

EXELIS DEFENCE LIMITED

Report and Financial Statements

31 December 2014

Company number 02803090



REPORT AND FINANCIAL STATEMENTS 2014

| CONTENTS | Page |
|--|-------------|
| Officers and professional advisers | 1 |
| Strategic Report | 2 |
| Directors' Report | 4 |
| Directors' responsibilities statement | 6 |
| Independent auditor's report | 7 |
| Profit and loss account | 9 |
| Balance sheet | 10 |
| Notes to the financial statements | 11 |

REPORT AND FINANCIAL STATEMENTS 2014

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Rear Admiral JA Trewby, CB, MA, FREng. (Chairman)
Major General (Ret) WJP Robins, CB, OBE
C. Tucker
KR Harrison
TA Rall
CM Reith (Managing Director)
SA Clarke

SECRETARY

PS Freeman

REGISTERED OFFICE

Jays Close
Viabes Estate
Basingstoke
Hampshire
RG22 4BA

BANKERS

National Westminster Bank Plc
PO Box 34
15 Bishopsgate
London
EC2P 2AP

INDEPENDENT AUDITOR

BDO LLP
Chartered Accountants and Statutory Auditor
2 City Place, Gatwick, West Sussex, RH6 0PA

STRATEGIC REPORT

The directors present their strategic report and the affairs of the company for the year ended 31 December 2014.

BUSINESS REVIEW

The principal activity of the company is the development, manufacture, sale and after-sales support of a range of products in the field of defence communications and sensors. The company is structured into three Divisions – Communications Systems, Sensors and Night Vision.

In 2014, 79% (2013 84.9%) of the company's total turnover of £21.9m (2013: £24.5m) was generated from its communications business. The company remained profitable in all Divisions with the business in total, returning 27.1% (2013: 18.7%) net profit after interest and tax. 2014 was a challenging year reflecting the UK economic conditions and its impact on MoD budgets. In the Sensors Division, the UKMOD RPAR and T93 support contracts with the UKMOD customer continued to provide steady revenue of around £3.8m (2013: £3.0m), whilst Night Vision continued at a low level of £0.8m (2013: £0.6m).

On the communications side, contract activities have been focused in four main areas – product new build, spare parts, product repairs and retrofit, product engineering services, including maintenance and new development and technical/technology studies.

In the UK, the company was successful in winning two five year contracts of £14.5m to continue to provide design maintenance services and the management infrastructure for product repair and retrofit. This is supplemented by a series of periodic repair amendments to reflect the value of repairs undertaken. The company was also successful in winning and delivering numerous technical and technical study contracts for both the Ministry of Defence and QinetiQ.

Overseas during the year, the company was awarded a £7m contract to deliver enhanced high-capacity data radios to the Danish Defence Acquisition and Logistics Organisation. This award expands on the capabilities provided by Denmark's competitively bid Army Mobile Data Radio Program. The company experienced some improvement with overseas sales increasing from £6.8m in 2013 to £8.0m in 2014. The European economy as a whole continues to see reduced spending in the defence sector.

In the radar sector, the RPAR contract, for the supply, installation and support of 26 precision approach radars at RAF, is 13 years into the long term support phase which runs until 2019. Throughout 2014, RPAR system availability remained very high, leading to prompt performance payments and good customer feedback.

The company's key measurements of the effectiveness of its operations are:

| | 2014 | 2013 |
|-----------------------------|--------|--------|
| | £'000 | £'000 |
| Turnover | 21,965 | 24,455 |
| Operating profit | 4,716 | 4,513 |
| Operating profit % | 21.5% | 18.4% |
| Average number of employees | 99 | 127 |
| Sales per head | 221.9 | 192.6 |

EXELIS DEFENCE LIMITED

PRINCIPAL RISKS, UNCERTAINTIES AND GOING CONCERN

Competitive and economic pressures in Europe and worldwide are continual risks for the company, and could lead to a shortfall in the level of sales against that projected in its strategic plan. The company is managing these risks in a number of ways by providing a fast response time to customer requirements, reliable delivery dates and low production costs through its culture of value-based lean six sigma (VBLSS) and by increasing focus on a limited set of opportunities in order to maximise win probability whilst containing selling costs.

The defence industry is highly regulated and the company has demonstrated compliance with UK and US legislation in this area. Of note is the ongoing extensive training programme on the US ITAR and FCPA legislative requirements.

