

**General Dynamics United Kingdom Limited**

**Directors' report and financial  
statements**

Registered number 1911653

31 December 2008

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## Directors' Report for the year ended 31 December 2008

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

### Principal Activities

GDUK is a systems integrator specialising in the design and through-life support of solutions in the Command, Control, Communications and Computers, Intelligence, Surveillance, Target Acquisition and Reconnaissance (C4ISTAR) domain, with significant complementary capabilities in vehicle integration and avionics. As the major prime systems integrator for the UK Ministry of Defence's Command and Battlespace Management (Land) programme, GDUK is a market leader in tactical command, control, communications and computing (C4) infrastructure in the UK. This core capability has allowed GDUK to move into the Export C4ISTAR market. We are increasing activity in Homeland Security and have some advanced products under evaluation by various authorities in the UK. Using our vehicle integration expertise, additional internal funding, and expertise across the broader GD, we have developed a broader vehicle integration and armoured vehicle business stream, which positions us well for future programmes in this domain.

### Business Review

The year ended 31 December 2008 has been successful with profit and cashflow targets being exceeded. With Bowman production nearing completion and the project moving into a spiral development and support phase, turnover fell marginally by 5% to £316m in 2008 compared to 2007. This was in line with GDUK management expectations, given that several of the new domestic and export order pursuits slipped out of the current year. Despite this reduction in turnover, active cost control management and risk mitigation initiatives across projects and overheads enabled the operating earnings as a percent of sales to increase to 12.7% in 2008 from 11.4% in 2007.

Performance against top level strategic objectives has been good with key wins in both the domestic and export markets. Further Bowman funding was secured and we are positioning ourselves for both an enhanced capability and long term support contracts by mid-2009. In 2008, we received orders for our avionics business through the Typhoon and Future Lynx platforms, and we continue adding additional funding for the Tactical Information Exchange Capability, a key Network Enabled Capability programme for the UK MoD. In 2008, we expanded our C4i export business, and look to further expand our C4i and security integration capability further in various export markets in the upcoming years. In early 2008, GDUK management took control of two other General Dynamics legal entities, Anteon (UK) and Page Europa, which add to our offerings in the areas of Force Protection and Homeland Security, especially in the area of protection of physical infrastructure. Going forward, we can expect that Bowman's relative contribution to turnover will continue to fall as the other business areas continue their growth.

Delivery performance on programmes remains very strong, as shown by our increased earnings rate listed above. In particular, the Bowman programme continues to achieve good levels of customer satisfaction in both field trials and on operations, and there is an increased awareness of the capabilities that will be present in the upcoming field release version. Bowman has now been integrated in over 13,000 vehicles for the British Army.

Risks and opportunities are reviewed thoroughly and regularly by the executive management at the individual programme and the enterprise levels. We manage proactively to mitigate programme risks and have been successful in releasing risk contingency from our major programmes which has enabled us to improve our overall profit performance in the year. Similar to last year, the major risk to the business continues to be the timing of funding of firm orders from domestic and export customers.

The business is managed using several key performance indicators in addition to the traditional financial measures. These are focused on delivery performance in development and production, staff turnover, the success rate of new business pursuits and measures of cost effectiveness and productivity. Variance analysis is performed monthly. During 2008, programme delivery performance consistently beat our targets. Staff turnover is flat and is considered below industry benchmark levels. In the area of cost effectiveness and productivity, roll out of our lean six sigma programme continued both in our development/manufacturing programmes as well as in our core administration functions. For 2008 we more than doubled our corporate goal in the area of cost savings.

## **Directors' Report** (continued)

### **Research and development**

The Company has a policy of selective investment in the design and development of new technologies and products. Current major areas of interest include simulation and modelling, data fusion, information management, dynamic fixed and wireless networking, secure processing, graphics and application software. Significant effort has also been expended on armoured fighting vehicle technology, from sensor systems and electronic architectures to armour testing in support of the vehicle integration programmes. Work continues to maximise leverage from complementary technologies available at other General Dynamics companies.

### **Results and proposed dividend**

Profit after taxation for the year ended 31 December 2008 was £36,165,000 compared to £35,502,000 for the year ended 31 December 2007. The directors recommend the payment of a £138,000,000 interim dividend for the year, paid before the Year End, with no further Dividends recommended, (2007: Nil).

### **Directors**

The directors who held office during the year were as follows:

E Grecco  
Sir D M Spiers  
Dr A D Wilson  
Lord P K Levene of Portsoken (Chairman)  
G J DeMuro

### **Corporate Responsibility**

During 2008, the Company continued its solid progress and actively ensured delivery of stakeholder commitments. Our quarterly publication, *Dynamics*, explains to our stakeholders company policies, strategies and business progress.

