

**BAE Systems Applied
Intelligence A/S**
Bouet Møllevvej 3-5
DK-9400 Nørresundby

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BAE Systems Applied Intelligence A/S

Annual report 2016

The annual report was presented and approved at
the Company's annual general meeting

on 2 June 20 17

chairman

CVR no. 11 93 97 75

Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	6
Company details	6
Financial highlights	7
Operating review	8
Financial statements 1 January – 31 December	10
Income statement	10
Balance sheet	11
Statement of changes in equity	13
Notes	14

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of BAE Systems Applied Intelligence A/S for the financial year 1 January – 31 December 2016.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January – 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the results for the year and of the Company's financial position.


We recommend that the annual report be approved at the annual general meeting.

Nørresundby, 2 June 2017
Executive Board:



Morten Vinther Jensen

Board of Directors:



Richard Moseley
Chairman

Andrew Lazarus

Morten Vinther Jensen

Independent auditor's report

To the shareholders of BAE Systems Applied Intelligence A/S

Opinion

We have audited the financial statements of BAE Systems Applied Intelligence A/S for the financial year 1 January – 31 December 2016 comprising income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines 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, Management is 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditor's report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and 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 Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

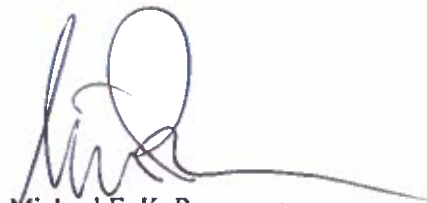
Aalborg, 2 June 2017

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98



Steffen S. Hansen
State Authorised
Public Accountant



Michael E. K. Rasmussen
State Authorised
Public Accountant

Management's review

Company details

BAE Systems Applied Intelligence A/S
Bouet Møllevvej 3-5
DK-9400 Nørresundby

Telephone: +45 96 32 30 00
Website: +45 96 32 30 16

CVR no.: 11 93 97 75
Established: 1 January 1988
Registered office: Aalborg
Financial year: 1 January – 31 December

Board of Directors

Richard Moseley (Chairman)
Andrew Lazarus
Morten Vinther Jensen

Executive Board

Morten Vinther Jensen

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Østre Havnegade 18
9000 Aalborg
Denmark

Annual general meeting

The annual general meeting will be held on 2 June 2017.

Management's review

Financial highlights

DKK'000	2016	2015	2014	2013	2012
Gross profit	210,243	195,609	155,353	210,220	164,200
Profit/loss before financial income and expenses (EBIT)	44,218	46,601	42,880	33,302	-26,783
Profit/loss from financial income and expenses	-459	-2,026	-3,199	-1,781	-523
Profit/loss for the year	47,387	40,131	41,016	18,267	-23,224
Total assets	431,884	450,225	338,001	412,696	327,922
Portion relating to investment in property, plant and equipment	4,805	12,229	694	3,033	4,169
Share capital	2,000	2,000	2,000	2,000	2,000
Equity	198,734	151,241	111,026	69,977	62,702
Return on capital employed	10.0%	11.8%	11.4%	9.0%	-10.3%
Solvency ratio	46.0%	33.6%	32.8%	17.0%	19.1%
Return on equity	27.0%	30.6%	45.3%	27.5%	-31.9%
Average number of full-time employees	231	211	173	223	224

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios have been calculated as follows:

Return on capital employed $\frac{\text{profit/loss before net financials} \times 100}{\text{Average total assets}}$

Solvency ratio $\frac{\text{Equity ex. non-controlling interests at year end} \times 100}{\text{Total equity and liabilities at year end}}$

Return on equity $\frac{\text{Profit/loss from ordinary activities after tax} \times 100}{\text{Average equity}}$

Management's review

Operating review

Principal activities of the Company

The primary activities of the Company are the development, purchase and sales of information technology equipment and associated support services.

Development in activities and financial position

The Company's income statement for 2016 shows a profit of DKK 47,387 thousand, and equity in the balance sheet at 31 December 2016 stood at DKK 198,734 thousand.

Results were in line with expectations and are considered satisfactory.

Branch and representation abroad

The Company has a branch in Dubai and is represented abroad in the form of subsidiaries, sales & service offices and distributors.

