General Dynamics United Kingdom Limited

Directors' report and financial statements

Registered number 1911653
31 December 2010

Contents

Directors' Report for the year ended 31 December 2010

The directors present their annual report and the audited financial statements for the year ended 31 December 2010

Principal Activities

GDUK specialises primarily in the design, delivery and through-life support of solutions in the Command, Control, Communications and Computers, Intelligence, Surveillance, Target Acquisition and Reconnaissance (C4ISTAR) domain We have significant complementary capabilities in vehicle integration, avionics and security systems

As the major prime systems integrator (PSI) 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 and we have now migrated this core capability into the export arena GDUK has also developed into a major PSI in the ISTAR field delivering containerised, tower-based surveillance systems for force protection of forward operating bases In June 2010, GD UK strengthened this capability and expanded its product portfolio by making an investment to acquire Kylmar (Holdings) Limited which is outlined in Note 10 This provided a core technology, optronics sensors, not only for force protection but also for Special Forces and homeland & critical national infrastructure security These are areas of increased focus both in the UK and abroad

Using our vehicle integration experience, additional internal funding, and expertise drawn from across GD, GDUK has developed a broader vehicle integration and armoured vehicle business stream In June 2010, GDUK was selected to provide the next generation of the armoured fighting vehicles for the British Army, the Specialist Vehicle (SV) We are currently contracted for the demonstration and initial training phases of this critical army programme SV will utilise GDUK's open electronic architecture (OEA) enabling plug-and-play integration of mission equipment and ready through-life upgradability Developed in response to UK MoD's desire for a common standard in vetronics, GDUK's OEA is scalable across simple and complex platforms and has application in export upgrades and in recuperation of the UK's current fleet on return from operations

Business Review

The year ended 31 December 2010 has been successful with profit and cash flow targets being exceeded The base Bowman contract continued to close out effectively, while the new spiral development and support programmes continued their strong execution performance During 2010 (and into 2011), we identified gain-share opportunities within the support contract providing significant benefit to both GDUK and UK MoD Total turnover increased by 6 8% to £372m in 2010 compared to 2009 This turnover was higher than GDUK management expectations, and this was primarily driven by the new Specialist Vehicle programme Also, in 2010, international programmes still made a solid contribution to total turnover, however our export sales in 2010 reduced in comparison to 2009 from 17% of total sales to 13%, which is a comparable level that we achieved in 2008 Management is expecting this to increase in the out-years ahead, but expect 2011 to remain at the current or a slightly reduced level Total operating profit increased by 24 2% (or £10m) to £54m in 2010 compared to 2009, and our operating earnings as a percent of sales increased to 14 4% in 2010 from 12 4% in 2009 Programme execution benefits and a couple of one-off earnings events drove our improvement in earnings percent in 2010 and we expect 2011 and out-years to fall back in line with our values realized in 2008 and 2009

Performance against top level strategic objectives was excellent, particularly with the order received from the UK MoD for the Specialist Vehicle programme This new order positions us very well in the armoured vehicle business stream going forward

Directors' Report (continued)

Risks and opportunities are reviewed thoroughly and regularly by the executive management at the individual programme and the enterprise levels Similar to prior years, the major risk to the business continues to be the timing of funding of firm orders from domestic and export customers In addition, although we have only felt a limited impact from the Strategic Defence and Security Review (SDSR), we have begun to see order delays due to continued uncertainty surrounding UK MoD procurement funding levels

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 2010, programme delivery performance consistently beat our targets Voluntary staff turnover is marginally up from 2009, however, we continue to operate at an attrition level considered below the industry benchmark

In the area of cost effectiveness and productivity, we have continued our roll out of the lean six sigma programme across our backlog programmes as well as in our core administration functions, and we have consistently reduced our overall overhead expenditure as a percentage of sales over the past five years This has helped us improve our current year earnings as well as makes us more cost competitive and affordable going forward The company continues to operate a monthly integrated Sales & Operations Planning process to monitor our total supply and demand headcount requirements In total our average headcount for 2010 reduced by 31 staff or 2 2% to 1,373