We co-signed with UK MoD in July 2008 a Sustainable Procurement Charter which is part of the UK Government's Sustainable Procurement 'Flexible Framework'. Considerable efforts are being directed to energy efficiency and other low-carbon initiatives. These also have the potential to provide cost savings.

The Company strives to maintain the highest standards of ethical conduct and corporate responsibility. By operating proactive policies, the Company manages its customer and supplier relationships responsibly.

The single greatest contribution to the communities in which the Company operates is the sustained wealth created by providing hundreds of highly skilled jobs. Charitable donations and community involvement are encouraged across all the UK sites and employees are supported by well-developed policies and practices.

### **Employees' involvement**

Effective training and development of a highly skilled workforce is considered key to future business success. The Company also encourages the employment and retention of disabled persons.

In the event of members of staff becoming disabled every effort is made to ensure that their employment within the Company continues either in the job or in a suitable alternative. The Company would endeavour to make any reasonable adjustments for disabled employees to fulfil job role responsibility. It is the Company's policy to support disabled employees in all aspects of their training, development and promotion where it benefits the employee and the Company.

## Directors' Report (continued)

In 2008, we began our second year of a organised Graduate Development Programme, designed to provide entry level high potential graduates a structured two year programme across various GDUK disciplines and programme areas, including several team projects.

A comprehensive employee communications programme is active which includes bi-annual all-employee briefings in addition to monthly 'flow-down' meetings and the weekly e-bulletin, *Dynamics Extra*. Topics covered include market forecasts, product development, facilities and benefit changes and Company financial status.

The Company encourages participation and involvement in matters which affect their interests as employees. Encouragement is given to employees to provide feedback in the aim towards achieving a common awareness on all aspects affecting the performance of the Company.

### Political and charitable contributions

The company made no political contributions during the year (2007: Nil). Donations to UK charities amounted to £41,980 (2007: £57,043).

### Supplier payment policy

The Company's policy is to agree payment terms with suppliers for each contract. Trade creditors, at 31 December 2008 were equivalent to 36 days purchases (2007: 21) based on the average £1.0m daily amount invoiced by suppliers during the year.

### Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company auditors are 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 Auditors are aware of that information.

### Auditors

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

By Order of the Board



E Grecco  
Director

100 New Bridge Street  
London  
EC4V 6JA  
21 July 2009

## **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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## KPMG LLP

1 Forest Gate  
Brighton Road  
Crawley  
RH11 9PT  
United Kingdom

### **Independent auditors' report to the members of General Dynamics United Kingdom Limited**

We have audited the financial statements of General Dynamics United Kingdom Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information..

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the

financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**KPMG LLP**

**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*  
1 Forest Gate  
Brighton Road  
Crawley  
West Sussex  
RH11 9PT

23 September 2009

**Profit and loss account**  
*for the year ended 31 December 2008*

	<i>Note</i>	<b>2008</b> <b>£000</b>	<b>2007</b> <b>£000</b>
<b>Turnover</b>	<b>2</b>	<b>315,671</b>	<b>333,355</b>
Cost of sales		(247,614)	(273,987)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>68,057</b>	<b>59,368</b>
Administrative expenses		(27,955)	(21,507)
		<hr/>	<hr/>
<b>Operating profit</b>		<b>40,102</b>	<b>37,861</b>
Interest receivable and similar income	<b>4</b>	<b>10,398</b>	<b>8,791</b>
Interest payable and similar charges	<b>5</b>	(160)	(203)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	<b>6</b>	<b>50,340</b>	<b>46,449</b>
Tax on profit on ordinary activities	<b>8</b>	(14,175)	(10,947)
		<hr/>	<hr/>
<b>Retained profit for the financial year</b>		<b>36,165</b>	<b>35,502</b>
		<hr/>	<hr/>

The profit for the year and the preceding year arises entirely from continuing operations.

## Balance sheet

At 31 December 2008

	Note	2008 £000	2007 £000
<b>Fixed assets</b>			
Tangible assets	9	11,939	13,840
		<u>11,939</u>	<u>13,840</u>
<b>Current assets</b>			
Stocks and work in progress	10	23,656	19,182
Debtors	11	173,583	240,071
Cash at bank		101	94
		<u>197,340</u>	<u>259,347</u>
<b>Creditors: amounts falling due within one year</b>	12	(125,080)	(88,261)
<b>Net current assets</b>		<u>72,260</u>	<u>171,086</u>
<b>Total assets less current liabilities</b>		<u>84,199</u>	<u>184,926</u>
<b>Creditors: amounts falling due after more than one year</b>	13	(1,076)	(1,368)
<b>Provisions for liabilities and charges</b>	15	(1,481)	(1,594)
<b>Net assets excluding pension liability</b>		<u>81,642</u>	<u>181,964</u>
Pension liability	20	(337)	(45)
<b>Net assets including pension liability</b>		<u>81,305</u>	<u>181,919</u>
<b>Capital and reserves</b>			
Called up share capital	16	9,262	9,262
Capital redemption reserve	17	88	88
Other reserves	17	1	1
Profit and loss account	17	71,954	172,568
<b>Equity Shareholders' funds</b>		<u>81,305</u>	<u>181,919</u>

