

MBDA UAE Limited

**Directors' Report and Financial Statements
For the year ended 31 December 2018**

Registered Number: 469781



Directors' Report and Financial Statements

For the year ended 31 December 2018

Contents

	Pages
Directors' Report	2 – 3
Statement of Directors' Responsibilities	4
Independent Auditor's Report to the members of MBDA UAE Limited	5-7
Income Statement	8
Condensed Statement of Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Cash Flow Statement	12
Notes to the Financial Statements	13 – 27

Directors' Report

For the year ended 31 December 2018

The directors present their annual report and the audited financial statements of MBDA UAE Limited (the "Company") for the year ended 31 December 2018.

Principal activity

The principal activity of the Company is the supply, installation and commissioning of communications and military systems equipment overseas.

Business Review

During the year under review the Company continued to discharge its obligations under a contract for the supply of precision guided munitions and equipment. Turnover for the year was £931,636 (2017: £513,208). There was a profit for the year after taxation of £706,310 (2017: £29,433 loss). The directors are confident about the future prospects of the Company.

Proposed dividend

The directors do not propose a dividend payment (2017: £Nil).

Directors and directors' interests

The directors who held office during the period under review were:

A Sparkes (Resigned 30 September 2018)

I D West

S A Shepley (Appointed 1 October 2018)

No directors, or members of their immediate family, had any interests in shares or debentures, or options to purchase shares or debentures, of the Company at any point during the year.

Employees

Employment policies include a commitment to equal opportunity and are designed to attract and retain the best employees regardless of sex, marital status, age, nationality, or disability, subject only to considerations of national security. The Company recognises its legal and social responsibilities towards people with disabilities and gives full and fair consideration to applications for employment made by them, having regards to their particular aptitudes and abilities. Where any employee becomes disabled, every reasonable effort is made to ensure that their employment is continued and that they receive the same opportunities for training, career development and promotion as other employees.

MBDA UAE Limited
Directors' report and financial Statements
For the year ended 31 December 2018

Directors' Report

For the year ended 31 December 2018 (continued)

Political contributions

The Company made no political contributions during the year (2017: £Nil).

Financial instruments

The nature of the business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations the Company's policy is to remove exchange rate risk by the placing of foreign currency exchange deals. The Company accounts for forward currency contracts under hedge accounting as permitted by IAS 39.

Going concern

After making detailed enquiries, the Board of Directors is confident that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly continues to prepare the financial statements on a going concern basis.

Auditor

Pursuant to section 487 of the Companies Act 2006 the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

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

The Company is domiciled and incorporated in the UK with registered number 469781 and its registered office is as shown below.

By Order of the Board



C N Evans

Secretary

Date: 25/09/2019

Registered office

PO Box 19
Six Hills Way
Stevenage
Hertfordshire SG1 2DA

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) 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 judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MBDA UAE LIMITED

Opinion

We have audited the financial statements of MBDA UAE Limited ("the company") for the year ended 31 December 2018 which comprise the Income Statement, statement of comprehensive Income, Balance Sheet, Statement of Cash Flows, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

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

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.¹

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

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



Mike Barradell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square
London

E14 5GL

30/09/2019

Income statement
for the year ended 31 December 2018

		2018 £000	2017 £000
Contract Revenue	2	<u>931.6</u>	<u>513.2</u>
Raw materials & consumables used		(45.9)	(314.3)
Staff costs	4	(341.6)	(267.4)
Depreciation & amortisation		(16.9)	(17.4)
Other operating income		<u>330.8</u>	<u>49.7</u>
Operating profit/ (Loss)	3	858.0	(36.2)
Finance income	5	<u>6.8</u>	<u>4.2</u>
Profit/(Loss) before taxation		864.8	(32.0)
Taxation	6	<u>(158.5)</u>	<u>2.6</u>
Profit/(Loss) after taxation		<u>706.3</u>	<u>(29.4)</u>

All of the Company's activities are in respect of continuing operations.

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

The staff costs related to the business activities of MBDA UAE are borne by MBDA UK. To achieve a fairer presentation of the financial statements, staff costs have been included within the Income Statement, and an offsetting credit has been charged to other operating costs/income.