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 wireless networking, secure processing, graphics and application software Significant effort has also been expended on armoured fighting vehicle technology, from sensor systems and open electronic architectures to armour testing in support of current and future integration, recuperation and vehicle programmes Work continues to maximise leverage from complementary technologies available at other General Dynamics companies We also continue to seek innovative technology solutions from our UK Supply Chain through our innovative EDGE™ facility, and thereby help provide Small and Medium Enterprises SMEs with new business opportunities

Results and proposed dividend

Profit after taxation for the year ended 31 December 2010 was £39 514m compared to £31 885m for the year ended 31 December 2009 The directors did not pay an interim dividend for the year, (2009 Nil), with no further dividends recommended (2009 £Nil)

Directors

The directors who held office during the year were as follows

E Grecco
Sir D M Spiers (resigned 28 July 2010)
Dr A D Wilson
Lord P K Levene of Portsoken (Chairman)
G J DeMuro

Directors' Report (continued)

Corporate Responsibility

During 2010, the Company continued to build on its solid progress and actively ensured delivery of our stakeholder commitments Our website explains to stakeholders the Company policies, strategies and business progress, and is updated on a regular basis Employees receive frequent updates on our progress and the latest Company initiatives through the weekly e-newsletter, which they all receive

The Company strives to maintain the highest standards of ethical conduct and corporate responsibility Our employees receive annual training on this subject, and support mechanisms are in place for employees, through an information telephone line 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 of our 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 their current 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

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 with the aim of 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 (2009 Nil) Donations to local community charities amounted to £29,742 in 2010 (2009 £28,702)

Supplier payment policy

The Company's policy is to agree payment terms with suppliers for each contract Trade creditors at 31 December 2010 were equivalent to 33 days purchases (2009 35) based on the average £1 0m (2009 £1 0m) daily amount invoiced by suppliers during the year

Directors' Report (continued)

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 Greco 27/6/11

E Grecco
Director

21 Holborn Viaduct
London
EC1A 2DY
2011

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)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They 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

KPMG

KPMG LLP
1 Forest Gate
Brighton Road
Crawley
RH11 9PT
United Kingdom

Independent auditor's 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 2010 set out on pages 8 to 29 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements

• give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,

• have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and

• have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report to the members of General Dynamics United Kingdom Limited (continued)

Matters on which we are required to report by exception

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

• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or

• the financial statements are not in agreement with the accounting records and returns, or

• certain disclosures of directors' remuneration specified by law are not made, or

• we have not received all the information and explanations we require for our audit

P Gresham

P Gresham (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

4 July 2011

Profit and loss account

for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Turnover	*2*	**372,239**	348,638
Cost of sales		**(292,322)**	(279,746)
Gross profit		**79,917**	68,892
Administrative expenses		**(26,394)**	(25,781)
Operating profit		**53,523**	43,111
Interest receivable and similar income	*4*	**262**	775
Interest payable and similar charges	*5*	**(159)**	(86)
Profit on ordinary activities before taxation	*6*	**53,626**	43,800
Tax on profit on ordinary activities	*8*	**(14,112)**	(11,915)
Retained profit for the financial year		**39,514**	31,885

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

There is no material difference between the results reported in the profit and loss account and the results on an unmodified historical cost basis

Balance sheet
At 31 December 2010

	Note	2010 £000	2009 £000
Fixed assets			
Tangible assets	*9*	**10,104**	9,701
Investments	*10*	**52,126**	-
		62,230	9,701
Current assets			
Stock and work in progress	*11*	**15,209**	21,002
Debtors	*12*	**221,576**	214,947
Cash at bank		**2,006**	3,253
		238,791	239,202
Creditors: amounts falling due within one year	*13*	**(145,910)**	(133,486)
Net current assets		**92,881**	105,716
Total assets less current liabilities		**155,111**	115,417
Creditors amounts falling due after more than one year	*14*	**(373)**	(496)
Provisions for liabilities and charges	*16*	**(1,736)**	(1,343)
Net assets excluding pension liability		**153,002**	113,578
Pension liability	*21*	**(1,477)**	(1,633)
Net assets including pension liability		**151,525**	111,945
Capital and reserves			
Called up share capital	*17*	**9,262**	9,262
Capital redemption reserve	*18*	**88**	88
Other reserves	*18*	**1**	1
Profit and loss account	*18*	**142,174**	102,594
Equity Shareholders' funds		**151,525**	111,945

