

**BAE Systems Applied  
Intelligence (Connect) A/S**  
Bouet Moellevej 5  
DK-9400 Nørresundby

**BAE Systems Applied Intelligence  
(Connect) A/S**

**Annual report 2016**

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

on 2 June 2017

  
chairman

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## 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 (Connect) 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 matters discussed in the Management's review.

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 Robert Moseley  
Chairman



Andrew Glenn Lazarus



Morten Vinther Jensen

## **Independent auditor's report**

**To the shareholders of BAE Systems Applied Intelligence (Connect) A/S**

### **Opinion**

We have audited the financial statements of BAE Systems Applied Intelligence (Connect) A/S for the financial year 1 January – 31 December 2016, comprising income statement, balance sheet 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 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.

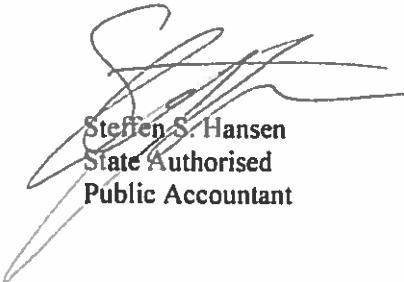
Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

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 (Connect) A/S  
Bouet Moellevej 5  
DK-9400 Nørresundby

CVR no.: 28 90 05 54  
Established: 22 June 2005  
Registered office: Aalborg  
Financial year: 1 January – 31 December

### **Board of Directors**

Richard Robert Moseley (Chairman)  
Andrew Glenn Lazarus  
Morten Vinther Jensen

### **Executive Board**

Morten Vinther Jensen

### **Auditor**

KPMG  
Statsautoriseret Revisionspartnerselskab  
Østre Havnegade 189000 Aalborg  
Denmark

### **Annual general meeting**

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

## **Management's review**

### **Operating review**

#### **Principal activities**

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**

Profit for the year came in at DKK 170,000.

Equity was negative at DKK 432,000 at 31 December 2016, and the Company is therefore affected by the capital loss rules laid down in section 119 of the Danish Companies Act.

Management expects equity to be re-established by means of the Company's future earnings.

Accordingly, Management is of the opinion that the Company has sufficient cash resources to carry out operations and activities for 2016.

#### **Post-balance sheet events**

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



## Financial statements 1 January – 31 December

### Income statement

DKK'000	Note	2016	2015
<b>Gross profit</b>		356	276
Profit from investments in associate	2	0	314
Other financial income	3	18	115
Other financial expenses	4	-165	-59
<b>Profit before tax</b>		209	646
Tax on profit for the year		-39	598
<b>Profit for the year</b>		170	1,244
<b>Proposed profit appropriation</b>			
Retained earnings		170	1,244
		170	1,244

## Financial statements 1 January – 31 December

### Balance sheet

DKK'000	Note	2016	2015
<b>ASSETS</b>			
<b>Fixed assets</b>			
<b>Intangible assets</b>			
Investments in associate	2	535	535
		<u>535</u>	<u>535</u>
<b>Total fixed assets</b>		<u>535</u>	<u>535</u>
<b>Current assets</b>			
<b>Receivables</b>			
Trade receivables		0	1
Construction contracts	5	898	1,284
Receivables from group entities		11,598	2,906
Other receivables		34	53
Deferred tax assets		0	598
		<u>12,530</u>	<u>4,842</u>
<b>Cash at bank and in hand</b>		<u>1,196</u>	<u>20,624</u>
<b>Total current assets</b>		<u>13,726</u>	<u>25,466</u>
<b>TOTAL ASSETS</b>		<u>14,261</u>	<u>26,001</u>

## Financial statements 1 January – 31 December

### Balance sheet

DKK'000	Note	2016	2015
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	6	500	500
Retained earnings		-932	-1,102
<b>Total equity</b>		<b>-432</b>	<b>-602</b>
<b>Current liabilities</b>			
Construction contracts	5	3,858	3,114
Trade payables		154	164
Payables to group entities		10,635	23,325
Tax Payable		46	0
		14,693	26,603
<b>Total liabilities other than provisions</b>		<b>14,693</b>	<b>26,603</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>14,261</b>	<b>26,001</b>
<b>Contractual obligations, contingencies, etc.</b>	7		

## **Financial statements 1 January – 31 December**

### **Notes**

#### **1 Accounting policies**

The annual report of BAE Systems Applied Intelligence (Connect) A/S for 2016 has been presented in accordance with the provisions applying to reporting class B 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, 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 the 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 on 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. Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

## **Financial statements 1 January – 31 December**

### **Notes**

#### **1 Accounting policies (continued)**

### **Income statement**

#### **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".

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 external costs include costs related to distribution, sale, administration, premises, computer equipment, etc.