Research and development activities

The Company continuously invests in the development of new products, which is also expected to be evidenced in the next financial year.

Knowledge and development resources

The Company has developed an impressive knowledge pool and much expertise. The Company expects to maintain and develop these competences during the next financial year.

Risks

Foreign currency risks

Due to activities abroad, results, cash flows and equity are affected by the development in exchange rates for a number of currencies as well as movement in interest rates. It is the Company's policy to hedge commercial currency risks. Hedging is primarily made via forward contracts to hedge forecast revenue and purchases within the next 12 months. The Company does not enter into currency transactions for speculative purposes.

Foreign exchange risks relating to investments in subsidiaries and associates abroad are generally not hedged, as the Company is of the opinion that regular hedging of such long-term investments will not be favourable taking into account overall risks and costs.

Management's review

Operating review

Interest rate risks

All borrowings are from a fellow group company. Accordingly, interest rate instruments to hedge interest rate risks are not taken out.

Credit risks

The Company is not subject to any significant risks regarding one individual customer or co-operator. The Company's policy in respect of credit risks implies that all major customers and other co-operators are credit rated on an ongoing basis.

Environment

The Company's policies regarding the environment comprise environmental policy as well as health and safety policy.

The environmental policy is based on environmentally sound operations and is integral part of the Group's objectives for the product quality and production environment. The objective of a health and safety policy is to ensure regular improvements in relation to the safety and health of employees.

All group entities regularly strive at improving health and safety conditions.

Management is of the opinion that this work has a positive impact on the Company's reputation and efficiency.

Post-balance sheet events

No events have occurred after the financial year end, which could significantly affect the Company's financial position.

Outlook

The Company expects to report positive results for 2017.

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2016	2015
Gross profit		210,243	195,609
Staff costs	2	-160,040	-142,021
Depreciation of property, plant and equipment	3	-5,985	-6,874
Other operating costs		0	-113
Profit before financial income and expenses		44,218	46,601
Profit/loss from investments in group entities		12,954	3,796
Other financial income	4	1,268	8
Other financial expenses	5	-1,727	-2,034
Profit before tax		56,713	48,371
Tax on profit for the year	6	-9,326	-8,240
Profit for the year		47,387	40,131

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2016	2015
ASSETS			
Fixed assets			
Property, plant and equipment			
	8		
Property		40,403	41,492
Leasehold improvements		2,366	4,217
Fixtures and fittings, tools and equipment		5,743	4,122
Property, plant and equipment under construction		219	555
		<u>48,731</u>	<u>50,386</u>
Investments			
	9		
Other receivables		140	157
Investments in group entities		16,097	16,097
		<u>16,237</u>	<u>16,254</u>
Total fixed assets		<u>64,968</u>	<u>66,640</u>
Current assets			
Inventories			
Raw materials and consumables		296	100
Work in progress		0	9
Finished goods and goods for resale		1,928	3,306
		<u>2,224</u>	<u>3,415</u>
Receivables			
Trade receivables		103,455	94,986
Construction contracts	10	67,675	85,316
Receivables from group entities		129,588	96,960
Other receivables		3,450	540
Prepayments	11	533	697
Deferred tax assets	12	10,420	18,260
		<u>315,121</u>	<u>296,759</u>
Cash at bank and in hand		<u>49,571</u>	<u>83,411</u>
Total current assets		<u>366,916</u>	<u>383,585</u>
TOTAL ASSETS		<u>431,884</u>	<u>450,225</u>

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2016	2015
EQUITY AND LIABILITIES			
Equity			
Share capital		2,000	2,000
Retained earnings		196,734	149,241
Total equity		198,734	151,241
Provisions			
Other provisions	9	10,899	10,899
Total provisions		10,899	10,899
Liabilities other than provision			
Non-current liabilities other than provisions			
Payables to group entities	13	57,072	150,000
		57,072	150,000
Current liabilities other than provisions			
Construction contracts	10	35,701	17,528
Trade payables		3,132	25,212
Payables to group entities		74,875	37,180
Corporation tax		1,996	2,976
Other payables		49,475	55,189
		165,179	138,085
Total liabilities other than provisions		222,251	288,085
TOTAL EQUITY AND LIABILITIES		431,884	450,225
Contractual obligations, contingencies, etc.	14		
Mortgages and collateral	15		
Currency and interest rate risks and the use of derivative financial instruments	16		
Related party disclosures	17		
Events after the balance sheet date	18		