These financial statements were approved by the board of directors on 21 July 2009 and were signed on its behalf by:



**E Grecco**  
Director

## Statement of Total Recognised Gains & Losses

	2008 £000	2007 £000
Profit for the financial year	36,165	35,502
Dividends paid	(138,000)	-
	<u>(101,835)</u>	<u>35,502</u>
Actuarial loss recognised on the pension scheme	(837)	(411)
Movement on deferred tax relating to actuarial gains on the pension scheme	234	123
<b>Total recognised gains and losses for the year</b>	<b><u>(102,438)</u></b>	<b><u>35,214</u></b>

## Reconciliation of Shareholders' Funds

	2008 £000	2007 £000
Retained profit for the financial year	36,165	35,502
Dividends paid	(138,000)	-
Other recognised losses relating to pensions	(603)	(288)
FRS 20 Share based payment reserves adjustments	1,824	72
<b>Net (decrease)/increase in shareholders' funds</b>	<b><u>(100,614)</u></b>	<b><u>35,286</u></b>
 Shareholders' funds at beginning of year	 181,919	 146,633
 <b>Shareholders' funds at end of year</b>	 <b><u>81,305</u></b>	 <b><u>181,919</u></b>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The principal accounting policies are summarised below and these have all been applied consistently throughout the year and the preceding year.

#### *Basis of Preparation*

- a) These financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost convention.
- b) Under Financial Reporting Standard 1 the Company is exempt from the requirement to present a cash flow statement on the grounds that its ultimate parent undertaking, General Dynamics Corporation, includes the company in its own published consolidated financial statements (see note 22).
- c) In accordance with Financial Reporting Standard 8, no disclosure has been made in relation to the Company's transactions with other group undertakings, as it is a wholly owned subsidiary of General Dynamics Corporation whose consolidated financial statements are publicly available (see note 22).

#### *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost, less depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Freehold Buildings : 50 years

Leasehold Land and Buildings : Life span of lease

Plant and Machinery : 4-8 years

Finance Lease Plant and Machinery : 3-5 years

#### *Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### *Stocks and work in progress*

Stocks are valued at the lower of cost and net realisable value. For work in progress, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

## **Notes (continued)**

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

#### ***Long Term Contracts***

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less that transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on long term contracts are included in debtors and represent turnover recognised in excess of payments on account.

#### ***Short Term Contracts***

On short term contracts turnover represents amounts invoiced during the year net of VAT. A short term contract is a contract that is started and completed within the same financial year.

#### ***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 profit and loss account.

#### ***Warranties***

Provision is made for the estimated cost of work to be performed under warranty on products sold before the balance sheet date.

#### ***Research and Development***

Expenditure on research and development is written off in the year in which it is incurred.

#### ***Leases***

Assets held under finance leases and other similar contracts which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and depreciated over the shorter of the lease terms and their estimated useful life. The capital element of future lease obligations are recorded as liabilities, while the interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Pensions*

The Company operates a hybrid scheme, which includes a defined contribution element and also frozen 'final salary' benefits for pensioners and deferred pensioners. Further details are set out in note 20. The scheme is funded by contributions from both employer and employees. The valuation of the preserved benefits element of the scheme is determined by independent qualified actuaries. Pension contributions are invested separately from the Company's assets.

Any pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full and shown in the Accounts. The movement in the surplus or deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

#### *Government Grants*

Capital based government grants are included within accruals and deferred income in the balance sheet and are credited to operating profit over the estimated useful lives of the assets to which they relate.

Revenue based government grants are credited to the profit and loss account in the period in which they are received.

#### *Employee share schemes*

The share option programme allows employees to acquire shares in the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at the effective date of FRS 20, is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black - Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

### 2 Turnover

Turnover has been wholly derived from the operation of design, production and support of avionic, communications and associated electronic equipment, which originates in the United Kingdom. The analysis of turnover by geographical destination is as follows:

	2008 £000	2007 £000
United Kingdom	274,154	294,104
Europe	25,073	34,774
North America	2,228	4,468
Rest of the World	14,216	9
	<u>315,671</u>	<u>333,355</u>

Further analysis of profit before tax and net assets is considered to be seriously prejudicial to the interests of the Company.