The directors have assessed the company's forecasts and projections, taking account of possible changes in trading performance and the uncertain economic conditions. The assessment shows that the company continues to operate profitable contracts, and generates strong cash levels and has sufficient reserves to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

FUTURE PROSPECTS

The directors are satisfied with the performance for the year. Looking to the future, UK communications, radar and night vision support contracts will continue to provide a profitable core business. Strategies to protect this core business and to develop and bring the next generation of products to market are in play. In addition, campaigns to penetrate overseas markets in our business segments are progressing, although these markets are traditionally slow to develop. These initiatives are being further supplemented with a campaign to penetrate adjacent markets with new products. Success in these areas remains key to meeting business objectives set by the directors in the strategic plan.

Performance during the first six months of 2015 has been close to budget. However, difficult trading conditions are expected to continue.

RESULTS AND DIVIDENDS

The results for the year are as follows:

| | 2014 | 2013 |
|--|-------|-------|
| | £'000 | £'000 |
| Profit on ordinary activities after taxation | 5,963 | 4,602 |

Approved by the Board of Directors on 28 September 2015 and signed on behalf of the Board by



John Trewby
Chairman

EXELIS DEFENCE LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2014.

DIRECTORS AND THEIR INTERESTS

Subsequent to the year end, the following directors have resigned:

| | |
|-----------|-------------------------|
| RE Durbin | (Resigned 12 June 2015) |
| NE Bobay | (Resigned 30 June 2015) |

RESEARCH AND DEVELOPMENT ACTIVITIES

The company continues to invest in research and development, which will benefit the medium to long term. Costs in respect of the development of new product amounting to £129K have been capitalised in the Balance Sheet. Research costs incurred that did not meet the criteria of capitalisation, were expensed in the period.

RESULTS AND DIVIDENDS

The results for the year have been presented in the Strategic Report.

SPECIFIC FINANCIAL RISK MANAGEMENT

In addition to the risks already mentioned, the company's activities expose it to a number of financial risks including cash flow risk, credit risk, price risk and liquidity risk.

Cash flow and liquidity risks

The generation of cash is one of the company's key measurements and is closely monitored. The risk to the going concern of the company is, however, low as the company holds significant cash balances.

Credit Risk

The company has sufficient financial resources that it does not have a requirement for loans or overdraft facilities to support the business. Credit risk is, therefore, considered to be low.

Price Risk

The company does experience exposure to price risk including inflation and the impact of foreign exchange which can impact the cost of performing fixed price contracts. The company manages this on a case by case basis.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The company has put in place qualifying third party indemnity provisions for all of the directors of Exelis Defence Ltd.

DISCLOSURE OF INFORMATION

In the case of each of the persons who are directors of the company at the date when this report is approved:

- (a) so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the company's auditor is unaware; and
- (b) each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the company's auditor is aware of that information.

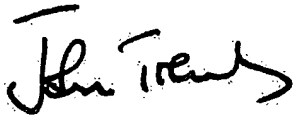
EXELIS DEFENCE LIMITED

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

AUDITORS

BDO LLP were appointed as auditors during the year and have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the next general meeting.

Approved by the Board of Directors on 28 September 2015 and signed on behalf of the Board by

A handwritten signature in black ink, appearing to read 'John Trewby', with a stylized flourish at the end.

John Trewby
Chairman

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EXELIS DEFENCE LIMITED

We have audited the financial statements of Exelis Defence Limited for the year ended 31 December 2014 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

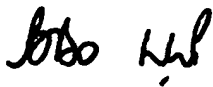
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



John Everingham (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Gatwick
Date 30 September 2015

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

EXELIS DEFENCE LIMITED**PROFIT AND LOSS ACCOUNT**
Year ended 31 December 2014

| | Note | 2014 £'000 | 2013 £'000 |
|--|------|---------------|---------------|
| TURNOVER | 2 | 21,965 | 24,455 |
| Cost of sales | 5 | (13,725) | (16,462) |
| Gross profit | | 8,240 | 7,993 |
| Operating expenses | 6 | (3,524) | (3,480) |
| OPERATING PROFIT | 3 | 4,716 | 4,513 |
| Investment income | 7 | 1,204 | 1,166 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 5,920 | 5,679 |
| Tax charge on profit on ordinary activities | 8 | 43 | (1,077) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 5,963 | 4,602 |

All amounts derive from continuing operations in both the current and preceding years.