These financial statements were approved by the board of directors on 22nd June 2011 and were signed on its behalf by

E Greco 27/6/11

E Grecco
Director

Statement of Total Recognised Gains & Losses

	2010 £000	2009 £000
Profit for the financial year	**39,514**	31,885
Actuarial loss recognised on the pension scheme	**(54)**	(2,120)
Movement on deferred tax relating to actuarial loss on the pension scheme	**(7)**	594
Total recognised gains and losses for the year	**39,453**	30,359

Reconciliation of Shareholders' Funds

	2010 £000	2009 £000
Retained profit for the financial year	**39,514**	31,885
Other recognised losses relating to pensions	**(607)**	(2,120)
FRS 20 Share based payment reserves adjustments	**673**	875
Net increase in shareholders funds	**39,580**	30,640
Shareholders funds at beginning of year	**111,945**	81,305
Shareholders funds at end of year	**151,525**	111,945

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) The company has taken the exemption within section 400 of the Companies Act 2006, not to present consolidated financial statements because its immediate parent produces consolidated accounts in which the company is included These financial statements therefore present financial information about the company and not about its group 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 23)

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 23)

d) The directors have assessed the Company's financial resources and forecasts and based on this review have concluded that it is appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements

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, Machinery and Motor Vehicles 4-8 years

Finance Lease Plant and Machinery 3-5 years

Fixed asset investments

Investments in subsidiaries are carried at cost less provision for impairment (if any)

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 a 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 21 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

For cash settled share based payment transactions, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment The fair value is measured based on an option pricing model taking in to account the terms and conditions upon which the instruments were granted The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account

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

	2010	2009
	£000	£000
United Kingdom	**324,166**	290,208
Europe	**20,090**	19,971
North America	**1,330**	1,297
Rest of the World	**26,653**	37,162
	372,239	348,638

Notes *(continued)*

2 Turnover (continued)

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

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

	2010	2009
	Number of employees	
Administration	249	244
Production	1,124	1,160
	1,373	1,404

The aggregate payroll costs of these persons were as follows

	2010 £000	2009 £000
Wages and salaries	58,726	57,588
Social security costs	6,573	6,396
Other pension costs (see note 21)	6,658	6,777
	71,957	70,761

4 Other interest receivable and similar income

	2010 £000	2009 £000
Bank interest	262	775
	262	775

5 Interest payable and similar charges

	2010 £000	2009 £000
Interest on finance leases	83	6
On all other loans	40	62
Net pension finance expenditure	36	18
	159	86

Notes *(continued)*

6 Profit on ordinary activities before taxation

	2010 £000	2009 £000
The profit on ordinary activities before taxation is stated after charging/(crediting)		
Operating leases		
- Land and buildings	**2,138**	2,245
- Motor vehicles	**208**	152
Research and development	**2,578**	2,876
Depreciation of owned fixed assets	**2,974**	2,245
Depreciation of leased assets	**1,006**	1,619
Government grants	**(160)**	(160)
Exchange (gain)	**(1,254)**	(1,728)
FRS 20 share based payment charges	**1,637**	1,729
Auditors' Remuneration		
Audit of these Financial Statements	**250**	280
Other services relating to taxation	**120**	168

7 Directors' remuneration

	2010 £000	2009 £000
Directors' emoluments	**1,051**	995
Company contributions to money purchase pension schemes	**81**	79

1 Director exercised share options of the ultimate parent company in the year (2009 1) The above amounts do not include any gains made on the exercise of share options Gains made on the exercise of share options by this Director were £58,191 These shares had an average market price of £47 58

Pensions

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

	2010 Number	2009 Number
Money purchase scheme	**2**	2

Highest paid director

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

	2010 £000	2009 £000
Directors emoluments	**545**	435
Company contributions to money purchase pension schemes	**7**	7