Statement of comprehensive income

For the year ended 31 December 2018

	2018 £000	2017 £000
Profit/(Loss) for the year	<u>706.3</u>	<u>(29.4)</u>
Items that may be reclassified to the income statement :		
Hedging Reserves	(62.3)	29.0
Tax on items that may be reclassified to the income statement	11.8	(5.8)
Other comprehensive income/(loss) for the year	<u>(50.5)</u>	<u>23.2</u>
Total recognised income and expense	<u><u>655.8</u></u>	<u><u>(6.2)</u></u>

The notes on pages 13 to 27 form part of the financial statements. The company has initially applied IFRS 15 using the cumulative effect method. Under this method the comparative information is not restated.

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

Balance sheet
at 31 December 2018

	Note	2018 £000	2017 £000
Assets			
Property, plant & equipment	7	25.7	32.0
Deferred tax asset	11	19.7	10.2
Total non-current assets		<u>45.4</u>	<u>42.2</u>
Contract Assets	2	931.6	-
Trade and other receivables	8	2,215.7	2,203.7
Cash and cash equivalents		873.7	946.5
Total current assets		<u>4,021.0</u>	<u>3,150.2</u>
Total assets		<u>4,066.3</u>	<u>3,192.4</u>
Liabilities			
Trade and other payables	9	(3,032.1)	(2,904.4)
Deferred tax liability	11	-	(1.2)
Total current liabilities		<u>(3,032.1)</u>	<u>(2,905.6)</u>
Derivative financial liability	15	(56.1)	-
Provisions	10	(347.6)	(312.0)
Total non-current liabilities		<u>(403.7)</u>	<u>(312.0)</u>
Total liabilities		<u>(3,435.8)</u>	<u>(3,217.6)</u>
Net assets		<u>630.6</u>	<u>(25.2)</u>
Equity			
Called up share capital	12	0.1	0.1
Profit and loss account		630.5	(25.3)
Total equity		<u>630.6</u>	<u>(25.2)</u>

These financial statements were approved by the Board of directors and were signed on its behalf by:

ID West
 Director
 Date:

ID West
 25 SEPTEMBER 2019

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

Statement of Changes in Equity

	Share Capital	Profit & loss	Total Equity
	£000	£000	£000
At 1 January 2017	0.1	(19.1)	(19.0)
Other comprehensive income	-	23.2	23.2
Retained loss for the year	-	(29.4)	(29.4)
At 31 December 2017	0.1	(25.3)	(25.2)
At 1 January 2018	0.1	(25.3)	(25.2)
Other comprehensive income	-	(50.5)	(50.5)
Retained profit for the year	-	706.3	706.3
At 31 December 2018	0.1	630.5	630.6

The profit and loss reserve comprises the profit or loss for the period and the effective portion of the cumulative change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Cash flow statement

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

for the year ended 31 December 2018

	2018	2017
	£000	£000
Cash flows from operating activities		
Profit/(loss) for year after tax	706.3	(29.4)
Taxation	158.5	(2.6)
Profit/(Loss) for year before tax	864.8	(32.0)
Adjustment for:		
Depreciation & amortisation	16.9	17.4
Interest received	(6.8)	(4.2)
Movement in contract assets	(931.6)	-
Movement in trade and other receivables	(18.3)	(434.8)
Movement in trade and other payables	48.5	(1,703.2)
Movement in financial liability	-	(22.8)
Provisions	35.6	11.3
Taxation	(78.1)	159.3
Net cash from operating activities	(69.0)	(2,009.0)
Cash flows from investing activities		
Interest received	6.8	4.2
Capital investment	(10.6)	(14.4)
Net cash from investing activities	(3.8)	(10.2)
Net decrease in cash and cash equivalents	(72.8)	(2,019.2)
Cash and cash equivalents at 1 January	946.5	2,965.7
Cash and cash equivalents at 31 December	873.7	946.5

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

Notes to the financial statements

For the year ended 31 December 2018

1. Accounting policies

MBDA UAE Limited ("the Company") is a company incorporated in the UK.

