

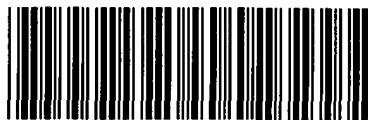
# **BAE Systems Projects (Canada) Limited**

## **Annual Report and Financial Statements**

**31 December 2017**

Registered Number: 02082545

FRIDAY



\*A7B35VA8\*

A17

27/07/2018

#309

COMPANIES HOUSE

## Contents

Strategic Report	2
Directors' Report	4
Statement of Directors' Responsibilities in respect of the Strategic Report and Directors' Report and the Financial Statements	6
Independent Auditor's Report to the Members of BAE Systems Projects (Canada) Limited	7
Income Statement	9
Statement of Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12

## Strategic Report

### Review of business

#### Overview

The directors present their Strategic Report, together with the financial statements for the year ended 31 December 2017.

The principal activity of BAE Systems Projects (Canada) Limited (the "Company") is the provision of support to the Royal Canadian Navy submarine fleet.

VICTORIA Class submarine support continues to be the primary line of business. Order intake for the year was lower than budgeted due to changes in the class plan to delay the deep maintenance period for HMCS CORNER BROOK. Sales were slightly lower than budget due to lower order intake, but this was offset by higher than budgeted margin and cash. The year ended with a higher number of requests for proposals than during the previous year, which should lead to order intake in 2018.

### Key performance indicators

Key financial performance indicators are shown below:

	2017	2016
	C\$m	C\$m
Order intake	10.8	10.8
Revenue	12.9	22.0
Operating profit	1.8	1.7

**Order intake** represents the value of funded orders received from customers in the year. It is a measure of in-year performance and supports future years' sales performance.

**Revenue** represents the amounts derived from the provision of goods and services.

**Operating profit** is used for internal performance analysis as a measure of operating profitability that is comparable over time.

### Principal risks and uncertainties

The Company's principal risks are identified below:

#### The Company is dependent on defence spending.

The core business of the Company is the provision of support to the VICTORIA Class submarines.

Defence spending by governments can fluctuate depending on political considerations and budgetary constraints, though the current Canadian Government has committed to stable defence funding in their latest defence policy document.

#### The Company has many fixed-price contracts.

A significant portion of the Company's revenue is derived from fixed-price contracts. Actual costs may exceed the projected costs on which the fixed prices are agreed and, since these contracts can extend over many years, it can be difficult to predict the ultimate outturn costs.

It is important that the Company maintains a culture in which it delivers on its projects within tight tolerances of quality, time and cost performance in a reliable, predictable and repeatable manner.

#### The Company is dependent on the award timing and cash profile of its contracts.

The Company's profits and cash flows are dependent, to a significant extent, on the timing of, or failure to receive, award of defence contracts and the profile of cash receipts on its contracts.

**Strategic Report** *(continued)*

**The Company could be negatively impacted by information technology security threats.**

The security threats faced by the Company include threats to its information technology infrastructure, unlawful attempts to gain access to its proprietary or classified information, and the potential for business disruptions associated with information technology failures.

**The Company's strategy is dependent on its ability to recruit and retain people with appropriate talent and skills. All employees are required to act in accordance with the Company's policies.**

Delivery of the Company's strategy and business plan is dependent on its ability to compete to recruit and retain people with appropriate talent and skills, including those with innovative technological capabilities.

**On behalf of the Board**

A handwritten signature in black ink, appearing to read 'G Edwards', with a large, sweeping loop at the end.

Gareth Edwards

Director

15 May 2018

## **Directors' Report**

### **Company registration**

The Company is a private company, limited by shares and registered in England and Wales with the registered number 02082545.

### **Results and dividends**

The Company's profit for the financial year is C\$0.9m (2016 profit C\$1.4m). The directors propose a dividend of C\$3.0m (2016: C\$nil).

### **Events after the Balance Sheet date**

In 2017, Canada released its revised Defence Policy, Strong Secure Engaged, which reaffirmed the Government's commitment to the VICTORIA Class submarines. Part of the revised policy was a commitment to the VICTORIA Class modernisation program that should provide the Company with business opportunities. Upcoming maintenance periods for HMCS WINDSOR and HMCS VICTORIA will result in increased spares and repairs throughput.

