

BAE Systems Projects (Canada) Limited

Registration No. 2082545

BAE SYSTEMS PROJECTS (CANADA) LIMITED

Report and Financial Statements

For the Year Ended 31st December 2009

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BAE Systems Projects (Canada) Limited

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Directors' report

The directors present their report, together with the financial statements, for the year ended 31 December 2009

Business review and principal activities

The principal activity of the Company is submarine support to the Canadian Navy

The profit for the year is \$4.3m (2008 \$2.9m). The directors do not recommend the payment of a dividend for the year (2008 \$nil).

As in previous years, activities in 2009 primarily revolved around support of the VICTORIA Class submarines that the Canadian government purchased from the UK government in 1998. The Engineering & Supply Management Contract (ESMC) came to an end in August 2009 although close-out of the contract will continue well into 2010 to complete residual spares and repairs deliveries. As a result of the end of the ESMC, it was necessary to down-size the business and redundancy notices were given to nineteen (19) employees. This down-sizing was anticipated and provisions had previously been made in the balance sheet.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are primarily related to the long term viability of the Canadian support business, although a business review undertaken in 2009 indicates that there is a viable business in Canada. The Company is under audit by the Canada Revenue Agency (CRA) with respect to transfer pricing. The final outcome of this audit is currently uncertain. Further discussion of these risks and uncertainties is included in the Annual Report of BAE Systems plc ("the Group").

Key performance indicators (KPIs)

The businesses which form this Company make up part of the Group. The key performance indicators used to review and monitor the business are set by the directors of the Group and are discussed in more detail in the Annual Report of the Group.

Going concern

The Company has considerable financial resources together with contracts with a number of customers and suppliers. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and in January 2010 they ratified the Company's business case. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Directors

The directors who held office during the year

Mr M S Easton
Mr J C Hudson
Mr R J Carroll
Mr S D Wood

Mr Easton resigned and Mr Hudson was elected on 27 February 2009

Directors' report (continued)

Overseas Branch Offices

Registered Number 2082545
BAE Systems Projects (Canada) Ltd
Suite 700 - 85 Albert St
Ottawa
Ontario
K1P 6A4
Canada

Policy and practice on payment of creditors

Trade creditors at the year end represented 36 days (2008 41 days) of purchases. It is the Company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and to adhere to those payment terms.

Auditors

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution concerning their reappointment, in accordance with S. 489 of CA 2006, will be proposed at the Annual General Meeting.

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 auditors are 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 auditors are aware of that information.

By order of the Board



S D Wood

Date 24/6/10

Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire GU14 6YU

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)

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 judgments and 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for 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 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 AUDITORS' REPORT TO THE MEMBERS OF BAE SYSTEMS PROJECTS (CANADA) LTD

We have audited the financial statements of BAE Systems Projects (Canada) Ltd for the year ended 31 December 2009 set out on pages 7 to 13. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

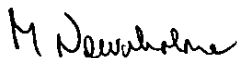
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.



M Newsholme (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

30 June 2010

BAE Systems Projects (Canada) Limited

Profit and loss account

for the year ended 31 December

		2009 \$m	2008 \$m
Turnover		40.2	37.8
Cost of sales		<u>(35.6)</u>	<u>(31.9)</u>
Gross profit		4.6	5.9
Other operating costs		(0.2)	(0.8)
Other operating income		<u>1.5</u>	<u>0.2</u>
Operating profit	Note 2	5.9	5.3
Interest receivable and similar income	Note 4	<u>0.1</u>	<u>0.5</u>
Profit on ordinary activities before taxation		6.0	5.8
Tax on profit on ordinary activities	Note 5	<u>(1.7)</u>	<u>(2.9)</u>
Profit for the financial year	Note 11	<u>4.3</u>	<u>2.9</u>

All results arise from continuing operations

There were no recognised gains or losses for the year other than those reported above. There is no difference between the profit on ordinary activities before taxation and profit for the financial year, and their historical cost equivalents.

BAE Systems Projects (Canada) Limited

Balance sheet

as at 31 December

		2009 \$m	2008 \$m
Fixed assets			
Tangible assets	Note 6	0 1	-
		<u>0 1</u>	<u>-</u>
Current assets			
Debtors	Note 7	5 0	4 5
Cash		<u>22 8</u>	<u>18 4</u>
		27 8	22 9
Current liabilities			
Creditors amounts falling due within one year	Note 8	(7 5)	(6 8)
Net current assets		<u>20 3</u>	<u>16 1</u>
Net assets		<u>20 4</u>	<u>16 1</u>
Capital and reserves			
Called up share capital	Note 10	-	-
Profit and loss account	Note 11	20 4	16 1
Equity shareholders' funds		<u>20 4</u>	<u>16 1</u>

The notes on pages 10 to 13 form part of these accounts

Approved by the Board on 24 June 2010 and signed on its behalf by



S D Wood
Director

Company registered number 2082545

BAE Systems Projects (Canada) Limited

Reconciliation of movements in shareholders' funds

for the year ended 31 December

	2009 \$m	2008 \$m
Profit for the financial year	43	29
Net increase in shareholders' funds	43	29
Opening shareholders' funds	161	132
Closing shareholders' funds	204	161

Notes to the accounts

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards in the United Kingdom. They have been prepared on a going concern basis and the amounts are stated in Canadian dollars.