Basis of preparation

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The financial statements have been prepared in accordance with IFRS as adopted by the EU and under the historical cost accounting rules, modified to include financial instruments which are held at fair value.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

The functional currency of the financial statements is GBP and is in £'000s.

Key accounting judgements and estimates

Revenue recognition

Contract profit is calculated by reference to reliable estimates of contract revenue and forecast costs after making suitable allowance for technical and other risks related to performance milestones yet to be achieved. Material changes in one or more of these estimates, whilst not anticipated, would affect the profitability of individual contracts.

Revenue is recognised in accordance with IFRS 15. Profit is calculated for individual performance obligations by reference to reliable estimates of both forecast revenue at completion and forecast costs at completion after making suitable allowance for technical and other risks related to obligations yet to be achieved. Material changes in one or more of these estimates, whilst not anticipated, would affect the profitability of individual performance obligations. No adjustments were made in respect of IFRS 15 to the cumulative revenue recognised up to 1st January 2018.

IFRS 15 outlines principles for the measurement and recognition of revenue from contracts with customers, with the core principle being that revenue should be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods and services to the customer. In order to achieve this objective, the standard sets out a five-step model:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognise revenue when or as the entity satisfies a performance obligation.

The standard also covers the accounting for the incremental costs of obtaining a contract and the costs to fulfil a contract, together with presentation and disclosure requirements.

Sales comprise the net value of deliveries made, work completed or services rendered during the year. Sales are recognised when title passes or a separately identifiable phase of a contract or development has been completed. Revenue represents sales made by the Company and represents technical achievements.

1. Accounting policies (continued)

For the 2017 accounting policies, Profit is recognised at the time of the sale. The amount of profit attributable to the stage of completion of a long term contract is arrived at by reference to the estimated profitability of the contract. Appropriate provisions are made for any losses in the year they are first foreseen. Contract work in progress is stated at costs incurred, less that transferred to the income statement, after deductible foreseeable losses and payment on account not matched with turnover. Costs include all expenditure relating directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity. Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

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The major activities of the Company are conducted under long term contract arrangements and were therefore accounted for in accordance with IAS 11 Construction Contracts.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis and is charged to the income statement over the estimated useful economic life as follows:

Fixtures, Fittings and Equipment	10 years
Computer Equipment	3 years to 5 years

Trade and other receivables

Trade and other receivables are stated at their nominal amount less impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

1. Accounting policies (continued)

Impairment

The carrying amounts of the Company's assets, inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement.

Derivative financial instruments and hedging

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity in the fair value reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Finance income

Finance income comprises interest receivable on funds invested. It is recognised in the income statement as it accrues.

1. Accounting policies (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Changes in significant accounting policies

IFRS 9 has become effective from 1 January 2018. It will replace IAS 39 Financial Instruments. The company has adopted IFRS 9 and taken advantage of the allowed transition option to choose, as its accounting policy, to defer application of the new general hedging model. As a result, the company has continued to apply the requirements of IAS 39 with regards to hedge accounting during the current year. The new standard contains two measurement categories for financial assets and this is not anticipated to have any material impact on the results or statement of financial position reported in these financial statements.

MBDA UAE will apply IFRS 16 from 1 January 2019. It will replace IAS 17 Leases. IFRS 16 introduces a single, on-balance sheet lease accounting model for leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. MBDA UAE has started to assess the estimated impact IFRS 16 will have on the consolidated financial statements. IFRS 16 will increase assets and liabilities of MBDA UAE. The largest impact will result from the recognition of new assets and liabilities for operating leases relating to certain sites. It is not expected that IFRS 16 will have a material impact on the future expenses of MBDA.

The company has initially adopted IFRS 15 using the cumulative effect method. As there was no outstanding contract at the date of the adoption, the comparative information in the statement of profit or loss and other comprehensive income is not restated.