### **Going concern**

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### **Financial instruments**

The Canadian business is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the business hedges all material, firm transactional exposures in accordance with Company policy.

### **Directors and their interests**

The directors who served during the year and at the date of this Report were as follows:

Mr G J Baverstock (resigned 26 January 2018)  
Mr R J Carroll  
Mr T Johns (resigned 13 April 2017)  
Mr W J Blamey (appointed 13 April 2017, resigned 8 January 2018)  
Mr C M Robson (appointed 8 January 2018)  
Mr G J Edwards (appointed 29 January 2018)

The Board is not aware of any contract of significance in relation to the Company in which any director has, or has had, a material interest.

### **Disclosure of information to auditor**

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Directors' Report** *(continued)*

**Auditor**

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

**On behalf of the Board**



Gareth Edwards

Director

15 May 2018

Registered office:  
BAE Systems Projects (Canada) Limited  
Warwick House  
PO Box 87  
Farnborough Aerospace Centre  
Farnborough  
Hampshire  
GU14 6YU  
United Kingdom

## **Statement of Directors' Responsibilities in respect of the Strategic Report and Directors' Report and the Financial Statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## **Independent Auditor's Report to the Members of BAE Systems Projects (Canada) Limited**

### **Opinion**

We have audited the financial statements of BAE Systems Projects (Canada) Limited ("the Company") for the year ended 31 December 2017 set out on pages 12 to 21 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement in Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

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

### **Basis for opinion**

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

### **Going concern**

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

### **Strategic Report and Directors' Report**

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

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

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

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.



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

**Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

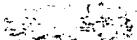
A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



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



27 JUNE 2018

## Income Statement

for the year ended 31 December 2017

	Notes	2017 C\$m	2016 C\$m
Revenue	2	12.9	22.0
Operating costs	3	(11.1)	(20.3)
Operating profit		1.8	1.7
Profit before finance costs and tax		1.8	1.7
Financial income	4	0.1	0.4
Financial expense	5	(0.1)	-
Profit before tax		1.8	2.1
Tax expense	7	(0.9)	(0.7)
Profit for the year		0.9	1.4

## Statement of Comprehensive Income

for the year ended 31 December 2017

	2017 C\$m	2016 C\$m
Profit for the year	0.9	1.4
Other comprehensive income		
Items that may be reclassified to the Income Statement:		
Amounts charged to hedging reserve	-	(1.0)
Tax on items that may be reclassified to the Income Statement	-	0.2
Total other comprehensive income for the year (net of tax)	0.9	(0.8)
Total comprehensive income for the year	0.9	0.6

The notes on pages 12 to 21 form part of the financial statements.

The results for 2017 and 2016 arise from continuing activities.

**Balance Sheet**

as at 31 December 2017

	Notes	2017 C\$m	2016 C\$m
<b>Non-current assets</b>			
Property, plant and equipment	8	0.1	0.1
		0.1	0.1
<b>Current assets</b>			
Inventories	9	0.1	0.1
Trade and other receivables including amounts due from customers for contract work	10	4.1	3.3
Cash and cash equivalents		6.3	4.8
		10.5	8.2
<b>Total assets</b>		10.6	8.3
<b>Current liabilities</b>			
Trade and other payables	11	(7.3)	(5.8)
Current tax		-	-
Provisions	12	(0.1)	(0.2)
		(7.4)	(6.0)
<b>Total liabilities</b>		(7.4)	(6.0)
<b>Net assets</b>		3.2	2.3
<b>Capital and reserves</b>			
Other reserves	15	-	-
Retained earnings		3.2	2.3
<b>Total equity</b>		3.2	2.3

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



Gareth Edwards  
Director

Registered number: 02082545

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

	Notes	Issued share capital C\$m	Other reserves C\$m	Retained earnings C\$m	Total equity C\$m
At 1 January 2016		-	0.8	11.9	12.7
Profit for the year		-	-	1.4	1.4
Total other comprehensive income for the year		-	(0.8)	-	(0.8)
Ordinary share dividends	15	-	-	(11.0)	(11.0)
At 31 December 2016		-	-	2.3	2.3
Profit for the year		-	-	0.9	0.9
Total other comprehensive income for the year		-	-	-	-
Ordinary share dividends	15	-	-	-	-
<b>At 31 December 2017</b>		-	-	<b>3.2</b>	<b>3.2</b>

## Notes to the Financial Statements

### 1 Accounting policies

#### Basis of preparation

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the EU (EU-adopted IFRS), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- the requirements of IFRS 7, Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13, Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1, Presentation of Financial Statements, to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16, Property, Plant and Equipment; paragraph 118(e) of IAS 38, Intangible Assets; and paragraphs 76 and 79(d) of IAS 40, Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1, Presentation of Financial Statements;
- the requirements of IAS 7, Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24, Related Party Disclosures; and
- 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.