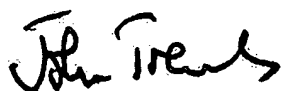
There were no recognised gains and losses for either the current or preceding financial years other than the profit noted above.

EXELIS DEFENCE LIMITED

BALANCE SHEET 31 December 2014

| | Note | 2014 £'000 | 2013 £'000 |
|---|------|---------------|---------------|
| FIXED ASSETS | | | |
| Tangible assets | 10 | 298 | 252 |
| Intangible assets | 10 | 1,951 | 1,822 |
| | | <u>2,249</u> | <u>2,074</u> |
| CURRENT ASSETS | | | |
| Stocks | 11 | 3,123 | 3,187 |
| Debtors | | | |
| -due within one year | 12 | 12,330 | 7,784 |
| -due after one year | 12 | 30,000 | 30,000 |
| Cash at bank and in hand | | 16,984 | 15,927 |
| | | <u>62,437</u> | <u>56,898</u> |
| CREDITORS: amounts falling due within one year | 13 | (11,021) | (11,324) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>53,665</u> | <u>47,648</u> |
| PROVISIONS FOR LIABILITIES | 14 | (65) | (11) |
| NET ASSETS | | <u>53,600</u> | <u>47,637</u> |
| CAPITAL AND RESERVES | | | |
| Called-up share capital | 16 | 100 | 100 |
| Capital contribution reserve | 17 | 2,000 | 2,000 |
| Profit and loss account | 17 | 51,500 | 45,537 |
| TOTAL SHAREHOLDERS' FUNDS | 17 | <u>53,600</u> | <u>47,637</u> |

The financial statements of Exelis Defence Limited, registered number 02803090, were approved and authorised for issue by the Board of Directors on 28 September 2015 and signed on its behalf by:



John Trewby
Chairman

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2014**1. STATEMENT OF ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. A summary of the principal accounting policies is set out below, all of which have been applied consistently throughout the year and the preceding year. As detailed in the Strategic Report the directors continue to adopt the going concern basis in preparing the financial statements.

Accounting convention

The financial statements are prepared under the historical cost convention.

Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation and provision for impairment. Depreciation is provided at rates calculated to write off the cost less estimated residual value of fixed assets on a straight-line basis over their estimated useful lives, as follows:

| | |
|------------------------------|--------------------------------------|
| Short leasehold improvements | over the remaining life of the lease |
| Plant and machinery | 3 years |

Intangible Fixed Assets

Intangible fixed assets are shown at cost less accumulated amortisation and provision for impairment. Amortisation is provided at rates calculated to write off costs over its useful life on a straight-line basis over 1 to 3 years. The intangible asset is a licence in nature and includes development costs to enable the manufacture of the interference mitigation product. Amortisation will commence with the commercial production of the product.

Stocks

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Long-term contracts

Long-term contract work-in-progress is stated, at costs incurred, net of amounts transferred to cost of sales, after deducting foreseeable losses and payments on account not matched with turnover. Payments in excess of recorded turnover and long-term contract balances are included in creditors as customer payments on account.

Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. The taxation liabilities of certain group companies of Defence Investments Limited, the UK parent company, are reduced wholly or in part by the surrender of losses by fellow group companies. The group has a policy that full payment is made for losses surrendered under the group relief provisions.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2014

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Translation of foreign currencies

Items transacted in foreign currencies are recorded in sterling using the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end are translated at year-end exchange rates. Foreign currency gains and losses are credited or charged to the profit and loss account as they arise.

Turnover

Turnover, which is stated net of VAT and trade discounts, comprises the value of sales invoiced to third parties plus amounts recoverable on contracts. In respect of long-term contracts, revenue is recognised either upon delivery of goods or services, or based on the value of work executed during the year. Where the outcome of the long-term contract can be assessed with reasonable certainty before its conclusion, the attributable profit is recognised in the profit and loss account as the difference between the reported turnover and related costs for that contract, less provision for any known or anticipated losses.

Leases

The company enters into operating leases. Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on that basis.

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

Development costs are also charged to the profit and loss account in the year of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

In such circumstances, the costs are carried forward and amortised over a period not exceeding three years commencing in the year the group starts to benefit from the expenditure.

Pensions

The company contributes to a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the contributions payable in the year. Differences between the contributions payable and the contributions actually paid are shown in either accruals or prepayments in the balance sheet.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation in respect of a past event and it is probable that a settlement will be required of an amount that can be reliably estimated. Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the company's liability.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Cash flow statement

The company has taken advantage of the exemption provided by Financial Reporting Standard 1 (Revised) not to prepare a cash flow statement as it is a wholly owned subsidiary of Harris Corporation, registered in the United States of America, which prepares consolidated accounts including a cash flow statement, which are publicly available.