IFRS 15 established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue and IAS 11 Construction Contracts. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or service. Determining the timing of transfer of control, at point in time or over time, requires judgment. MBDA UAE adopted IFRS 15 using cumulative effect method with the effect of initially applying this standard recognised at the date of initial application. Accordingly the information presented has not been restated, i.e. it is presented as previously reported under IAS 18 and IAS 11. Additionally, the disclosure requirements of IFRS 15 have not generally been applied to comparative information.

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

2. Contract Revenue

Disaggregation of revenue from contracts with customers:

Major Business Segments	2018 £000	2017 £000
Customer Support & Services	931.6	513.2
Revenue	931.6	513.2
Primary Geographical Markets	2018 £000	2017 £000
Rest of world	931.6	513.2
Revenue	931.6	513.2
Nature of Goods and Services	2018 £000	2017 £000
Support	931.6	513.2
Revenue	931.6	513.2
Timing of Revenue Recognition	2018 £000	2017 £000
Over Time (OT)	931.6	513.2
Revenue	931.6	513.2

Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers. It also provides customer advances as reported under IAS11 for 2017.

	2018 £000	2017 £000
Receivables, which are included within 'trade and other receivables'	2,206	2,203.7
Contract assets	931.6	-
Contract liabilities	-	-
Advance payments received from customers which are included within 'trade and other payables'	-	-

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

The contract assets primarily relate to MBDA UAE's right for consideration for work completed but not invoiced at the reporting date. There was no impairment charge on contract assets during the year ended 31 December 2018. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when MBDA UAE issues an invoice to the customer.

The contract liabilities primarily relate to the advance consideration received from customers for obligations which are not yet performed.

Transaction price allocated to the remaining performance obligations.

The table below includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

Major Business Segments	2019
	£000
Customer Support & Services	3,836
Revenue	<u>3,836</u>

Variable consideration from contracts has not been included in the above numbers to the extent the Company's estimated transaction price has been constrained.

3. Operating profit

	2018	2017
	£000	£000
Operating profit is stated after charging		
Depreciation of property, plant & equipment	16.9	17.4
Exchange Loss	11.9	27.9
Audit Fees	<u>8.0</u>	<u>8.0</u>
	<u>36.8</u>	<u>53.3</u>

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

4. Staff numbers and costs

	2018	2017
Average number of employees working overseas	9	9
	£000	£000
Wages and salaries	259.3	228.7
Other staff costs	82.3	38.7
Gross remuneration	<u>341.6</u>	<u>267.4</u>

The directors are full time executives of other group companies. The Company considers that there is no practicable method to accurately allocate a portion of the emoluments the Directors receive from their respective Group company employer to the qualifying services they provide to the Company. The Company is also of the opinion any allocation would be immaterial.

5. Finance income

	2018 £000	2017 £000
Bank Interest	6.8	4.2
	<u>6.8</u>	<u>4.2</u>

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

6. Taxation recognised in the income statement

	2018	2017
	£000	£000
Current Tax		
Current tax charge/(credit) for the period	165.5	(2.6)
Adjustment for prior year	(7.1)	-
	<u>158.4</u>	<u>(2.6)</u>
Deferred tax (note 11)		
Deferred tax (note 11)	1.1	(0.8)
Adjustment in respect of prior year	(1.0)	0.8
	<u>158.5</u>	<u>(2.6)</u>
Reconciliation of tax expense	2018	2017
	£000	£000
Profit/(loss)	<u>864.8</u>	<u>(32.0)</u>
Tax charged on profit/(loss) at UK rate of 19% (2017 19.25%)	164.3	(6.2)
Disallowable expenditure	0.2	3.9
Adjustments in respect of prior year's Tax	(6.0)	(0.3)
Current tax in income statement	<u>158.5</u>	<u>(2.6)</u>

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015, an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2018 has been calculated based on these rates.