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

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of its ultimate parent, BAE Systems plc, a Company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual undertaking and not as a group.

The following paragraphs summarise the main accounting policies of the Company and have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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

#### Future changes in accounting policies

IFRS 9, Financial Instruments, is effective from 1 January 2018. The standard covers recognition, classification, measurement and impairment of financial assets and financial liabilities, together with a new hedge accounting model.

IFRS 15, Revenue from Contracts with Customers, is effective from 1 January 2018. The standard requires the identification of performance obligations in contracts with customers and allocation of the total contractual value to each of the performance obligations identified. Revenue is recognised as each performance obligation is satisfied either at a point in time or over time. The standard will replace IAS 11, Construction Contracts, and IAS 18, Revenue.

## Notes to the Financial Statements *(continued)*

### 1 Accounting policies *(continued)*

#### Revenue and profit recognition

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

#### *Goods supplied and services rendered*

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

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

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

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

#### Leases

Lease payments made under operating leases, including any incentives granted, are recognised in the Income Statement on a straight-line basis over the lease term.

#### Interest income and borrowing costs

Interest income and borrowing costs are recognised in the Income Statement in the period in which they are incurred.

#### 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.

#### Property, plant and equipment

##### *Cost*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred.

##### *Depreciation*

Depreciation is provided, normally on a straight-line basis, to write off the cost of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Computing equipment and motor vehicles	- 4 to 5 years
Other equipment	- 10 to 20 years, or the project life if shorter

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each Balance Sheet date.

##### *Impairment*

The carrying amounts of the Company's property, plant and equipment are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

#### Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss account.

#### Inventories

Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value.

## Notes to the Financial Statements *(continued)*

### 1 Accounting policies *(continued)*

#### Trade and other receivables

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

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

#### Cash and cash equivalents

Cash and cash equivalents includes cash in hand, call and term deposits, and other short-term liquid investments with original maturities of three months or less and which are subject to an insignificant risk of change in value.

#### Trade and other payables

Trade and other payables are stated at their cost.

#### Tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in the profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or in 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 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 income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

#### Provisions

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

#### Warranties and after-sales service

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

## Notes to the Financial Statements (continued)

### 1 Accounting policies (continued)

#### Retirement benefit obligations

##### Defined contribution pension schemes

A defined contribution pension scheme is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions are recognised as an expense in the Income Statement as incurred.

#### Financial instruments

##### Derivative financial instruments and hedging activities

The international nature of the Company's business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the Company's policy is to hedge all material firm transactional exposures. The Company aims to achieve hedge accounting treatment for all derivatives that hedge material foreign currency exposures.

In accordance with its treasury policy, the Company does not hold derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the Balance Sheet date. Gains and losses on derivative financial instruments that do not qualify for hedge accounting are recognised in the Income Statement for the period.

##### Cash flow hedges

Where a derivative financial instrument is designated as a hedge of cash flows relating to a highly probable forecast transaction (income or expense), the effective portion of any change in the fair value of the instrument is recognised in other comprehensive income and presented in the hedging reserve in equity. Amounts recognised in equity are reclassified from reserves into the cost of the underlying transaction and recognised in the Income Statement when the underlying transaction affects profit or loss. The ineffective portion of any change in the fair value of the instrument is recognised in the Income Statement immediately.

##### Fair value hedges

Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the underlying asset or liability attributable to the hedged risk, and gains and losses on the derivative instrument, are recognised in the Income Statement for the period.