Related party transactions

The company is taking advantage of an exemption conferred by FRS 8 which provides exemption for disclosure of transactions between two or more members of a group, provided that all subsidiaries which are party to the transaction are wholly owned by the same group.

2. SEGMENT INFORMATION

The destination of the turnover is detailed in the table below:

| | 2014 £'000 | 2013 £'000 |
|--------------------------------|---------------|---------------|
| Sales to the UK | 12,877 | 16,210 |
| Sales to Europe | 8,055 | 6,790 |
| Sales to US | 805 | 1,455 |
| Sales to the Rest of the World | 228 | - |
| Total sales in the year | <u>21,965</u> | <u>24,455</u> |

Turnover by class of business is detailed in the table below:

| | 2014 £'000 | 2013 £'000 |
|-------------------------|---------------|---------------|
| Communication Systems | 17,403 | 20,753 |
| Sensors | 3,757 | 3,059 |
| Night Vision | 805 | 643 |
| Total sales in the year | <u>21,965</u> | <u>24,455</u> |

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2014

3. OPERATING PROFIT

Remuneration

The remuneration of the directors was as follows:

| | 2014 £'000 | 2013 £'000 |
|------------|---------------|---------------|
| Emoluments | 510 | 783 |

Operating profit is stated after charging:

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Depreciation – owned assets | 149 | 142 |
| Staff costs (see note 4) | 6,643 | 8,326 |
| Operating lease rentals - Plant & machinery | 90 | 130 |
| - Land and building | 633 | 633 |
| Fees payable to the Company's auditors for the audit of the Company's annual accounts | 22 | 39 |
| Restructuring costs | 183 | 97 |

During the year the auditor charged £nil (2013: £16,000) for tax services.

4. STAFF COSTS

Particulars of employees (including executive directors) are as shown below:

Employee costs during the year amounted to:

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Wages and salaries (including contractor costs) | 5,433 | 6,940 |
| Social security costs | 591 | 680 |
| Pension costs | 619 | 706 |
| | 6,643 | 8,326 |

The average number of persons employed by the company (excluding contractors) during the year was as follows:

| | 2014 Number | 2013 Number |
|----------------------------------|----------------|----------------|
| Direct labour | 76 | 102 |
| Indirect labour – administration | 23 | 25 |
| | 99 | 127 |

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2014

Remuneration

The remuneration of the directors was as follows:

| | 2014 £'000 | 2013 £'000 |
|------------|---------------|---------------|
| Emoluments | <u>510</u> | <u>783</u> |

The Board composition includes Directors who are employed by other group Companies, and their costs attributable to their duties as Directors of this company are negligible.

Pensions

The number of directors who were members of pension schemes was as follows:

| | 2014 Number | 2013 Number |
|------------------------------|----------------|----------------|
| Defined Contribution Schemes | <u>1</u> | <u>2</u> |

No retirement benefits were paid to directors and past directors in excess of the benefits to which they were entitled on the date retirement benefits first became payable or 31 March 1997 whichever is the later.

Included within the 2014 Directors emoluments was £nil (2013: £43,161) of restricted stock which vested during the year

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

| | 2014 £'000 | 2013 £'000 |
|------------|---------------|---------------|
| Emoluments | <u>305</u> | <u>346</u> |

During 2014 £19,517 (2013: £11,852) was contributed on behalf of the highest paid director to the Pension Scheme (included in emoluments above). No pension costs were accrued.

5. COST OF SALES

Cost of sales includes all material and services costs incurred in completing contracts, including provision for any losses on contracts, where appropriate.

EXELIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2014

6. OPERATING EXPENSES

| | 2014 £'000 | 2013 £'000 |
|----------------------------|---------------|---------------|
| Administration and general | 3,524 | 3,480 |

Administration and general costs includes £86,079 (2013: £nil) of redundancy costs.

