

Registered number:
02803090

HARRIS DEFENCE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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HARRIS DEFENCE LIMITED

COMPANY INFORMATION

Directors	Rear Admiral J A Trewby W Conner Jr B O'Connell C Tucker K N Norton K R Harrison T G Inshaw
Company secretary	P S Freeman
Registered number	02803090
Registered office	Jays Close Viabes Estate Basingstoke Hampshire RG22 4BA

HARRIS DEFENCE LIMITED

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HARRIS DEFENCE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2017

Introduction

The directors present their strategic report and the affairs of the company for the 12 month period ended 30 June 2017. On 29 May 2015, the ultimate parent company of Harris Defence Limited, Exelis Inc, was acquired by Harris Corporation, a company incorporated in the United States. Following the acquisition Harris Defence Limited changed its year end in the previous accounting period from 31 December to 30 June to align with the Harris Group, as such the comparative figures are for the 18 month period ended 30 June 2016.

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 Electronic Systems (ES). The company is structured into three business units - Tactical Communications, Electronic Systems and Night Vision.

In 2017, 70% (2016 - 76%) of the company's total turnover of £14.5m (2016: 18 month period - £26.9m) was generated from its communications business. The company remained profitable in all business units with the business in total returning 29% (2016 - 14%) net profit after interest and tax. 2017 was a challenging year reflecting the UK economic conditions and its impact on MoD budgets. In ES, radar, the UKMOD RPAR and T93 support contracts with the UKMOD customer continued to provide steady revenue of around £3.3m (2016: 18 month period - £5.2m), whilst Night Vision delivered £1m (2016: 18 month period - £1.1m)

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

In the UK, the company continued to provide design maintenance services and the management infrastructure for product repair and retrofit against a five year contract. 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 successfully met the contracted milestones to port waveforms for a European customer over a two year period. This was complemented with manufacturing orders from the product portfolio. The company experienced some challenging defence sector budgets with overseas sales amounting to £3.4m, compared to £9.1m for the 18 month period.

In the radar sector, the RPAR contract, for the supply, installation and support of 26 precision approach radars at RAF, is 16 years into the long term support phase which runs until 2019. Throughout 2017, 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:

HARRIS DEFENCE LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2017

	Period ended 30 June 2017	Period ended 30 June 2016
	£000	£000
Turnover	14,480	26,883
Operating profit	2,791	2,721
Operating profit %	19%	10%
Operating profit before exceptional impairment of intangible assets	2,791	4,672
Operating profit % before exceptional impairment of intangible assets	19%	17%
Average number of employees	75	67
Sales per head	<u>193</u>	<u>401</u>

Principal risks and uncertainties

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 Harris Business Excellence (HBX) 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.

The uncertainty surrounding Brexit and Article 50 triggering the exiting of the UK from the European Union is being assessed closely by management. No pre-emptive steps have been taken until more is understood about the potential changes in European and subsequent International trade agreements. At a time when risks can be qualified with some degree of certainty, mitigating steps will be introduced.

Whilst the company manages foreign exchange risk on a case by case basis, management acknowledge the favourable export trading opportunities presented by the EU referendum result and devaluation of the Pound. The full potential of this attractive pricing is offset by US sourced components, boards and materials.

The company depends on UK Government customers for a significant portion of the revenue, and loss of these relationships, a reduction in UK Government funding, or a change in UK Government spending priorities could have an adverse impact on the business, financial condition, results of operations and cash flows.

The company could be negatively impacted by a security breach, through cyberattack, cyber intrusion or otherwise, or other significant disruption of our IT network and related systems. As a communications provider, and particularly as a government contractor, we face heightened risk of security breaches or disruption from threats to gain unauthorised access. Although significant effort is made to maintain the security and integrity of our IT systems, it is virtually impossible to entirely mitigate this risk.

HARRIS DEFENCE LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2017

Future prospects

The directors are satisfied with the performance for the year. Looking into 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 adjacent markets with new products. Success in these areas remains key to meeting business objectives set by the directors in the strategic plan.

This report was approved by the board on 29th March 2018 and signed on its behalf.



K Norton
Director

HARRIS DEFENCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

The directors present their report and the financial statements for the year ended 30 June 2017.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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 to 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.

Results and dividends

The profit for the year, after taxation, amounted to £4.180m (2016: 18 month period - £3.669m).