Financial statements 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total equity
Equity at 1 January 2016	2,000	149,241	151,241
Profit for the year		47,387	47,387
Exchange rate adjustment, foreign subsidiary		106	106
Equity at 31 December 2016	<u>2,000</u>	<u>196,734</u>	<u>198,734</u>

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of BAE Systems Applied Intelligence A/S for 2016 has been presented in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

As from 1 January 2016, the Company has implemented Act no. 738 of 1 June 2015. This has entailed the following changes to recognition and measurement:

- Going forward, dividends from equity investments in subsidiaries recognised at cost are always recognised in the income statement. In case of indication of impairment, an impairment test is conducted. Indication of impairment exists if distributed dividend exceeds profit for the year or if the carrying amount of equity investments exceeds the consolidated carrying amounts of the net assets in the subsidiary. Previously, cost was reduced to the extent that distributed dividend exceeded accumulated earnings after the acquisition date.
- Going forward, the residual value of intangible assets and property, plant and equipment must be reassessed on an ongoing basis. Pursuant to the transition provisions of the Act, any adjustments to residual values must be made prospectively as an accounting estimate without restatement of comparative figures and without effect on equity.
- Going forward, unlisted equity investments are measured at cost. Previously, these were measured at fair value. Pursuant to the transition provisions, the recognised fair value in the annual report for 2015 is considered deemed cost of the equity investments. Comparative figures for the income statement and balance sheet have not been restated.

The changes have no monetary effect on the income statement or the balance sheet for 2016 or for the comparative figures.

Apart from the above, the accounting policies used in the preparation of the financial statements are consistent with those of last year.

Consolidated financial statements

According to section 112 (1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

According to section 86 (4) of the Danish Financial Statements Act, the Company has not prepared any cash flow statement since the Company is included in the consolidated cash flow statement of the ultimate parent undertaking, BAE Systems PLC.

The financial statements of BAE Systems Applied Intelligence A/S and its group entities are included in the consolidated financial statements of BAE Systems PLC.

The consolidated financial statements of BAE Systems PLC may be obtained from the Company or at the website, www.baesystems.com.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Foreign currency translation

Transactions denominated in foreign currencies are translated into Danish kroner at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Danish kroner at the exchange rate at the balance sheet date. Realised and unrealised exchange gains and losses are recognised in the income statement as financial income/ expenses.

Foreign group entities

As for foreign entities, financial statement items are translated using the following principles:

- Balance sheet items are translated at closing rates
- Income statement items are translated at the rates at the date of the transaction
- Any exchange differences resulting from the translation of opening equity at the closing rate and the exchange adjustment of the items in the income statement from the rate at the date of the transaction to the closing rate are taken directly to equity.

Derivative financial instruments

Derivative financial instruments are measured at fair value. Positive and negative fair values are recognised as other receivables and other payables, respectively.

Fair value adjustments of derivative financial instruments held to hedge the fair value of recognised financial assets or liabilities are recognised in the income statement together with changes in the value of the hedged asset or liability.

Fair value adjustments of derivative financial instruments classified as hedges of projected future cash flows are recognised in equity until the hedged transaction is realised. If the transaction results in an asset or a liability, the accumulated adjustment is included in the cost of the asset or the liability, and if the transaction results in revenues or expenses, the accumulated adjustment is recognised in the income statement together with the hedged item.

Fair value adjustments of derivative financial instruments which do not qualify for recognition as hedging instruments are recognised in the income statement.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Income statement

Revenue

Revenue derived from professional services represents the value of work completed, including attributable profit, based on the stage of completion achieved on each project on completion of milestones as set out in our terms of engagement.

Revenue from the sale of products is recognised on delivery to the customer. Revenue from licence sales is recognised where there is persuasive evidence that an arrangement exists, delivery has occurred and no significant vendor obligations remain, the fee is fixed or determined and collectability is probable. Revenue from support and maintenance contracts is recognised evenly over the period of the support contract.

Other operating income and costs

Other operating income and costs include items of a secondary nature relative to the entity's core business.