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 2006

Notes *(continued)*

8 Taxation

	2010 £000	2009 £000
UK corporation tax	**14,742**	12,082
Adjustments in respect of prior periods	**(655)**	150
Total current tax	**14,087**	12,232
Foreign tax payable	**-**	4
UK credit on Foreign Tax	**-**	(4)
Deferred tax (see note 16)	**25**	(317)
Tax on profit on ordinary activities	**14,112**	11,915

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2009 lower) than the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	2010 £000	2009 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**53,626**	43,800
Current tax at 28% (2009 28%)	**15,015**	12,264
Effects of		
Expenses not deductible for tax purposes	**281**	318
Income not chargeable for tax purposes	**(845)**	(945)
Capital allowances for year less than depreciation	**291**	445
Adjustments in respect of prior periods	**(655)**	150
Total current tax charge (see above)	**14,087**	12,232

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011 This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction on the deferred tax balances as at 31 December 2010 has been included in the figures above

On 23 March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26 per cent with effect from 1 April 2011 This change became substantively enacted on 29 March 2011 and therefore the effect of the rate would create an additional reduction in the deferred tax asset of approximately £26k This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date

Notes *(continued)*

8 Taxation (continued)

The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23 per cent by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above The overall effect of the further reductions from 27 per cent to 23 per cent, if these applied to the deferred tax balance at 31 December 2010, would be to further reduce the deferred tax asset by approximately £99k

9 Tangible fixed assets

	Freehold land and buildings £000	Short leasehold land and buildings £000	Plant, machinery and motor vehicles £000	Total £000
Cost				
At 1 January 2010	4,141	7,500	26,359	38,000
Reclassifications	(281)	281	-	-
Additions	41	145	4,197	4,383
Disposals	-	-	(3)	(3)
At 31 December 2010	**3,901**	**7,926**	**30,553**	**42,380**
Depreciation				
At 1 January 2010	2,445	5,028	20,826	28,299
Reclassifications	(202)	264	(62)	-
Charge for year	45	812	3,123	3,980
On disposals	-	-	(3)	(3)
At 31 December 2010	**2,288**	**6,104**	**23,884**	**32,276**
Net book value				
At 31 December 2010	**1,613**	**1,822**	**6,669**	**10,104**
At 31 December 2009	1,696	2,472	5,533	9,701

The net book value of plant and machinery and motor vehicles above includes a net book value of £1,144,000 (2009 £400,000) in respect of assets held under finance leases Depreciation charged in the year on these assets was £396,000 (2009 £296,000)

Notes *(continued)*

10 Investment in subsidiaries

	£000
Cost at 1 January 2010	-
Acquisitions in Year	52,126
Cost at 31 December 2010	52,126

On 21st June 2010, the Company acquired the entire ordinary share capital of Kylmar (Holdings) Limited for a cash consideration of £52,126,000 which included £1,144,000 of directly attributable costs

Through its investment in Kylmar (Holdings) Limited, the company indirectly holds the entire ordinary share capital of Kylmar (KMC) Limited Both companies are registered in England and Wales and operate in systems integration

11 Stocks and work in progress

	2010 £000	2009 £000
Raw materials and consumables	234	158
Work in progress	14,975	20,844
	15,209	21,002

12 Debtors amounts falling due within one year

	2010 £000	2009 £000
Amounts owed by fellow subsidiary	119,682	123,614
Amounts recoverable on contracts	20,844	34,004
Trade debtors	72,586	52,672
Prepayments	6,987	2,609
Deferred tax asset (note 16)	1,477	2,048
	221,576	214,947

13 Creditors amounts falling due within one year

	2010 £000	2009 £000
Obligations under finance leases (see note 15)	794	221
Payments on account on long term contracts	76,251	89,337
Trade creditors	27,695	10,412
Amounts owed to parent undertaking	7,673	4,494
Taxation and social security	16,467	8,881
Other loans (see note 14)	317	293
Accruals and deferred income	16,713	19,848
	145,910	133,486