The directors do not propose payment of a dividend (18 month period ended 30 June 2016 - £Nil).

Directors

The directors who served during the period and up to the date of this report:

Rear Admiral J A Trewby
W Conner Jr (appointed 25 October 2016)
B O'Connell (appointed 25 October 2016)
C Tucker
K N Norton
K R Harrison
T A Rall (resigned 25 October 2016)
C M Reith (resigned 25 October 2016)
S A Clarke (resigned 25 October 2016)
T G Inshaw (appointed 19 February 2018)
Major General (Ret) W J P Robins (resigned 13 November 2017)

HARRIS DEFENCE LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2017

Future developments

The directors are satisfied with the performance for the year. Looking into 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.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

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 monitors its external debtors closely, and though manages the balances with them. Given the size of the balance held at year end, and the aging of such debts the risk to the company is 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.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Under section 487(2) of the Companies Act 2006, BDO LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 29th March 2018 and signed on its behalf.



K Norton
Director

HARRIS DEFENCE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HARRIS DEFENCE LIMITED

Opinion

We have audited the financial statements of Harris Defence Limited ("the Company") for the year ended 30 June 2017 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards 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 ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

HARRIS DEFENCE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HARRIS DEFENCE LIMITED

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, 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 other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

We have nothing to report in respect of the following matters in relation to which 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

HARRIS DEFENCE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HARRIS DEFENCE LIMITED

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine 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, the Directors are 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 unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

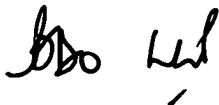
Auditor's responsibilities for the audit of the financial statements

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



John Everingham (Senior statutory auditor) for and on behalf of
BDO LLP

Gatwick
Date:

29 March 2018

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

HARRIS DEFENCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

		Period ended 30 June 2017 £000	18 months ended 30 June 2016 £000
	Note		
Turnover	4	14,480	26,883
Cost of sales		(10,687)	(20,170)
Gross profit		3,793	6,713
Administrative expenses		(1,002)	(3,992)
Operating profit	5	2,791	2,721
Interest receivable and similar income	8	1,461	1,985
Profit before tax		4,252	4,706
Tax on profit	9	(72)	(1,037)
Profit for the financial period		4,180	3,669
Other comprehensive income for the period			
Total comprehensive income for the period		4,180	3,669

There were no recognised gains and losses for 2017 or 2016 other than those included in the statement of comprehensive income.

The notes on pages 13 to 27 form part of these financial statements.

HARRIS DEFENCE LIMITED
REGISTERED NUMBER: 02803090

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible assets	10	135	286
		<u>135</u>	<u>286</u>
Current assets			
Stocks	11	3,229	4,507
Debtors: amounts falling due within one year	12	68,782	64,347
Cash at bank and in hand	13	3,037	1,325
		<u>75,048</u>	<u>70,179</u>
Creditors: amounts falling due within one year	14	(13,611)	(13,164)
Net current assets		<u>61,437</u>	<u>57,015</u>
Total assets less current liabilities		<u>61,572</u>	<u>57,301</u>
Provisions for liabilities			
Other provisions	15	(123)	(32)
		<u>(123)</u>	<u>(32)</u>
Net assets		<u><u>61,449</u></u>	<u><u>57,269</u></u>
Capital and reserves			
Called up share capital	17	100	100
Other reserves	18	2,000	2,000
Profit and loss account	18	59,349	55,169
		<u><u>61,449</u></u>	<u><u>57,269</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
29 MARCH 2018


K Norton
Director

The notes on pages 13 to 27 form part of these financial statements.

HARRIS DEFENCE LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 July 2016	100	2,000	55,169	57,269
Comprehensive income for the period				
Profit for the period	-	-	4,180	4,180
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	4,180	4,180
At 30 June 2017	100	2,000	59,349	61,449

The notes on pages 13 to 27 form part of these financial statements.

HARRIS DEFENCE LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2016

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2015	100	2,000	51,500	53,600
Comprehensive income for the period				
Profit for the period	-	-	3,669	3,669
Total comprehensive income for the period	-	-	3,669	3,669
At 30 June 2016	100	2,000	55,169	57,269

The notes on pages 13 to 27 form part of these financial statements.