### 2 Segmental analysis

#### Revenue by reporting segment

	2017	2016
	C\$m	C\$m
Commercial	11.8	18.9
Intercompany	1.1	3.1
	12.9	22.0

#### Revenue by customer location

	2017	2016
	C\$m	C\$m
United Kingdom	1.0	2.9
USA and Canada	11.9	19.1
	12.9	22.0

#### Revenue by category

	2017	2016
	C\$m	C\$m
Sale of goods	11.4	18.6
Provision of services	1.5	3.4
	12.9	22.0



## Notes to the Financial Statements (continued)

### 3 Operating costs

	2017 C\$m	2016 C\$m
Raw materials, subcontracts and other bought-in items	6.3	14.2
Change in inventories of finished goods and work-in-progress	-	(0.5)
Cost of inventories expensed	6.3	13.7
Staff costs (note 6)	3.2	3.6
Other operating charges	1.6	3.0
<b>Operating costs</b>	<b>11.1</b>	<b>20.3</b>
Included within the above analysis are the following expenses:		
Lease and sublease expense	0.4	0.4

The remuneration of the auditor for the year ended 31 December 2017 for auditing of the financial statements was £163k (2016 £159k) and was borne by BAE Systems Marine Limited. Any allocation to the audit of these financial statements would not be material and therefore no amount has been attributed.

### 4 Financial income

	2017 C\$m	2016 C\$m
Foreign exchange gains	-	0.3
Interest income	0.1	0.1
<b>Financial income</b>	<b>0.1</b>	<b>0.4</b>

### 5 Financial expense

	2017 C\$m	2016 C\$m
Foreign exchange losses	0.1	-
<b>Financial expense</b>	<b>0.1</b>	<b>-</b>

### 6 Employees

The monthly average number of Company employees was 30 (2016: 36).

The aggregate staff costs of Company employees were as follows:

	2017 C\$m	2016 C\$m
Wages and salaries	2.9	3.3
Social security costs	0.1	0.1
Pension costs – defined contribution plans	0.2	0.2
	<b>3.2</b>	<b>3.6</b>

Only one director received any emoluments from the Company during the year. The other three who served during the year were employed by BAE Systems plc and were remunerated through that company and did not provide any material qualifying services to the Company.

The disclosures below represent an allocation of the emoluments received by the directors to reflect their qualifying services to the Company.

	2017 C\$'000	2016 C\$'000
Directors' remuneration	0.2	0.2
Company contributions to money purchase pension schemes	-	-
	<b>0.2</b>	<b>0.2</b>

Notes to the Financial Statements (continued)

7 Tax expense

Taxation expense	2017 C\$m	2016 C\$m
Current taxation		
UK:		
Current tax	(0.3)	(0.4)
Double tax relief	0.3	0.4
Adjustments in respect of prior years	-	-
	-	-
Overseas:		
Current tax	-	(0.6)
Adjustments in respect of prior years	-	-
	-	(0.6)
<b>Taxation expense</b>	<b>-</b>	<b>(0.6)</b>

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

Reconciliation of taxation expense

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

	2017 C\$m	2016 C\$m
Profit before taxation	1.8	2.1
UK corporation tax rate	19.25%	20%
Expected income tax expense	(0.4)	(0.4)
Effect of tax rates in foreign jurisdictions	(0.1)	(0.3)
Adjustments in respect of prior years	(0.4)	-
<b>Taxation expense</b>	<b>(0.9)</b>	<b>(0.7)</b>

Tax recognised in other comprehensive income

	2017			2016		
	Before tax C\$m	Tax benefit/ (expense) C\$m	Net of tax C\$m	Before tax C\$m	Tax benefit/ (expense) C\$m	Net of tax C\$m
Items that may be reclassified to the income statement:						
Amounts (charged)/credited to hedging reserve	-	-	-	(1.0)	0.2	(0.8)

	2017			2016		
	Other reserves C\$m	Retained earnings C\$m	Total C\$m	Other reserves C\$m	Retained earnings C\$m	Total C\$m
Deferred tax						
Tax rate adjustment	-	-	-	0.2	-	0.2
<b>Tax on other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.2</b>	<b>-</b>	<b>0.2</b>

**Notes to the Financial Statements** *(continued)*

**8 Property, plant and equipment**

	Plant and machinery I C\$m
<b>Cost or valuation</b>	
At 1 January 2017	0.5
Additions	-
<b>At 31 December 2017</b>	<b>0.5</b>
<b>Depreciation and impairment</b>	
At 1 January 2017	0.4
Depreciation charge for the year	-
<b>At 31 December 2017</b>	<b>0.4</b>
<b>Net book value</b>	
<b>At 31 December 2017</b>	<b>0.1</b>
At 31 December 2016	0.1