Notes *(continued)*

14 Creditors: amounts falling due after more than one year

	2010 £000	2009 £000
Obligations under finance leases (see note 15)	373	179
Other loans	-	317
	373	496

Analysis of other loans

	2010 £000	2009 £000
Debt can be analysed as falling due		
In one year or less, or on demand	317	293
Between one and two years	-	317
	317	610

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

15 Obligations under finance leases

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

	2010 £000	2009 £000
Within one year	794	221
In the second to fifth years	373	179
	1,167	400

16 Provisions for liabilities and charges

	Deferred tax £000	Warranty provision £000	Total £000
At 1 January 2010	(2,048)	1,343	(705)
Profit and loss	25	393	418
At 31 December 2010	(2,023)	1,736	(287)

The (asset)/liability at 31 December 2010 is split as follows	
Debtors (see note 12)	(1,477)
Provision for liabilities and charges	1,736
Net pension liability	(546)
	(287)

Notes *(continued)*

16 Provisions for liabilities and charges (continued)

The elements of deferred taxation are as follows

	2010 £000	2009 £000
Difference between accumulated depreciation and capital allowances	**(276)**	(77)
Other timing differences	**(1,747)**	(1,971)
Deferred tax asset	**(2,023)**	(2,048)

17 Share capital

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

	2010 Number of Shares	2010 £000	2009 Number of Shares	2009 £000
Allotted, called-up and fully paid	**18,523,150**	**9,262**	18,523,150	9,262

18 Reserves

	Capital redemption reserve £000	Other reserves £000	Profit and loss account £000	Total £000
At 1 January 2010	88	1	102,594	102,683
Retained profit for the year	-	-	39,514	39,514
Net actuarial (loss) on pension schemes	-	-	(607)	(607)
FRS 20 share based payment charges	-	-	673	673
At 31 December 2010	**88**	**1**	**142,174**	**142,263**

Notes *(continued)*

19 Financial commitments

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

	2010	2009
	£000	£000
Contracted	**1,193**	375
Authorised but not contracted	**3,082**	544

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

	2010		2009	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire				
Within one year	**1,061**	**52**	327	32
In the second to fifth years inclusive	**1,544**	**145**	1,587	257
Over five years	**1,908**	-	1,235	-
	4,513	**197**	3,149	289

20 Contingent liabilities

	2010	2009
	£000	£000
Performance guarantees	**26,947**	44,204

Performance guarantees in 2010 are in the main made up of one deferment guarantee of £2,000,000 (2009 £2,000,000), one guarantee of £16,450,000 (2009 £32,999,000) and one project bond of £8,250,000 (2009 £8,250,000)

Notes *(continued)*

21 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 £6,658,000 (2009 £6,777,000) There were no outstanding or prepaid contributions at 31 December 2010 (2009 £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 2010 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 £336,000 (2009 £338,000) The pension costs for the year were £nil (2009 £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 mortality assumptions adopted at 31 December 2010 imply the following life expectancies

Male retiring at age 65 in 2010	21 7
Female retiring at age 65 in 2010	24 2
Male retiring at age 65 in 2030	23 6
Female retiring at age 65 in 2030	26 0

Expected long term rates of return

The long-term expected rate of return on cash is determined by reference to bank base rates at the balance sheet dates The long-term expected return on bonds is determined by reference to UK long dated government and corporate bond yields at the balance sheet date The long-term expected rate of return on equities is based on the rate of return on bonds with an allowance for out-performance

The expected long term rates of return applicable for each period are as follows

	Period commencing 01/01/2010 % per annum	Period commencing 01/01/2009 % per annum
Equity	7 10%	7 00%
Bonds	5 40%	6 40%
Gilts	4 10%	4 00%
Property	6 60%	6 50%
Cash	5 40%	2 00%
Overall for scheme	6 34%	6 41%

Notes *(continued)*

21 Pension scheme (continued)

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

	2010	2009	2008
Revaluation rate for deferred pensioners	**3 35%**	3 40%	2 80%
Rate of increase in pensions in payment and deferred pensions	**3 35%**	3 40%	2 80%
Discount rate applied to scheme liabilities	**5 42%**	5 40%	6 40%
Inflation assumption	**3 35%**	3 40%	2 80%