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

1. General information

Harris Defence Limited is private company limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activities are set out in the strategic report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Harris Corporation as at 30 June 2017 and these financial statements may be obtained from 1025 West NASA Blvd, Melbourne, FL 32919, USA.

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2. Accounting policies (continued)

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Long term contracts

In respect of long term contracts, revenue is recognised either upon delivery of goods and 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 Statement of Comprehensive Income as the difference between the reported turnover and related costs for that contract, less provision for any known or anticipated losses.

2.4 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2. Accounting policies (continued)

2.4 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Short-term leasehold property	- over the remaining life of the lease
Plant and machinery	- 3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of comprehensive income.

2.5 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.6 Stocks & Work in Progress

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.7 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2. Accounting policies (continued)

2.9 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.10 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2. Accounting policies (continued)

2.11 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of comprehensive income within 'other operating income'.

2.12 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

2.13 Interest income

Interest income is recognised in the Statement of comprehensive income using the effective interest method.

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2. Accounting policies (continued)

2.14 Operating leases: the company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

The Group has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard on 1 January 2014 to continue to be charged over the period to the first market rent review rather than the term of the lease.

2.15 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of comprehensive income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of financial position.

2.16 Taxation

Tax is recognised in the Statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2. Accounting policies (continued)

2.17 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

Accounting for contracts requires judgement relative to assessing risks, including unfavourable resolutions of claims and contractual matters, judgements associated with estimating contract revenue and costs, and assumptions for schedule and technical issues. Due to the size and nature of many of the contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables. For example, we must make assumptions regarding: (i) the length of time to complete the contract because costs also include expected increases in wages and prices for materials; (ii) incentives or penalties related to performance on contracts in estimating revenue and profit rates, and record them when there is sufficient information for us to assess anticipated performance; and (iii) estimates of award fees in estimating revenue and profit rates based on actual and anticipated awards.

In preparing these financial statements, the directors have had to determine whether there are indicators of impairment of the company's tangible assets. Factors taken into consideration in reaching such decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

4. Turnover

An analysis of turnover by class of business is as follows:

	Year ended 30 June 2017 £000	18 months ended 30 June 2016 £000
Tactical communications	10,103	20,554
Electronic Systems	3,333	5,244
Night vision	1,044	1,085
	<u>14,480</u>	<u>26,883</u>

Analysis of turnover by country of destination:

	Year ended 30 June 2017 £000	18 months ended 30 June 2016 £000
United Kingdom	11,090	17,788
Rest of Europe	2,346	7,107
Rest of the world	1,044	1,988
	<u>14,480</u>	<u>26,883</u>

5. Operating profit

The operating profit is stated after charging:

	Year ended 30 June 2017 £000	18 months ended 30 June 2016 £000
Restructuring	-	75
Depreciation of tangible fixed assets	163	240
Impairment of intangible assets	-	1,951
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	25	26
Exchange differences	9	-
Other operating lease rentals	730	1,108
Defined contribution pension cost	<u>485</u>	<u>856</u>

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

6. Employees

Staff costs, including directors' remuneration, were as follows:

	Year ended 30 June 2017 £000	18 months ended 30 June 2016 £000
Wages and salaries	3,669	6,599
Social security costs	406	773
Cost of defined contribution scheme	485	856
	<u>4,560</u>	<u>8,228</u>

The average monthly number of employees, including the directors, during the period was as follows:

	Year ended 30 June 2017 No.	18 months ended 30 June 2016 No.
Direct labour	59	51
Indirect labour	16	16
	<u>75</u>	<u>67</u>

7. Directors' remuneration

	Year ended 30 June 2017 £000	18 months ended 30 June 2016 £000
Directors' emoluments	130	354
	<u>130</u>	<u>354</u>

The highest paid director received remuneration of £76,388 (2016 - £155,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £3,733 (2016 - £24,913).

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.