## Notes (continued)

### 3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2008	2007
Administration	284	263
Production	1,151	1,198
	<u>1,435</u>	<u>1,461</u>

The aggregate payroll costs of these persons were as follows:

	2008 £000	2007 £000
Wages and salaries	59,761	58,558
Social security costs	6,511	6,377
Other pension costs (see note 20)	6,252	5,070
Defined benefit past service costs (see note 20)	4	19
	<u>72,528</u>	<u>70,024</u>

### 4 Other interest receivable and similar income

	2008 £000	2007 £000
Bank interest	10,302	8,713
Net pension finance income	96	78
	<u>10,398</u>	<u>8,791</u>

### 5 Interest payable and similar charges

	2008 £000	2007 £000
Interest on finance leases	75	99
On all other loans	85	104
	<u>160</u>	<u>203</u>

## Notes (continued)

### 6 Profit on ordinary activities before taxation

	2008 £000	2007 £000
The profit on ordinary activities before taxation is stated after charging/(crediting):		
Operating leases		
- Land and buildings	1,924	944
- Motor vehicles	226	312
Research and development	3,670	2,776
Depreciation of owned fixed assets	2,405	2,238
Depreciation of leased assets	1,633	1,890
Government grants	(160)	(160)
Exchange (gain)/loss	(1,519)	(460)
FRS 20 share based payment charges	943	1,452
Auditors' Remuneration	2008 £000	2007 £000
Audit of these Financial Statements	285	300
Other services pursuant to such legislation	-	80
Other services relating to taxation	145	145

### 7 Directors' remuneration

	2008 £000	2007 £000
Directors' emoluments	872	798
Company contributions to money purchase pension schemes	135	24

Three directors exercised share options of the ultimate parent company in the year (2007: 2). The above amounts do not include any gains made on the exercise of share options. Gains made on the exercise of share options for Directors whose emoluments exceed £200,000 were £194,000. These shares had an average market price of £49.43.

#### Pensions

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

	2008 Number	2007 Number
Money purchase scheme	2	3

#### Highest paid director

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

	2008 £000	2007 £000
Directors' emoluments	397	373
Company contributions to money purchase pension schemes	129	20

No director had a direct or indirect interest in any transaction, arrangement or agreement, which in the opinion of the other directors requires disclosure under the provisions of the Companies Act 1985.

## Notes (continued)

### 8 Taxation

	2008 £000	2007 £000
UK corporation tax	13,594	12,954
Adjustments in respect of prior periods	414	(1,666)
	<hr/>	<hr/>
Total current tax	14,008	11,288
Foreign tax Payable	-	19
Deferred tax (see note 15)	(67)	(476)
Origination of timing differences excluding pension	234	116
	<hr/>	<hr/>
Tax on profit on ordinary activities	14,175	10,947
	<hr/>	<hr/>

#### *Factors affecting the tax charge for the current year*

The current tax charge for the year is lower (2007: lower) than the standard rate of corporation tax in the UK of 28% (2007: 30%). The differences are explained below:

	2008 £000	2007 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	50,340	46,449
	<hr/>	<hr/>
Current tax at 28% (2007: 30%)	14,347	13,935
<i>Effects of:</i>		
Expenses not deductible for tax purposes	222	392
Income not chargeable for tax purposes	(1,330)	(1,618)
Capital allowances for year less than depreciation	355	245
Adjustments in respect of prior periods	414	(1,666)
	<hr/>	<hr/>
Total current tax charge (see above)	14,008	11,288
	<hr/>	<hr/>

**Notes** (continued)

**9 Tangible fixed assets**

	Freehold land and buildings £000	Short leasehold land and buildings £000	Plant, machinery and motor vehicles £000	Total £000
<i>Cost</i>				
At 1 January 2008	3,862	6,713	32,284	42,859
Additions	116	121	1,890	2,127
Disposals	-	-	(270)	(270)
Transfers	-	544	(544)	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2008</b>	<b>3,978</b>	<b>7,378</b>	<b>33,360</b>	<b>44,716</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 January 2008	1,923	4,009	23,087	29,019
Charge for year	258	571	3,195	4,024
On disposals	-	-	(266)	(266)
Transfers	-	180	(180)	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2008</b>	<b>2,181</b>	<b>4,760</b>	<b>25,836</b>	<b>32,777</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
<b>At 31 December 2008</b>	<b>1,797</b>	<b>2,618</b>	<b>7,524</b>	<b>11,939</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2007</b>	<b>1,939</b>	<b>2,704</b>	<b>9,197</b>	<b>13,840</b>
	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of plant and machinery and motor vehicles above includes a net book value of £1,070,000 (2007: £1,387,000) in respect of assets held under finance leases. Depreciation charged in the year on these assets was £1,063,000 (2007: £1,356,000).