In valuing the liabilities of the pension fund at 31 December 2010, mortality assumptions have been made as indicated below If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2010 would have increased by £350,000 before deferred tax

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)

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

	2010	2009
	£000	£000
Present value of funded deferred benefit obligations	**10,056**	8,595
Fair value of plan assets	**(12,079)**	(10,864)
Deficit	**(2,023)**	(2,269)
Related deferred tax asset	**546**	636
Net pension liability	**(1,477)**	(1,633)

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

	2010	2009
	£000	£000
Scheme liabilities at start of year	**10,864**	7,712
Interest cost	**581**	486
Actuarial losses	**854**	2,898
Benefits paid, death in service insurance premiums and expenses	**(220)**	(232)
Scheme liabilities at end of year	**12,079**	10,864

Notes *(continued)*

21 Pension scheme (continued)

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

	2010 £000	2009 £000
Fair value of scheme assets at start of year	**8,595**	7,239
Expected return on scheme assets	**545**	468
Actuarial gains	**800**	778
Contributions by employer	**336**	342
Benefits paid, death in service insurance premiums and expenses	**(220)**	(232)
Fair value of scheme assets at end of year	**10,056**	8,595

Movement in the deficit during the year

	2010 £000	2009 £000
Deficit in the Scheme at 1 January	**(2,269)**	(469)
Contribution	**336**	338
Other finance (expense)	**(36)**	(18)
Actuarial loss	**(54)**	(2,120)
Deficit in the Scheme at 31 December	**(2,023)**	(2,269)

Analysis of amounts included in other finance (expense)/income

	2010 £000	2009 £000
Expected return on pension scheme assets	**(545)**	(468)
Interest on pension scheme liabilities	**581**	486
	36	18

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

	2010 £000	2009 £000
Actual return less expected return on Scheme assets	**800**	778
Experience losses arising on Scheme liabilities	**(528)**	83
Changes in assumptions underlying the present value of Scheme liabilities	**(326)**	(2,981)
	(54)	(2,120)

Notes *(continued)*

21 Pension scheme (continued)

The fair value of the plan assets and the return on those assets were as follows

	2010 £000	2009 £000
Equity	**6,410**	5,388
Bonds	**1,793**	1,313
Gilts	**1,209**	1,315
Property	**637**	554
Cash	**7**	25
Total	**10,056**	8,595
Actual return on plan assets	**1,345**	1,246

A history of experience gains and losses at 31 December 2010 would have been as follows

	2010	2009	2008	2007	2006
Difference between the expected and actual return on scheme assets	**£000**	£000	£000	£000	£000
Amount	**800**	778	(1,770)	327	125
Percentage of scheme assets (at end of year)	**8%**	9%	25%	4%	2%
Experience losses on scheme liabilities					
Amount	**(528)**	83	(893)	(930)	(134)
Percentage of present value of scheme liabilities (at end of year)	**4%**	1%	12%	11%	2%
Total amount recognised in statement of total recognised gains and losses					
Amount	**(54)**	(2,120)	(837)	(411)	246
Percentage of present value of scheme liabilities (at end of year)	**1%**	20%	11%	5%	3%

History of plans

The history of the plans for the current and prior periods is as follows

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Present value of scheme liabilities	**(12,079)**	(10,864)	(7,712)	(8,370)	(7,373)
Fair value of scheme assets	**10,056**	8,595	7,239	8,306	7,517
(Deficit)/surplus	**(2,023)**	(2,269)	(473)	(64)	144

Notes *(continued)*

21 Pension scheme (continued)

The expected contribution to be paid to the scheme in the next financial year is £336,000

22 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 23)