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

7. Plant & machinery

	Fixtures, fittings, tools and equipment £000	Total £000
Cost		
Balance at 1 January 2017	267.0	267.0
Acquisitions	14.4	14.4
Disposals	(58.6)	(58.6)
Balance at 31 December 2017	222.8	222.8
Balance at 1 January 2018	222.8	222.8
Additions	10.6	10.6
Balance at 31 December 2018	233.4	233.4
Depreciation and impairment		
Balance at 1 January 2017	232.0	232.0
Depreciation charge for the year	17.4	17.4
Disposal	(58.6)	(58.6)
Balance at 31 December 2017	190.8	190.8
Balance at 1 January 2018	190.8	190.8
Depreciation charge for the year	16.9	16.9
Balance at 31 December 2018	207.7	207.7
Net book value		
At 31 December 2017	32.0	32.0
At 31 December 2018	25.7	25.7

There have been no impairments of property, plant and equipment in the year (2017: £Nil).

At December 2018 included in costs were assets with a net book value of zero:

Fixture, fittings, tools and equipment - £188.4 (2017: £145.9).

No items of property, plant and equipment are held under finance leases (2017: £Nil).

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

8. Trade and other receivables

	2018 £000	2017 £000
Current		
Trade receivables - amounts recoverable on contracts	2,206.0	2,201.0
Other receivables	-	0.1
Amounts owed by group undertakings	9.7	2.6
	<u>2,215.7</u>	<u>2,203.7</u>

9. Trade and other payables

	2018 £000	2017 £000
Current		
Amounts owed to group undertakings	796.2	801.7
Accruals	2,156.6	2,102.7
Other payables	79.3	-
	<u>3,032.1</u>	<u>2,904.4</u>

10. Provisions

Employee Provisions	2018 £000	2017 £000
At 1 January	312.0	300.7
Created	43.5	35.4
Utilised and released	(7.9)	(24.1)
As at 31 December	<u>347.6</u>	<u>312.0</u>

In respect of employee's provisions, these are made to cover the costs of an end of service payment, to which all employees have legal entitlement.

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

11. Deferred tax

An analysis of the deferred tax balance is shown below:

	1 January 2017 £000	Recognised in income £000	Recognised in equity £000	31 December 2017 £000
Deferred Tax Asset				
Accelerated capital allowances	11.0	(0.8)	-	10.2
IAS 39 fair value adjustment (hedging)	4.6	-	(5.8)	(1.2)
Taxable losses	-	-	-	-
Net tax asset	<u>15.6</u>	<u>(0.8)</u>	<u>(5.8)</u>	<u>9.0</u>

	1 January 2018 £000	Recognised in income £000	Recognised in equity £000	31 December 2018 £000
Deferred Tax Asset				
Accelerated capital allowances	10.2	(1.1)	-	9.1
IAS 39 fair value adjustment (hedging)	(1.2)	-	11.8	10.6
Taxable losses	-	-	-	-
Net tax asset	<u>9.0</u>	<u>(1.1)</u>	<u>11.8</u>	<u>19.7</u>

12. Called up share capital

	2018 £000	2017 £000
Authorised, allotted, called up and fully paid:		
100 Ordinary shares of £1 each	0.1	0.1

Ordinary shares carry one vote per share.

MBDA UAE Limited
 Directors' report and financial Statements
 For the year ended 31 December 2018

13. Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as follows:

	2018 £000	2017 £000
Expiring within one year	80.0	55.9
Expiring 2 – 5 years	103.5	57.0
	<u>183.5</u>	<u>112.9</u>

The expense recognised in the income statement is £90.4 (2017: £66.6).

14. Related party disclosures

All transactions are on an arm's length basis. At the balance sheet date, the Company owed £1,950,824 (2017: £1,956,287) to MBDA UK Limited for the recharge of the UAE office cost incurred within MBDA UK.

All transactions are on an arm's length basis. At 31 December 2018, £4,262 was owed by Horizon Land Limited (2017: £2,586) as consideration for surrendering the Company's trading losses to Horizon Land Limited as part of MBDA's group tax relief arrangement. At 31 December 2018, £5,413 was owed by MBDA International as consideration for surrendering the company's trading losses to MBDA International as part of MBDA's group tax relief arrangement. At the year end date the Company had cash deposited with MBDA Treasury totalling £779,672 (2017: £888,932).