7. INVESTMENT INCOME

| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| Income from fixed asset investments | - | 1 |
| Interest receivable and similar income | 1,204 | 1,165 |
| | <u>1,204</u> | <u>1,166</u> |

Interest receivable and similar income

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| External interest receivable | 40 | 38 |
| Interest receivable from group undertakings | 1,164 | 1,127 |
| | <u>1,204</u> | <u>1,165</u> |

The average rate of interest received for monies on deposit and from loans to related parties in 2014 was 3.46% (2013: 3.46%).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2014

8. TAXATION

The tax charge is based on the profit for the year and comprises:

| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| Current taxation | | |
| Current year corporation tax charge | 698 | 1,179 |
| Prior year adjustment | (728) | (269) |
| Total current corporation tax (credit)/charge | (30) | 910 |
| Deferred taxation | | |
| Prior year deferred tax adjustment | (24) | - |
| Deferred taxation arising from other timing differences | 11 | 167 |
| Total deferred corporation tax charge/ (credit) (see note 15) | (13) | 167 |
| Total tax on profit on ordinary activities | (43) | 1,077 |

An agreement has been entered in to between Exelis Defence Limited, ITT Industries and Xylem that all assets and liabilities in relation to corporation tax regarding the former Group pre 2010 are to be taken by ITT Industries.

The differences between the total current tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows.

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Profit on ordinary activities before tax | 5,920 | 5,679 |
| Corporation tax charged at 21.5% (2013: 23.25%) | 1,273 | 1,320 |
| Effects of: | | |
| Pension spreading | - | (142) |
| Expenses not deductible for tax purposes | 10 | 12 |
| Capital allowances in excess of depreciation | (26) | (11) |
| Group tax relief | (559) | - |
| Prior Year Adjustment | (728) | (269) |
| Current tax (credit)/charge for the year | (30) | 910 |

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2014

8. TAXATION (CONTINUED)

Factors that may affect future tax charges

The Finance Act 2012, which provides for a reduction in the main rate of corporation tax from 24% to 23% effective from 1 April 2013, was substantively enacted on 3 July 2012. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date.

The Government reduced the main tax rate to 21% from 1 April 2015.

9. DIVIDENDS

No dividend was paid in 2014 (2013 £nil).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2014

10. FIXED ASSETS

TANGIBLE FIXED ASSETS

The movement in the year was as follows:

| | Short leasehold improve- ments £'000 | Plant and machinery £'000 | Total £'000 |
|---------------------------------|--|---------------------------------|----------------|
| Cost | | | |
| At 1 January 2014 | 781 | 3,788 | 4,569 |
| Additions | 20 | 175 | 195 |
| At 31 December 2014 | <u>801</u> | <u>3,963</u> | <u>4,764</u> |
| Accumulated depreciation | | | |
| At 1 January 2014 | 664 | 3,653 | 4,317 |
| Charge for the year | 28 | 121 | 149 |
| At 31 December 2014 | <u>692</u> | <u>3,774</u> | <u>4,466</u> |
| Net book value | | | |
| At 31 December 2013 | <u>117</u> | <u>135</u> | <u>252</u> |
| At 31 December 2014 | <u>109</u> | <u>189</u> | <u>298</u> |

INTANGIBLE FIXED ASSETS

See note 1 for details. The movement in the year was as follows:

| | £'000 |
|---------------------------------|--------------|
| Cost | |
| At 1 January 2014 | 1,822 |
| Additions | 129 |
| At 31 December 2014 | <u>1,951</u> |
| Accumulated depreciation | |
| At 1 January 2014 | - |
| Charge for the year | - |
| At 31 December 2014 | <u>-</u> |
| Net book value | |
| At 31 December 2014 | <u>1,951</u> |
| At 31 December 2013 | <u>1,822</u> |

EXELIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2014

11. STOCKS AND WORK-IN-PROGRESS

| | 2014 £'000 | 2013 £'000 |
|------------------|---------------|---------------|
| Raw Materials | 2,652 | 2,932 |
| Work in progress | 471 | 255 |
| | <u>3,123</u> | <u>3,187</u> |

There is no material difference between the balance sheet date value of stocks and their replacement costs.

12. DEBTORS:

Amounts falling due within one year

| | 2014 £'000 | 2013 £'000 |
|-----------------------------------|---------------|---------------|
| Trade debtors | 6,684 | 3,659 |
| Prepayments and accrued income | 406 | 286 |
| Amounts owed by group undertaking | 3,531 | 3,442 |
| Other debtor | 21 | 265 |
| Corporation tax debtor | 1,569 | - |
| Deferred tax (see note 15) | 119 | 132 |
| | <u>12,330</u> | <u>7,784</u> |

Amounts falling due after one year:

| | 2014 £'000 | 2013 £'000 |
|------------------------------------|---------------|---------------|
| Amounts owed by group undertakings | <u>30,000</u> | <u>30,000</u> |

Interest chargeable on the amount owed by group undertaking is at 3.57% (2013: 3.57%).

