for the period/financial year	9	<u><u>0.4</u></u>	<u><u>-</u></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 period/financial year stated above, and their historical cost equivalents.

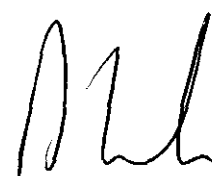
BAE SYSTEMS Projects (Canada) Limited
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BALANCE SHEET

As at 31 December 2000

	Note	December 2000 £m	December 1999 £m
Current assets			
Stocks and contracts in progress	4		0.3
Debtors	5	1.1	0.8
Cash at bank and in hand		2.6	0.1
		<u>3.7</u>	<u>1.2</u>
Creditors: amounts falling due within one year	5	<u>(3.3)</u>	<u>(1.2)</u>
Net current assets		0.4	-
Total assets less current liabilities		<u>0.4</u>	<u>-</u>
Capital and reserves			
Called up share capital	7	-	-
Profit and loss account	8	0.4	-
Equity shareholders' funds	9	<u>0.4</u>	<u>-</u>

Approved by the Board of Directors on



Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

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 or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision for deferred taxation is made using the liability method to the extent that the net deferred tax asset or liability will crystallise in the foreseeable 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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 31 December 2000

2. OPERATING PROFIT

	December 2000 £m	December 1999 £m
Sales	<u>4.1</u>	<u>2.1</u>
Increase in stocks of finished goods and work in progress	2.3	2.9
Raw materials and consumables	(5.8)	(4.0)
Staff Costs (note 3)	(0.2)	-
Other external and operating charges	<u>-</u>	<u>(1.0)</u>
Operating profit and profit on ordinary activities before taxation	<u>0.4</u>	<u>-</u>

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

3. DIRECTORS AND EMPLOYEES

	Year Ended 31 December 2000 No.	Nine Months Ended 31 December 1999 No.
Total average number of employees	<u>16</u>	<u>nil</u>
	£m	£m
Total remuneration	0.2	-
State and social security costs	-	-
Other pension costs	<u>-</u>	<u>-</u>
	<u>0.2</u>	<u>-</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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 31 December 2000

4. STOCK AND CONTRACTS IN PROGRESS

	December 2000 £m	December 1999 £m
Long-term contract work in progress	4.2	3.5
Payments on accounts	(4.2)	(3.2)
	<u>-</u>	<u>0.3</u>

5. DEBTORS

	December 2000 £m	December 1999 £m
Amounts falling due within one year:		
Trade debtors	1.0	0.8
Amounts owed from holding and fellow subsidiary companies	0.1	-
	<u>1.1</u>	<u>0.8</u>

6. CREDITORS

	December 2000 £m	December 1999 £m
Amounts falling due within one year:		
Payments received in advance	1.7	0.1
Amounts owed to holding and fellow subsidiary companies	1.6	1.1
	<u>3.3</u>	<u>1.2</u>

7. CALLED UP SHARE CAPITAL

	Authorised £	Issued £
Share Capital		
At 1 January 2000 and 31 December 2000		
Shares of £1 each fully paid	<u>100</u>	<u>2</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 31 December 2000

8. RESERVES

MOVEMENT ON PROFIT AND LOSS ACCOUNT RESERVE	December 1999 £m	December 2000 £m
At 1 January 2000/April 1999	-	-
Retained profit for the period/financial year	0.4	-
At 31 December	<u>0.4</u>	<u>-</u>

9. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	December 2000 £m	December 1999 £m
Profit for the financial year	0.4	-
Net increase in equity shareholders' funds	<u>0.4</u>	<u>-</u>
Opening equity shareholders' funds	-	-
Closing equity shareholders' funds	<u>0.4</u>	<u>-</u>

10. CONTINGENT LIABILITY

There is an on-going contractual dispute with a customer which has been referred to the International Chamber of Commerce for arbitration. The outcome of the dispute is still uncertain, but is expected to be resolved during 2002.

11. ULTIMATE 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 Secretary, Warwick House, P O Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire, GU14 6YU.

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.