**Notes (continued)**

**10 Stocks and work in progress**

	2008 £000	2007 £000
Raw materials and consumables	183	161
Work in progress	23,473	19,021
	<u>23,656</u>	<u>19,182</u>

**11 Debtors: amounts falling due within one year**

	2008 £000	2007 £000
Amounts owed by fellow subsidiary	94,981	167,016
Amounts recoverable on contracts	45,987	53,159
Trade debtors	29,270	16,379
Prepayments	2,208	2,447
Deferred tax asset (Note 15)	1,137	1,070
	<u>173,583</u>	<u>240,071</u>

**12 Creditors: amounts falling due within one year**

	2008 £000	2007 £000
Obligations under finance leases (see note 14)	604	899
Payments on account on long term contracts	63,164	40,830
Trade creditors	26,038	16,314
Amounts owed to parent undertaking	4,935	6,844
Taxation and social security	7,459	4,845
Other loans (see note 13)	270	250
Accruals and deferred income	22,610	18,279
	<u>125,080</u>	<u>88,261</u>

## Notes (continued)

### 13 Creditors: amounts falling due after more than one year

	2008 £000	2007 £000
Obligations under finance leases (see note 14)	466	488
Other loans	610	880
	<u>1,076</u>	<u>1,368</u>
Analysis of other loans:		
	2008 £000	2007 £000
Debt can be analysed as falling due:		
In one year or less, or on demand	270	250
Between one and two years	293	270
Between two and five years	317	610
	<u>880</u>	<u>1,130</u>

The other loan is from the Welsh Development Agency and is repayable over 10 years and bears interest at 8% p.a.

### 14 Obligations under finance leases

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2008 £000	2007 £000
Within one year	604	899
In the second to fifth years	466	488
	<u>1,070</u>	<u>1,387</u>

### 15 Provisions for liabilities and charges

	Deferred tax £000	Warranty provision £000	Total £000
At 1 January 2008	(1,070)	1,594	524
Utilised during the year	(67)	(113)	(180)
At 31 December 2008	<u>(1,137)</u>	<u>1,481</u>	<u>344</u>
The balance at 31 December 2008 is split as follows:			
Debtors (see note 11)			(1,137)
Provision for liabilities and charges			1,481
			<u>344</u>

## Notes (continued)

### 15 Provisions for liabilities and charges (continued)

The elements of deferred taxation are as follows:

	2008 £000	2007 £000
Difference between accumulated depreciation and capital allowances	221	405
Other timing differences	(1,358)	(1,475)
	<u>(1,137)</u>	<u>(1,070)</u>
Deferred tax liability	<u>(1,137)</u>	<u>(1,070)</u>

### 16 Called up share capital

The share capital of the Company comprises ordinary shares of 50p each.

	2008 Number of Shares	£000	2007 Number of Shares	£000
Authorised	<u>100,000,000</u>	<u>50,000</u>	<u>100,000,000</u>	<u>50,000</u>
Allotted, called-up and fully paid	<u>18,523,150</u>	<u>9,262</u>	<u>18,523,150</u>	<u>9,262</u>

### 17 Reserves

	Capital redemption reserve £000	Other reserves £000	Profit and loss account £000	Total £000
At 1 January 2008	<u>88</u>	<u>1</u>	<u>172,568</u>	<u>172,657</u>
	88	1	172,568	172,657
Retained profit for the year	-	-	36,165	36,165
Dividend paid	-	-	(138,000)	(138,000)
Net actuarial gain on pension schemes	-	-	(603)	(603)
FRS 20 share based payment charges	-	-	1,824	1,824
	<u>88</u>	<u>1</u>	<u>71,954</u>	<u>72,043</u>
At 31 December 2008	<u>88</u>	<u>1</u>	<u>71,954</u>	<u>72,043</u>

**Notes (continued)**

**18 Financial commitments**

a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	2008 £000	2007 £000
Contracted	255	282
Authorised but not contracted	1,137	276
	<u>          </u>	<u>          </u>

(b) Annual commitments under non-cancellable operating leases are as follows:

	2008		2007	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	410	66	214	79
In the second to fifth years inclusive	2,119	164	2,206	218
Over five years	472	-	608	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	3,001	230	3,028	297
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**19 Contingent liabilities**

	2008 £000	2007 £000
Performance guarantees	54,205	4,757
	<u>          </u>	<u>          </u>

Performance guarantees in 2008 are in the main made up of a deferment guarantee £2,000,000 (2007: £2,000,000) and two project guarantees of £2,577,000 and £41,249,000 (2007: £2,577,000).