#### **Financial income and expenses**

Financial income and expenses includes interest income and expenses, realised and unrealised capital gains and losses and exchange gains and losses on foreign currency transactions, etc. Financial income and expenses are recognised in the income statement at the amounts that relate to the reporting period.

#### **Tax on profit/loss for the year**

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

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 tax for the year attributable to changes in equity.

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

## **Financial statements 1 January – 31 December**

### **Notes**

#### **1 Accounting policies (continued)**

### **Balance sheet**

#### **Investments**

Investments in subsidiaries are measured at cost. Where the net realisable value is lower than cost, investments are written down to this lower value.

Dividends from investments in subsidiaries are recognised in the income statement if the dividends are attributable to earnings generated subsequent to the acquisition of the company.

#### **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.

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 projected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

#### **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 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.

#### **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 total contract costs will exceed 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 which are deemed 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 in securing contracts are recognised in profit or loss as incurred.

#### **Equity - dividends**

Proposed dividends are recognised as a liability at the date when 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.

#### **Provisions**

Provisions comprise anticipated costs related to warranties, losses on work in progress, etc. Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Provisions are measured at net realisable value. If the obligation is expected to be settled far into the future, the obligation is measured at fair value.

#### **Corporation tax and deferred tax**

Current tax payable and receivable is recognised in the balance sheet 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.

## **Financial statements 1 January – 31 December**

### **Notes**

#### **1 Accounting policies (continued)**

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.

Deferred tax assets, including the tax value of tax loss carry forward, 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 provisions**

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 liabilities are measured at amortised cost, which, essentially, corresponds to fair value.



## Financial statements 1 January – 31 December

### Notes

DKK'000	2016	2015
<b>2 Investments in associate</b>		
Cost at 1 January	535	535
Additions during the year	0	0
Cost at 31 December	535	535
Value adjustments at 1 January	0	-314
Adjustments during the year	0	314
Value adjustments at 31 December	0	0
<b>Carrying amount at 31 December</b>	<b>535</b>	<b>535</b>
<b>3 Financial income</b>		
Interest income from group entities	18	0
Foreign exchange gains	0	115
<b>Carrying amount at 31 December</b>	<b>18</b>	<b>115</b>
<b>4 Financial expenses</b>		
Foreign exchange losses	126	16
Bank charges	39	43
<b>Carrying amount at 31 December</b>	<b>165</b>	<b>59</b>

## Financial statements 1 January – 31 December

### Notes

#### 5 Construction contracts

Specification on contract work in progress

Sales value of work performed	10,055	1,318
On-account payments received	-13,015	-3,148
	-2,960	-1,830
	-2,960	-1,830

Which is specified as follows:

Construction contracts (net assets)	898	1,284
Construction contracts (net liabilities)	-3,858	-3,114
	-2,960	-1,830
	-2,960	-1,830

#### 6 Equity

	Share capital	Retained earnings	Total
DKK'000			
Equity at 1 January 2016	500	-1,102	-602
Transferred; see the profit appropriation	0	170	170
Equity at 31 December 2016	500	-932	-432

The share capital consists of 500 shares of a nominal value of DKK 1,000 each. No shares carry any special rights.

The share capital is unchanged in the past 5 years.

Management expects that equity will be re-established by the future earnings in the Company.

#### 7 Contractual obligations, contingencies, etc.

##### Contingent liabilities

The Company is jointly taxed with the Danish parent company BAE Systems Applied Intelligence A/S. 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 the taxable income subject to joint taxation or withholding taxes on dividends, interest and royalties may entail that the Company's liability will increase.

## **Financial statements 1 January – 31 December**

### **Notes**

#### **8 Related parties**

BAE Systems Applied Intelligence (Connect) A/S is part of the consolidated financial statements of BAE Systems PLC, United Kingdom, which is the smallest 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](http://www.baesystems.com).