During the year cost of sales amounting to £876,903 have been recharged to MBDA UK contributing to profit for the year. The other side of the recharge has increased MBDA UK's costs of sales and has created an intercompany receivable. The overall contract margin in both MBDA UAE and MBDA UK Limited is £Nil for 2018. Further, MBDA UAE has recognised a provision for goods received and not invoiced in relation to the costs that have not yet settled for the UAE contract. Consequently, MBDA UK has recognised an unbilled debt in the 2018 accounts for the UAE contract. The costs of running the office for MBDA UAE are recharged to MBDA Services under an agreement in place between MBDA UK and MBDA Services.

15. Financial instruments

Exchange risk

The global nature of the business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations the Company's policy is to remove exchange rate risk by the placing of foreign currency exchange deals. The Company accounts for forward currency deals under hedge accounting as permitted by IFRS9. The Company has adopted IFRS 9 but as allowed have continued to apply IAS 39 hedge accounting model for a transition period.

Interest risk

The Company loans cash to MBDA Treasury Company Ltd. on which interest is received based on LIBOR/EURIBOR. The business is therefore exposed to volatility in underlying interest rates.

Forward currency deals

Forward currency deals are carried at fair value as in the balance sheet.

	2018		2017	
	Asset £000	Liability £000	Asset £000	Liability £000
USD sale	-	(56.1)	6.3	-
Total	<u>-</u>	<u>(56.1)</u>	<u>6.3</u>	<u>-</u>

The fair value of the financial instrument is the price at which one party would assume the rights/and or duties of another party and reflects the future gain or loss that would have occurred should the hedge have not been in place. The fair values are determined based on current market exchange rates at the balance sheet date.

Maturity of the forward currency deals are as shown below.

	2018 Gain £000	2017 Gain £000	2018 Loss £000	2017 Loss £000	2018 Net £000	2017 Net £000
< 1 year	-	6.3	(56.1)	-	(56.1)	6.3
1-2 years	-	-	-	-	-	-
2-5 years	-	-	-	-	-	-
Total	<u>-</u>	<u>6.3</u>	<u>(56.1)</u>	<u>-</u>	<u>(56.1)</u>	<u>6.3</u>

The £56,084 net financial liability (2017: £6,290 asset) gives rise to a deferred tax asset of £10,654 (2017: £1,195 asset).

The following table presents the Company's assets and liabilities by the measurement basis by which they are fair valued under the IFRS 7 fair value hierarchy at 31 December 2018:

15. Financial instruments (continued)

2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
Derivatives used for hedging	-	-	-	-
Total assets	-	-	-	-
Liabilities				
Derivatives used for hedging	-	(56.1)	-	(56.1)
Total liabilities	-	(56.1)	-	(56.1)
2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
Derivatives used for hedging	-	6.3	-	6.3
Total assets	-	6.3	-	6.3
Liabilities				
Derivatives used for hedging	-	-	-	-
Total liabilities	-	-	-	-

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included with level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (i.e. unobservable units).

Deposits

Deposits are carried at historic value as below:

	Interest rate	2018 £000	2017 £000
GBP £	LIBOR	628.2	747.2
US \$	LIBOR	151.5	141.7
		<u>779.7</u>	<u>888.9</u>

Deposits in GBP and US\$ are made with MBDA Treasury Company and are repayable on demand. The amounts above are included within cash and cash equivalents on the balance sheet. The remaining cash balance is held in current accounts.

MBDA UAE Limited
Directors' report and financial Statements
For the year ended 31 December 2018

16. Subsequent events

There have been no events occurring after 31 December 2018 which require adjustment to or disclosure in these financial statements.

17. Ultimate parent undertakings

The Company is wholly owned within the MBDA SAS group of companies, headed by MBDA SAS 1, Avenue Reaumur - 92350 Le Plessis Robinson, Paris, France (incorporated in France). MBDA SAS is owned by BAE Systems plc. Registered office 6 Carlton Gardens London SW1Y 5AD (incorporated in England, 37.5% shareholding), Airbus SE, Mendelweg 30, 2333 CS Leiden, Netherlands, 37.5% shareholding), and Leonardo SpA Piazza Monte Grappa n. 4 00195 Rome Italy (incorporated in Italy, 25% shareholding).