## Notes (continued)

### 20 Pension scheme

The Company sponsors the General Dynamics Retirement and Death Benefit Scheme ('the Scheme'). The Scheme is a hybrid arrangement which includes both a defined contribution section and a defined benefit section comprising of current and deferred pensioners. The defined benefit section of the Scheme was closed from 6 April 1997, at which time members ceased to accrue benefits on a defined benefit basis and were given the option to transfer their benefits to the defined contribution section of the Scheme. The assets of the Scheme are held separately from those of the Company, being invested with an external fund manager. The expenses of the Scheme are borne by the Company.

#### *Defined contribution element*

The pension cost for the year was £6,252,000 (2007: £5,070,000). There were no outstanding or prepaid contributions at 31 December 2008 (2007: £nil).

#### *Defined Benefit Section*

A full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 6 April 2007. This has been updated on an approximate basis to 31 December 2008. The actuarial valuation resulted in a deficit. This was based on assumptions taking a worst case scenario of all eligible employees retiring early.

The contributions made by the Company totalled £340,000 (2007: £144,000). The pension costs for the year were £nil (2007: £nil) on the basis that the Directors' consider it unlikely that all eligible employees will retire early and therefore the scheme is in balance.

#### **Assumptions**

The mortality assumptions utilised were PMA92 and PFA92, projected using the medium cohort mortality improvement rates.

The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:

	2008	2007	2006
Revaluation rate for deferred pensioners	2.80%	3.20%	3.10%
Rate of increase in pensions in payment and deferred pensions	2.80%	3.20%	3.10%
Discount rate applied to scheme liabilities	6.40%	5.80%	5.20%
Inflation assumption	2.80%	3.20%	3.10%

The table below sets out the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities and the deficit of assets below the FRS 17 liabilities (which equals the gross pension liability).

## Notes (continued)

### 20 Pension scheme (continued)

#### Scheme assets

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and therefore inherently uncertain, were:

#### Reconciliation of opening and closing balances of the present value of the scheme liabilities

	2008 £000	2007 £000
Scheme liabilities at start of period	8,370	7,373
Interest cost	480	380
Actuarial (gains)/losses	(933)	738
Benefits paid, death in service insurance premiums and expenses	(209)	(140)
Past service costs	4	19
	<hr/>	<hr/>
Scheme liabilities at end of period	7,712	8,370
	<hr/>	<hr/>

#### Reconciliation of opening and closing balances of the fair value of scheme assets

	2008 £000	2007 £000
Fair value of scheme assets at start of period	8,306	7,517
Expected return on scheme assets	576	458
Actuarial (losses)/gains	(1,770)	327
Contributions by employer	336	144
Benefits paid, death in service insurance premiums and expenses	(209)	(140)
	<hr/>	<hr/>
Fair value of scheme assets at end of period	7,239	8,306
	<hr/>	<hr/>

#### Movement in the (deficit)/surplus during the year

	2008 £000	2007 £000
(Deficit)/surplus in the Scheme at 1 January	(64)	144
Past service cost	(4)	(19)
Net pension gain	-	78
Contribution	340	144
Other finance income	96	-
Actuarial loss	(837)	(411)
	<hr/>	<hr/>
Deficit in the Scheme at 31 December	(469)	(64)
	<hr/>	<hr/>

## Notes (continued)

### 20 Pension scheme (continued)

Analysis of other pension costs charged in arriving at operating profit

	2008 £000	2007 £000
Past service cost	(4)	(19)
	<u>(4)</u>	<u>(19)</u>

Analysis of amounts included in other finance income:

	2008 £000	2007 £000
Expected return on pension scheme assets	576	458
Interest on pension scheme liabilities	(480)	(380)
	<u>96</u>	<u>78</u>

Analysis of amount recognised in statement of total recognised gains and losses:

	2008 £000	2007 £000
Actual return less expected return on Scheme assets	(1,770)	327
Experience losses arising on Scheme liabilities	(893)	(930)
Changes in assumptions underlying the present value of Scheme liabilities	1,826	192
	<u>(837)</u>	<u>(411)</u>

A history of experience gains and losses at 31 December 2008 would have been as follows:

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
<b>Difference between the expected and actual return on scheme assets:</b>					
Amount	(1,770)	327	125	874	307
Percentage of scheme assets (at end of year)	25%	4%	2%	13%	6%
<b>Experience losses on scheme liabilities:</b>					
Amount	(893)	(930)	(134)	(11)	(4)
Percentage of present value of scheme liabilities (at end of year)	12%	11%	2%	0%	0%
<b>Total amount recognised in statement of total recognised gains and losses:</b>					
Amount	(837)	(411)	246	174	250
Percentage of present value of scheme liabilities (at end of year)	11%	5%	3%	2%	4%

## Notes (continued)

### 20 Pension scheme (continued)

The expected contribution to be paid to the scheme in the next financial year is £341,000.