**Operating lease commitments**

The Company leases an office and a warehouse under non-cancellable operating lease agreements. The leases have varying terms including escalation clauses and renewal rights. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 C\$m	2016 C\$m
<b>Payments due:</b>		
Not later than one year	0.4	0.4
Later than one year and not later than five years	0.4	0.8
Later than five years	-	-
	<b>0.8</b>	<b>1.2</b>

**9 Inventories**

	2017 C\$m	2016 C\$m
Short-term work-in-progress	0.1	0.1
	<b>0.1</b>	<b>0.1</b>

The Company recognised C\$nil (2016 C\$nil) as a write down of inventories to net realisable value.

**10 Trade and other receivables**

	2017 C\$m	2016 C\$m
<b>Current</b>		
Trade receivables	3.6	1.1
Amounts owed by BAE Systems plc subsidiaries	0.2	0.9
Overseas corporation tax	0.1	0.9
Prepayments and accrued income	0.2	-
Other receivables	-	0.4
	<b>4.1</b>	<b>3.3</b>

## Notes to the Financial Statements (continued)

### 11 Trade and other payables

	2017 C\$m	2016 C\$m
<b>Current</b>		
Trade payables	0.1	0.2
Amounts owed to BAE Systems plc subsidiaries	-	0.5
Other taxes and social security costs	0.3	-
Accruals and deferred income	6.9	5.1
	<b>7.3</b>	<b>5.8</b>

### 12 Provisions

	Warranties and after-sales service C\$m	Total C\$m
At 1 January 2017	0.2	0.2
Released	(0.2)	(0.2)
Utilised	0.1	0.1
<b>At 31 December 2017</b>	<b>0.1</b>	<b>0.1</b>
<b>Represented by:</b>		
Current	0.1	0.1
	<b>0.1</b>	<b>0.1</b>

#### Warranties and after-sales service

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

### 13 Deferred tax

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

	Deferred tax asset	
	2017 C\$m	2016 C\$m
Property, plant and equipment	0.1	0.1

The deferred tax asset has not been recognised because there is insufficient evidence to support its recoverability.

No deferred tax was recognised at either 31 December 2016 or 31 December 2017.

## Notes to the Financial Statements (continued)

### 13 Deferred tax (continued)

#### Movement in temporary differences during the year

	At 1 January 2017 C\$m	Recognised in equity C\$m	At 31 December 2017 C\$m
Financial instruments	-	-	-

	At 1 January 2016 C\$m	Recognised in equity C\$m	At 31 December 2016 C\$m
Financial instruments	(0.2)	0.2	-

### 14 Investments

Carrying value C\$m

At 1 January 2017 and 31 December 2017 -

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2017 is disclosed below. The subsidiary undertaking is owned directly by the Company and has a financial year end of 31 December.

Company name	Class of shares held	Proportion of class (%)
BAE Systems (Canada) Inc 220 Laurier Ave West, Suite 1200, Ottawa, Ontario, K1P 5Z9, Canada	Ordinary shares of C\$1	100

### 15 Share capital and other reserves

#### Share capital

	C\$1 Ordinary shares	Nominal value C\$m
Issued and fully paid		
At 1 January and 31 December 2017	5	-

The holders of the shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

## Notes to the Financial Statements *(continued)*

### 15 Share capital and other reserves *(continued)*

#### Equity dividends

	2017 C\$m	2016 C\$m
Final dividend for ordinary shares paid in respect of the previous year	-	11.0
	-	11.0

The directors propose a dividend of C\$3.0m for 2017 (2016: C\$nil).

#### Other reserves

	Hedging reserve C\$m	Total C\$m
<b>At 1 January 2016</b>	<b>0.8</b>	<b>0.8</b>
Amounts debited to hedging reserve	(1.0)	(1.0)
Tax on other comprehensive income	0.2	0.2
<b>At 31 December 2016</b>	<b>-</b>	<b>-</b>
Amounts credited to hedging reserve	-	-
Tax on other comprehensive income	-	-
<b>At 31 December 2017</b>	<b>-</b>	<b>-</b>

#### *Hedging reserve*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

### 16 Controlling parties

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

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

6 Carlton Gardens  
London  
SW1Y 5AD

Website: [www.baesystems.com](http://www.baesystems.com)