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2014 £'000 | 2013 £'000 |
|------------------------------------|---------------|---------------|
| Trade creditors | 1,034 | 836 |
| Amounts owed to group undertakings | 286 | 489 |
| Customer payments on accounts | 5,971 | 7,853 |
| Corporation tax creditor | - | 293 |
| Other taxation and social security | 663 | 255 |
| Accruals and deferred income | 3,067 | 1,598 |
| | <u>11,021</u> | <u>11,324</u> |

There is no interest chargeable on the amounts owed to group undertakings.

EXELIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2014

14. PROVISION FOR LIABILITIES

| | Warranty provision £'000 | Provision on contracts £'000 | Total £'000 |
|---|--------------------------------|------------------------------------|----------------|
| At 1 January 2014 | 9 | 2 | 11 |
| (Credited)/charged to the profit and loss account | 65 | (2) | 63 |
| Utilised | (9) | - | (9) |
| At 31 December 2014 | 65 | - | 65 |

15. DEFERRED TAXATION

There is no un-provided deferred tax liability at either year-end. The full deferred tax asset has been recognised within debtors since, in the opinion of the directors, the amount is fully recoverable.

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Deferred taxation is attributable to: | | |
| - excess of book depreciation of fixed assets over tax allowances | 85 | 93 |
| - other timing differences | 34 | 9 |
| - estimated future deduction for share based payments | - | 30 |
| Deferred tax asset (see note 12) | 119 | 132 |

The movement in deferred taxation comprises:

| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| At 1 January | 132 | 299 |
| Charged to the profit and loss account | (13) | (167) |
| At 31 December | 119 | 132 |

16. CALLED-UP SHARE CAPITAL

| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| Authorised 10,000,000 ordinary shares of £1 each | 10,000 | 10,000 |
| Allotted, called-up and fully paid 100,000 ordinary shares of £1 each | 100 | 100 |

EXELIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2014

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND RESERVES

| | Share capital account £'000 | Capital contribution Account £'000 | Profit and loss account £'000 | Shareholder s' Funds £'000 |
|---------------------|--------------------------------------|---|--|----------------------------------|
| At 1 January 2014 | 100 | 2,000 | 45,537 | 47,637 |
| Profit in the year | - | - | 5,963 | 5,963 |
| At 31 December 2014 | <u>100</u> | <u>2,000</u> | <u>51,500</u> | <u>53,600</u> |

18. FINANCIAL COMMITMENTS

(a) Banking facilities

The company has a £600,000 (2013: £600,000) HM Customs and Excise guarantee.

(b) Leases

The company has entered into non-cancellable operating leases including a building lease. The building lease expires in September 2019, with a break clause in October 2016. The total annual rental charged to the Profit & Loss Account for 2014 was £633,004 (2013: £763,000). The lease agreements provide that the company will pay all insurance and any damage costs.

The minimum annual rentals under the foregoing leases are as follows:

| | 2014 £'000 | 2013 £'000 |
|--------------------------------|---------------|---------------|
| Operating leases which expire: | | |
| Other | | |
| - within one year | 5 | 35 |
| - within 2-5 years | <u>720</u> | <u>725</u> |
| | <u>725</u> | <u>760</u> |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

19. PARENT AND ULTIMATE HOLDING COMPANY

As at 31 December 2014 the company was a wholly owned subsidiary of Defence Investments Limited, registered in England and Wales, the accounts of Defence Investments Ltd are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

The largest and smallest group in which these financial statements are consolidated is that of the ultimate holding company and controlling party, Exelis Inc. The financial statements of that company are available from 1650 Tysons Blvd, Suite 1700, McLean, VAT 22102. See note 21 for details of a change in the ultimate holding company.

20. RELATED PARTY TRANSACTIONS

In accordance with the exemption in Financial Reporting Standard 8 par 3(c), related party transactions with other wholly owned group companies are not disclosed since the consolidated financial statements of the ultimate parent undertaking are available to the public.

21. SUBSEQUENT EVENTS

Subsequent to the year end the ultimate parent company, Exelis Inc, was acquired by Harris Corporation, a company incorporated in the United States. From the date of acquisition, 29 May 2015, the directors regard Harris Corporation as the ultimate controlling party.