### 21 Related party disclosures

The Company is controlled by its immediate parent undertaking General Dynamics Ltd. The ultimate controlling party is General Dynamics Corporation (See note 22).

### 22 Ultimate parent company

The Company is a 100% owned subsidiary undertaking of General Dynamics Limited, a company incorporated in Great Britain. General Dynamics Corporation is the ultimate parent company incorporated in the USA.

The largest group in which the results of the Company are consolidated is that headed by General Dynamics Corporation, incorporated in the USA. The consolidated accounts of the group are available to the public and may be obtained from 2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042 – 4513, USA.

### 23 Employee share schemes

#### Share based payments

General Dynamics Corporation operates 3 share schemes. The SAYE scheme is offered to all employees once a year and employees have the option of entering either a 3 year or 5 year scheme. The Restricted Stock scheme is for those employees who have been given a special EC grant by the Managing Director. The T&M options (awarded under the same scheme as EC Options) are granted to employees at their manager's discretion.

The terms and conditions of grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date/ Employees entitled/ nature of scheme	Number of instruments	Vesting conditions	Contractual life of options
2007 Equity-settled award of restricted stock awarded to employees receiving a special EC grant. Awarded by General Dynamics Corporation on 07/03/07.	7,120	2 years following award	2 years
2008 Equity-settled award of restricted stock awarded to employees receiving a special EC grant. Awarded by General Dynamics Corporation on 05/03/08.	7,130	2 years following award	2 years
2007 Equity-settled award of EC Options awarded to key employees at the Managing Directors discretion. Granted by General Dynamics Corporation on 07/03/07..	71,900	50% at end of 1 <sup>st</sup> year, 50% at end of 2 <sup>nd</sup> year	5 years
2008 Equity-settled award of EC Options awarded to key employees at the Managing Directors discretion. Granted by General Dynamics Corporation on 05/03/08..	101,940	50% at end of 1 <sup>st</sup> year, 50% at end of 2 <sup>nd</sup> year	5 years
2006 Equity-settled award of T&M Options awarded to GDUK employees at their managers discretion. Granted by General Dynamics Corporation on 01/03/06.	31,000	33% at end of 1 <sup>st</sup> year, 33% at end of 2 <sup>nd</sup> year, 33% at end of 3 <sup>rd</sup> year	5 years

## Notes (continued)

## 23 Employee share schemes (continued)

### Share based payments (continued)

2007 Equity-settled award of T&M Options awarded to GDUK employees at their managers discretion. Granted by General Dynamics Corporation on 07/03/07	30,000	33% at end of 1 <sup>st</sup> year, 33% at end of 2 <sup>nd</sup> year, 33% at end of 3 <sup>rd</sup> year	5 years
2008 Equity-settled award of T&M Options awarded to GDUK employees at their managers discretion. Granted by General Dynamics Corporation on 05/03/08	27,600	33% at end of 1 <sup>st</sup> year, 33% at end of 2 <sup>nd</sup> year, 33% at end of 3 <sup>rd</sup> year	5 years
2004 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 09/09/04.	13,356	5 years from start of contract	5 years
2005 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 09/09/05.	11,164	5 years from start of contract	5 years
2006 Cash-settled 3 year SAYE award to GDUK employees. Granted by parent on 07/11/06.	31,750	3 years from start of contract	3 years
2006 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 07/11/06.	14,327	5 years from start of contract	5 years
2007 Cash-settled 3 year SAYE award to GDUK employees. Granted by parent on 27/11/07.	31,762	3 years from start of contract	3 years
2007 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 27/11/07.	11,471	5 years from start of contract	5 years
2008 Cash-settled 3 year SAYE award to GDUK employees. Granted by parent on 28/11/08.	74,881	3 years from start of contract	3 years
2008 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 28/11/08.	25,129	5 years from start of contract	5 years

## Notes (continued)

### 23 Employee share schemes (continued)

#### Share based payments (continued)

The number and weighted average exercise prices of share options in are as follows:

	2008 Weighted average exercise price £	2008 Number of options	2007 Weighted average exercise price £	2007 Number of options
Outstanding at the beginning of the period	30.97	440,632	27.65	470,812
Granted during the period	37.93	200,755	37.02	152,204
Forfeited during the period	35.43	(35,863)	24.65	(18,008)
Exercised during the period	45.30	(84,470)	41.61	(164,376)
Lapsed during the period	-	-	-	-
Outstanding at the end of the period	34.03	521,054	30.97	440,632
Exercisable at the end of the period	30.63	170,187	28.81	217,679

The weighted average share price at the date of exercise of share options exercised during the period was £45.30 (2007: £41.61).