23 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

24 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

Grant date/ Employees entitled/ nature of scheme	Number of instruments	Vesting conditions	Contractual life of options
2009 Equity-settled award of restricted stock awarded to employees receiving a special EC grant Awarded by General Dynamics Corporation on 04/03/09	14,030	2 years following award	2 years
2010 Equity-settled award of restricted stock awarded to employees receiving a special EC grant Awarded by General Dynamics Corporation on 03/03/10	7,470	2 years following award	2 years
2009 Equity-settled award of EC Options awarded to key employees at the Managing Directors discretion Granted by General Dynamics Corporation on 04/03/09	164,800	50% at end of 1st year, 50% at end of 2nd year	5 years
2010 Equity-settled award of EC Options awarded to key employees at the Managing Directors discretion Granted by General Dynamics Corporation on 03/03/10	72,480	50% at end of 1st year, 50% at end of 2nd 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 1st year, 33% at end of 2nd year, 33% at end of 3rd year	5 years

Notes *(continued)*

24 Employee share schemes (continued)

Share based payments (continued)

Grant date/ Employees entitled/ nature of scheme	Number of instruments	Vesting conditions	Contractual life of options
2009 Equity-settled award of T&M Options awarded to GDUK employees at their managers discretion Granted by General Dynamics Corporation on 04/03/09	31,200	33% at end of 1st year, 33% at end of 2nd year, 33% at end of 3rd year	5 years
2010 Equity-settled award of T&M Options awarded to GDUK employees at their managers discretion Granted by General Dynamics Corporation on 03/03/09	30,000	33% at end of 1st year, 33% at end of 2nd year, 33% at end of 3rd year	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 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
2009 Cash-settled 3 year SAYE award to GDUK employees Granted by parent on 27/11/09	28,810	3 years from start of contract	3 years
2009 Cash-settled 5 year SAYE award to GDUK employees Granted by parent on 27/11/09	9,819	5 years from start of contract	5 years
2010 Cash-settled 3 year SAYE award to GDUK employees Granted by parent on 30/11/10	18,106	3 years from start of contract	3 years
2010 Cash-settled 5 year SAYE award to GDUK employees Granted by parent on 30/11/10	5,254	5 years from start of contract	5 years

Notes *(continued)*

24 Employee share schemes (continued)

Share based payments (continued)

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

	2010 Weighted Average exercise price £	2010 Number of options	2009 Weighted average exercise price £	2009 Number of options
Outstanding at the beginning of the period	32 63	686,687	34 03	521,054
Granted during the period	44 54	127,566	27 85	267,633
Forfeited during the period	33 07	(25,093)	31 70	(53,012)
Exercised during the period	47.30	(130,868)	39 29	(48,988)
Outstanding at the end of the period	35 59	658,292	32 63	686,687
Exercisable at the end of the period	37 99	256,165	38 19	202,834

The weighted average share price at the date of exercise of share options exercised during the period was £47 30 *(2009 £39 39)*

The options outstanding at the year end have an exercise price in the range of £26 69 to £48 78 and a weighted average remaining contractual life of 2 20 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 4, 2009 (all years)	4 8132	28 4185	28 4185	26 15%	40	2 0%	1 477%
March 3, 2010 (all years)	9 8102	48 7787	48 7787	30 41%	40	2 0%	1 766%
Restricted Stock							
March 4, 2009 (all years)	28 4185	28 4185	28 4185	26 15%	40	2 0%	1 477%
March 3, 2010 (all years)	48 7787	48 7787	48 7787	30 41%	40	2 0%	1 766%
SAYE							
November 27, 2009 3 year	11 625	38 2193	32 4864	30 249%	39	2 0%	1 895%
November 27, 2009 5 year	12 292	38 2193	32 4864	25 559%	63	2 0%	2 768%
November 30, 2010 3 year	10 4405	44 0092	37 4085	31 870%	39	2 0%	0 982%
November 30, 2010 5 year	10 9285	44 0092	37 4085	26 971%	63	2 0%	1 747%

Notes *(continued)*

24 Employee share schemes (continued)

Share based payments (continued)

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 year arising from share based payments are as follows

	2010	2009
	£000	£000
Equity settled share based payments	**1,325**	1,213
Cash settled share based payments	**312**	516
	1,637	1,729
Total carrying amount of liabilities relating to cash settled share based payments	**847**	452