Other external costs

Other external costs include costs related to distribution, sale, advertising, administration, premises, bad debt, lease payments under operating leases, computer equipment, etc.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Gross profit

With reference to section 32 of the Danish Financial Statements Act, the items "Revenue" to and including "Other external costs" are aggregated in the item "Gross profit".

Amortisation/depreciation and impairment losses

Property, plant and equipment are depreciated on a straight-line basis to the residual value based on cost measured by reference to the following assessment of the useful life:

Property	10-50 years
Fixtures and fittings, tools and equipment	3-7 years

Gains or losses from the sale of non-current assets are recognised in the income statement under Gross Profit.

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the reporting period. Financial income and expenses include interest income and expenses, financial expenses related to finance leases, realised and unrealised exchange gains and losses on foreign currency transactions and surcharges and allowances under the on-account tax scheme, etc.

Tax

Tax for the year includes current tax on the year's projected taxable income and the year's deferred tax adjustments less the share of the tax for the year that concerns changes in equity.

Current and deferred taxes related to items recognised directly in equity are taken directly to equity.

The Company and all Danish group entities are jointly taxed. The Danish income tax charge is allocated between profit-making and loss-making Danish entities in proportion to their taxable income (full absorption).

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Property, plant and equipment

Property, plant and equipment comprise development equipment, and fixtures and fittings, tools and equipment. Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. Depreciations periods are specified under the section Depreciations.

Investments

Investments in subsidiaries are measured at cost. In case of indication of impairment, an impairment test is conducted. When the cost exceeds the recoverable amount, write-down is made to this lower value.

Other receivables and deposits are recognised at amortised cost.

Dividends from equity investments in subsidiaries measured at cost are recognised as income in the Parent Company's income statement in the financial year when the dividends are declared.

Impairment of non-current assets

The carrying amount of non-current assets is subject to an annual test for indications of impairment other than the decrease in value reflected by amortisation or depreciation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net cash flows from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Inventories

Inventories are measured at the lower of cost measured by reference to average value and net realisable value.

Contract work in progress and finished goods are measured at manufacturing cost, which includes cost of materials and direct payroll costs plus production overheads.

Goods for resale and raw materials are measured at cost, which includes the cost of acquisition plus costs of delivery.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that an individual receivable or a portfolio of receivables has been impaired. Impairment tests are conducted of individual assets or groups of assets when there is an objective indication that they may be impaired.

Receivables with no objective evidence of individual impairment are assessed for objective evidence of impairment on a portfolio basis. The portfolios are primarily assessed on the basis of the country of domicile and credit ratings of the debtors in accordance with the credit risk management policy of the Company. The objective indicators used in relation to portfolios are determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivable and the present value of the projected cash flows, including the realisable value of any collateral received.

Construction contracts

Construction contracts are measured at the selling price of the work performed less progress billings and anticipated losses. Construction contracts entail a significant degree of design customisation of produced goods. Moreover, before the work is commenced, a binding agreement must have been entered into.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

The selling price is measured by reference to the percentage of completion at the end of the reporting period and total expected income from the contract. The percentage of completion is determined on the basis of an assessment of the work performed, which is usually measured as on the basis of milestones.

When it is probable that the total contract costs will exceed the total contract revenue, the anticipated loss on the contract is recognised as an expense and a provision immediately.

When income and expenses on a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Where the selling price of work performed exceeds progress billings on construction contracts and anticipated losses, the excess is recognised under receivables. If progress billings and anticipated losses exceed the selling price of a construction contract, the deficit is recognised under liabilities.

Prepayments from customers are recognised under liabilities.

Selling costs and costs incurred in securing contracts are recognised in profit or loss as incurred.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent reporting years.

Equity - dividends

Proposed dividends are recognised as a liability at the date on which they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the statement of financial position as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Joint taxation contribution payable and receivable is recognised in the balance sheet as "Corporation tax receivable" or "Corporation tax payable".

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on the planned use of the asset or settlement of the liability, respectively.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised under other non-current assets at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the end of the reporting period when the deferred tax is expected to crystallise as current tax. Changes in deferred tax due to changes in the tax rate are recognised in the income statement for the year.

Liabilities other than provision

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. Interest-bearing debt is subsequently measured at amortised cost, using the effective interest rate method. Other debt is subsequently measured at amortised cost corresponding to the nominal unpaid debt.