Turnover

Turnover consists of amounts chargeable to customers for services provided and is exclusive of value added taxes and other sales taxes. With respect to fixed or limited-price option contracts, turnover is recognised according to the percentage of the estimated total contract value completed or the achievement of contractual milestones, a prudent proportion of profit is also recognised as the contract progresses. All losses are fully recognised as soon as incurred or foreseen.

Cash flow statement

The Company is exempt from the requirement of Financial Reporting Standard 1 (Revised) - Cash flow statements (FRS 1) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of BAE Systems plc, and its cash flows are included within the consolidated cash flow statement of that company.

Related party transactions

The company is controlled by BAE Systems plc and is a wholly owned subsidiary of BAE Systems plc. In accordance with Financial Reporting Standard 8 - Related party transactions (FRS 8) the Company is exempt from disclosing details of arrangements with other companies in the Group.

Fixed assets and depreciation

Depreciation is provided, on a straight line basis, to write off the cost or valuation of tangible fixed assets over their estimated useful economic lives to an estimated residual value. IT equipment is depreciated on a straight line basis over the estimated useful economic life of the asset.

Impairment reviews are undertaken if there are indications that the carrying values may not be recoverable.

Stocks and long-term contracts in progress

Stock and long-term contracts in progress are valued at the lower of cost, inclusive of appropriate overheads, and net realisable value. Provisions are made for any losses incurred or expected to be incurred on uncompleted contracts. 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 within 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.

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.

Currency translation

Non-Canadian dollar net assets are translated at year end rates of exchange. All other exchange gains and losses are included in profit on ordinary activities before taxation.

Notes to the accounts (continued)

2 Operating profit

Auditors' remuneration is borne by the immediate parent undertaking

3 Employees and Directors' remuneration

	2009 \$m	2008 \$m
Wages and salaries	3.5	3.9
Social security costs	0.4	0.3
Other pension costs	0.2	0.2
	<u>4.1</u>	<u>4.4</u>
Of which		
Directors' emoluments	0.2	0.2

There was an average of 45 employees during 2009 (2008: 61 employees)

4 Interest receivable and similar income

	2009 \$m	2008 \$m
External interest receivable	<u>0.1</u>	<u>0.5</u>

5 Tax on profit on ordinary activities

The Company has not provided for UK Corporation tax on its profit for the year as any tax charge will be fully covered by overseas tax relief

The Company files and pays tax on its profits generated in Canada

	2009 \$m	2008 \$m
Corporation tax charge for the year at 28% (2008: 28.5%)	1.3	1.6
Double taxation relief	<u>(1.3)</u>	<u>(1.6)</u>
	-	-
Overseas tax for current year	1.9	2.3
Overseas tax for prior year	<u>(0.2)</u>	<u>0.6</u>
	1.7	2.9
	<u>1.7</u>	<u>2.9</u>

Notes to the accounts (continued)

6 Tangible fixed assets

	IT equipment
	\$m
Cost	
At 1 January 2009	0.1
Additions	0.1
Disposals	-
At 31 December 2009	<u>0.2</u>
Depreciation	
At 1 January 2009	0.1
Charge for the year	-
Disposals	-
At 31 December 2009	<u>0.1</u>
Net book value	
At 31 December 2009	<u>0.1</u>
At 31 December 2008	<u>-</u>

IT equipment has been depreciated over its useful economic life, which is considered to be 36 months

7 Debtors

	2009 \$m	2008 \$m
Trade debtors	4.8	3.6
Intercompany debtor	-	0.4
Overseas corporation tax recoverable	-	0.3
Other debtors	<u>0.2</u>	<u>0.2</u>
	<u>5.0</u>	<u>4.5</u>

8 Creditors: amounts falling due within one year

	2009 \$m	2008 \$m
Amounts owed to other group undertakings	3.8	3.1
Overseas corporation tax	0.4	-
Other creditors	<u>3.3</u>	<u>3.7</u>
	<u>7.5</u>	<u>6.8</u>

Notes to the accounts (continued)

9 Deferred taxation

Provision for deferred tax is not required

The deferred tax asset, which has not been recognised in the financial statements, comprises

	2009 \$m	2008 \$m
Accelerated capital allowances	-	0.1
Other timing differences	-	0.4
Deferred tax asset	<u>-</u>	<u>0.5</u>

The deferred tax asset at 31 December 2009 will be recovered only if there are sufficient future profits

10 Share capital

	2009 \$	2008 \$
Authorised, issued and fully paid 100 ordinary shares of \$1 each	<u>100</u>	<u>100</u>

11 Reserves - profit and loss account

	2009 \$m	2008 \$m
At 1 January	16.1	13.2
Profit for the financial year	<u>4.3</u>	<u>2.9</u>
At 31 December	<u>20.4</u>	<u>16.1</u>

12 Ultimate parent undertaking

The immediate parent undertaking is BAE Systems Marine (Holdings) Ltd

The ultimate parent undertaking is BAE Systems plc, a company incorporated in Great Britain and registered in England and Wales

The consolidated financial statements of BAE Systems plc are available to the public and may be obtained from

6 Carlton Gardens
London
SW1Y 5AD