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

8. Interest receivable

	Period ended 30 June 2017 £000	18 months ended 30 June 2016 £000
Intercompany interest receivable	1,461	1,985
	<u>1,461</u>	<u>1,985</u>

9. Taxation

	Period ended 30 June 2017 £000	18 months ended 30 June 2016 £000
Corporation tax		
Current tax on profits for the year	437	411
Adjustments in respect of previous periods	(411)	586
	<u>26</u>	<u>997</u>
Total current tax	<u>26</u>	<u>997</u>
Deferred tax		
Deferred taxation arising from other timing differences	(19)	40
Prior year deferred tax adjustment	65	-
Total deferred tax	<u>46</u>	<u>40</u>
Taxation on profit on ordinary activities	<u>72</u>	<u>1,037</u>

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

9. Taxation (continued)

Factors affecting tax charge for the period

The tax assessed for the period is lower than (2016 - *higher than*) the standard rate of corporation tax in the UK of 19.75% (2016 - 20.2%). The differences are explained below:

	Period ended 30 June 2017 £000	18 months ended 30 June 2016 £000
Profit on ordinary activities before tax	<u>4,252</u>	<u>4,706</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.75% (2016 - 20.2%)	841	951
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	3	7
Other timing differences leading to a decrease in taxation	-	(23)
Other differences leading to an increase (decrease) in the tax charge	1	-
Group relief	(428)	(484)
Prior year adjustment	(345)	586
Total tax charge for the period	<u><u>72</u></u>	<u><u>1,037</u></u>

Factors that may affect future tax charges

The Government reduced the main tax rate to 17% from 1 April 2020

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

10. Tangible fixed assets

	Short-term leasehold property £000	Plant and machinery £000	Total £000
Cost or valuation			
At 1 July 2016	833	4,159	4,992
Additions	12	-	12
At 30 June 2017	<u>845</u>	<u>4,159</u>	<u>5,004</u>
Depreciation			
At 1 July 2016	723	3,983	4,706
Charge for the period on owned assets	24	139	163
At 30 June 2017	<u>747</u>	<u>4,122</u>	<u>4,869</u>
Net book value			
At 30 June 2017	<u>98</u>	<u>37</u>	<u>135</u>
At 30 June 2016	<u>110</u>	<u>176</u>	<u>286</u>

11. Stocks

	2017 £000	2016 £000
Raw materials and consumables	1,378	4,507
Work in progress	1,851	-
	<u>3,229</u>	<u>4,507</u>

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

12. Debtors

	2017 £000	2016 £000
Due after more than one year		
Amounts owed by group undertakings	64,868	52,338
	<u>64,868</u>	<u>52,338</u>
Due within one year		
Trade debtors	2,348	5,625
Amounts owed by group undertakings	606	5,525
Deferred tax asset	33	79
Prepayments and accrued income	927	780
	<u>3,914</u>	<u>12,009</u>

The amounts owed by group undertakings due after more than one year could fall for payment within one year, however given the expectation that the amount will not be repaid within twelve months these balances have been disclosed as being due in greater than one year.

13. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	3,037	1,325
	<u>3,037</u>	<u>1,325</u>

14. Creditors: Amounts falling due within one year

	2017 £000	2016 £000
Accruals and deferred income	8,902	10,784
Trade creditors	383	521
Amounts owed to group undertakings	2,922	325
Corporation tax	998	972
Other taxation and social security	406	562
	<u>13,611</u>	<u>13,164</u>

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

15. Provisions

	Warranty provision £000
At 1 July 2016	32
Charged to profit or loss	108
Utilised in period	(17)
At 30 June 2017	<u>123</u>

16. Deferred Taxation

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

The deferred tax liability is for both period ends fully related to excess book depreciation of fixed assets over tax allowances.

17. Share capital

	2017 £000	2016 £000
Shares classified as equity		
Authorised, allotted, called up and fully paid		
100,000 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

18. Reserves

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

HARRIS DEFENCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

19. Commitments under operating leases

Banking facilities

The company has a £600,000 (2016 - £600,000) HM Customs and Excise guarantee.

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 lease agreements provide that the company will pay all insurance and any damage costs.

At 30 June 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £000	2016 £000
Not later than 1 year	330	144
Later than 1 year and not later than 5 years	395	42
	<u>725</u>	<u>186</u>

20. Controlling party

As at 30 June 2017 the company was a wholly owned subsidiary of Defence Investments Limited, registered in England and Wales, the accounts of Defence Investments Limited are available from Companies House, Crown Way, Cardiff, CF12 3UZ.

On 29 May 2015 the company's ultimate parent company, Exelis Inc, was acquired by Harris Corporation, a company registered in the United States of America. The smallest and largest group in which the company's accounts are consolidated is the Harris Corporation. Copies of their accounts are available from 1025, West NASA Boulevard, Melbourne, FL, USA.