The options outstanding at the year end have an exercise price in the range of £22.97 to £41.61 and a weighted average contractual life of 2.26 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black Scholes model.

Scheme	Fair Value at measurement date (£)	Share price on date of grant (£)	Exercise price (£)	Expected volatility	Option life (months)	Expected dividends	Risk free interest rate
EC Share Options:							
March 5, 2003 1 year vest	3.113	17.7125	17.7125	31.9%	27	2.2%	1.73%
March 5, 2003 2 year vest	3.629	17.7125	17.7125	31.9%	39	2.2%	1.73%
March 5, 2003 3 year vest	4.033	17.7125	17.7125	31.9%	51	2.2%	1.73%
March 3, 2004 1 year vest	4.350	25.0384	25.0384	30.7%	27	1.4%	2.27%
March 3, 2004 2 year vest	5.159	25.0384	25.0384	30.7%	39	1.4%	2.27%
March 3, 2004 3 year vest	5.811	25.0384	25.0384	30.7%	51	1.4%	2.27%
March 2, 2005 1 year vest	5.984	27.5654	27.5654	25.9%	45	1.5%	3.62%
March 2, 2005 2 year vest	6.152	27.5654	27.5654	25.8%	48	1.5%	3.61%
March 2, 2005 3 year vest	6.374	27.5654	27.5654	25.9%	51	1.5%	3.65%
March 1, 2006 (all years)	8.306	35.5725	35.5725	23.63%	48	1.5%	4.459%
March 7, 2007 (all years)	7.536	39.4565	39.4565	18.44%	48	1.5%	4.676%
March 5, 2008 (all years)	5.7097	41.6064	41.6064	16.67%	44	1.5%	2.64%

## Notes (continued)

### 23 Employee share schemes (continued)

#### Share based payments (continued)

##### Restricted Stock:

March 3, 2004 2 year vest	31.343	25.0384	25.0384	30.7%	39	1.4%	2.27%
March 2, 2005 2 year vest	27.565	27.5654	27.5654	25.8%	48	1.5%	3.61%
March 1, 2006 (all years)	35.573	35.5725	35.5725	23.63%	48	1.5%	4.459%
March 7, 2007 (all years)	39.457	39.4565	39.4565	18.44%	48	1.5%	4.676%
March 5, 2008 (all years)	41.6064	41.6064	41.6064	16.67%	44	1.5%	2.641%

##### SAYE:

December 1, 2002 3 year	8.491	26.5609	21.7778	32.90%	39	1.4%	2.98%
December 1, 2002 5 year	9.770	26.5609	21.7778	32.90%	63	1.4%	2.98%
November 1, 2003 3 year	7.315	26.4046	22.9689	31.90%	39	1.6%	2.32%
November 1, 2003 5 year	8.488	26.4046	22.9689	31.90%	63	1.6%	2.32%
November 1, 2004 3 year	8.725	28.5127	22.9785	28.30%	39	1.3%	3.01%
November 1, 2004 5 year	9.153	28.5127	22.9785	28.30%	63	1.3%	3.01%
December 1, 2005 3 year	8.612	31.3655	26.6926	25.80%	39	1.5%	3.78%
December 1, 2005 5 year	9.938	31.3655	26.6926	25.20%	63	1.5%	3.81%
November 7, 2006 3 year	8.352	38.5514	34.6957	16.59%	39	1.5%	4.85%
November 7, 2006 5 year	11.734	38.5514	34.6957	24.18%	63	1.5%	4.63%
November 27, 2007 3 year	9.256	42.5190	37.3545	15.46%	39	1.5%	4.43%
November 27, 2007 5 year	12.614	42.5190	37.3545	21.72%	63	1.5%	4.51%
November 28, 2008 3 year	4.672	32.8532	33.2684	19.23%	39	1.5%	2.75%
November 28, 2008 5 year	6.100	32.8532	33.2684	18.48%	63	1.5%	3.26%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

The total expenses recognised for the period arising from share based payments are as follows:

	2008 £000	2007 £000
Equity settled share based payments	1,060	1,040
Cash settled share based payments	282	412
	<hr/>	<hr/>
	1,342	1,452
	<hr/>	<hr/>
Total carrying amount of liabilities	<u>241</u>	<u>1,382</u>