Other payables are measured at amortised cost which, essentially, corresponds to the fair value.

Financial statements 1 January – 31 December

Notes

DKK'000	2016	2015
2 Staff costs		
Wages and salaries	148,125	131,332
Pensions	10,364	9,581
Other social security costs	1,551	1,108
	<u>160,040</u>	<u>142,021</u>
Average number of employees	<u>231</u>	<u>211</u>
<p>Referring to section 98b (3) of the Danish Financial Statements Act, remuneration of the Executive Board and Management was not disclosed in 2015. Remuneration of the Chief Executive Officer for 2016 was up by salary costs of DKK 1,961 thousand and company pension contributions of DKK 76 thousand.</p> <p>The Board of Directors did not receive any emoluments.</p>		
3 Depreciation regarding property, plant and equipment		
Property	1,129	1,125
Leasehold improvements	2,296	1,907
Fixtures and fittings, tools and equipment	2,560	3,842
	<u>5,985</u>	<u>6,874</u>
4 Other financial income		
Other interest receivables, exchange gains and similar income	1,268	8
	<u>1,268</u>	<u>8</u>
5 Other financial expenses		
Interest payable, group entities	1,173	824
Interest payable, exchange losses and similar expenses	554	1,210
	<u>1,727</u>	<u>2,034</u>

Financial statements 1 January – 31 December

Notes

6 Tax on profit for the year

DKK'000	2016	2015
Tax on profit from ordinary activities		
Estimated income tax charge	1,933	2,976
Change in provision for deferred tax	7,840	6,560
Adjustment of tax for previous years	-447	-1,296
	<u>9,326</u>	<u>8,240</u>

7 Proposed profit appropriation

Retained earnings	47,387	40,131
	<u>47,387</u>	<u>40,131</u>

8 Property, plant and equipment

DKK'000	Land and buildings	Leasehold improvements	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Total
Cost at 1 January 2016	46,645	5,904	9,615	555	62,719
Additions	40	159	4,135	219	4,553
Currency adjustment	0	187	65	0	252
Disposals	0	0	-993	-555	-1,548
Cost at 31 December 2016	<u>46,685</u>	<u>6,250</u>	<u>12,822</u>	<u>219</u>	<u>65,976</u>
Depreciation at 1 January 2016	5,153	1,687	5,494	0	12,334
Depreciation	1,129	2,296	2,560	0	5,985
Currency adjustment	0	-99	18	0	-81
Depreciation on disposals	0	0	-993	0	-993
Depreciation at 31 December 2016	<u>6,282</u>	<u>3,884</u>	<u>7,079</u>	<u>0</u>	<u>17,245</u>
Carrying amount at 31 December 2016	<u>40,403</u>	<u>2,366</u>	<u>5,743</u>	<u>219</u>	<u>48,731</u>

Financial statements 1 January – 31 December

Notes

9 Investments

DKK'000	Other receivables	Investments in subsidiaries	Total
Cost at 1 January 2016	157	22,208	22,365
Disposals during the year	-17	0	-17
Cost at 31 December 2016	140	22,208	22,348
Value adjustments at 1 January 2016	0	-17,010	-17,010
Adjustments during the year	0	0	0
Value adjustments at 31 December 2016	0	-17,010	-17,010
Hereof presented as provisions	0	10,899	10,899
Carrying amount at 31 December	140	16,097	16,237

According to section 97a (4) of the Danish Financial Statements Act, no information regarding name, registered office and legal structure is to be disclosed on subsidiaries, as it may be detrimental to the Company.

There has been no sale or purchases of the shares in the fiscal year.

Stake, equity and results are specified as follows for the six subsidiaries:

DKK'000	Stake	Equity	Results
Company 1	100	-432	170
Company 2	100	2,423	580
Company 3	100	11,367	754
Company 4	100	-11,233	21
Company 5	100	3,501	9
Company 6	55	-1,789	17

Financial statements 1 January – 31 December

Notes

10 Construction contracts

DKK'000	2016	2015
Specification on contract work in progress		
Sales value of work performed	234,075	231,734
On-account payments received	-202,101	-163,946
	31,974	67,788
Which is specified as follows:		
Construction contracts (net assets)	67,675	85,316
Construction contracts (net liabilities)	-35,701	-17,528
	31,974	67,788

The computation of the degree of completion is based on the progress of part deliveries in the form of partial approvals, milestones, etc. obtained from the customer. Due to the nature and complexity of the construction contracts, project completion is often subject to uncertainty. The Company's principle for assessing the degree of completion allows for this issue as a significant part of total income from a construction contract is recognised at a late stage along with the completion of approvals, tests, etc.

The Company's Management is of the opinion that the accounting estimates in connection with the recognition and measurement of constructions contracts are sound.

11 Prepayments

DKK'000	2016	2015
Software license	325	515
Insurance	39	0
Other prepayments	169	182
	533	697

Financial statements 1 January – 31 December

Notes

DKK'000	2016	2015
12 Deferred tax asset		
Deferred tax at 1 January	18,260	25,116
Deferred tax adjustment for the year in income statement	-7,840	-6,561
Adjustment of deferred tax, regarding prior years	0	-295
Deferred tax at 31 December	10,420	18,260

Deferred tax assets comprise deferred tax regarding intangible assets, property, plant and equipment, bad debt and other provisions. The value of tax loss carry forwards is also included at DKK 8,061 thousand.

A tax rate of 22% has been applied to the statement of deferred tax in 2016.

Deferred tax assets are recognised for non-utilised tax losses to the extent it is considered probable that tax losses will be realised within three to five years against which the losses can be set off.

At 31 December 2016, the Company assessed that tax losses totalling DKK 36,6million will be realisable within a foreseeable future. The tax value of DKK 8,1million was recognised in deferred tax assets at 31 December 2016.

The Company's Management assesses that the accounting estimates in connection with the recognition and measurement of deferred tax assets are sound.

13 Non-current liabilities other than provisions

No non-current liabilities are outstanding after 5 years.

Financial statements 1 January – 31 December

Notes

14 Contractual obligations, contingencies, etc.		2016	2015
DKK'000			
Other financial obligations			
Other operating leases		916	770
		916	770

The Company has entered into operating leases with a remaining term of 37 months and an average monthly lease payment of DKK 44 thousand in 2017, with a total remaining obligation of DKK 916 thousand.

The Company is jointly taxed with all other Danish companies in the BAE Systems Applied Intelligence A/S Group. The companies included in the joint taxation have joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties. At 31 December 2016, the jointly taxed companies' net liabilities to SKAT amounted to DKK 2,520 thousand. Any subsequent corrections of taxes may entail that the Companies' liability will increase.

15 Mortgages and collateral

As a guarantee to the bank, the Company has provided collateral of DKK 35,000 thousand at 31 December 2016 secured upon outstanding accounts and inventories. The collateral is issued by BAE Systems Applied Intelligence A/S as well as three subsidiaries.

Collateral for mortgage amounted to DKK 34,595 thousand at 31 December 2016 secured upon land and buildings located at Bouet Møllevej 5, 9400 Nørresundby.

16 Currency and interest rate risks and the use of derivative financial instruments

The Company transacts currency hedges related to significant currency exposures on specific revenue and receivables. The hedges are primarily related to EUR contracts. The value of the instruments is not deemed material.

Financial statements 1 January – 31 December

Notes

17 Related party disclosures

Control

Related parties exercising control include the principal shareholder BAE Systems PLC due to its stake in the Company.

The following shareholders are registered in the Company's register of shareholder as holding minimum 5% of the voting rights or minimum 5% of the share capital:

- BAE Systems (Overseas Holdings) Ltd.

Related parties also include the directors of the Company, subsidiaries of the Company and other companies of the principal shareholder.

BAE Systems Applied Intelligence A/S is part of the consolidated financial statements of BAE Systems PLC, United Kingdom, which is both the smallest and the largest group in which the Company is included as a subsidiary.

The consolidated financial statements of BAE Systems PLC can be obtained by contacting the Company or at the following website: www.baesystems.com.

Related party transactions

The Company has chosen only to disclose transactions that are not carried out on an arm's length basis in accordance with section 98c (7) of the Danish Financial Statements Act.

18 Events after the balance sheet date

No events have occurred after the financial year end, which could significantly affect the Company's financial position.