

**General Dynamics United Kingdom Limited**

**Annual report and financial statements**

Registered number 1911653

31 December 2017

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31 December 2017

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31 December 2017

## **Directors' Report**

The directors present their annual report and the audited financial statements for the year ended 31 December 2017.

### **Principal Activities**

General Dynamics United Kingdom ("GDUK") specialises primarily in the design, delivery and through-life support of solutions in the Command, Control, Communications, Computing and Information (C4I) domain and armoured vehicles; most notably the AJAX programme.

C4I (Command, Control, Communications, Computing and Information) is the delivery of vital information via the integration of technology and networks. This information is used to observe and act decisively in the field of battlespace management. GDUK delivers Bowman, one of the world's most advanced battlefield communication systems, to the UK MoD.

GDUK are contracted for the Demonstration, Production and Extended Support Phases of the AJAX programme for the UK Army. AJAX will offer unparalleled protection, weight and agility for a vehicle of its class, along with the most advanced Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR) capabilities on the AJAX variant platform. In service, users will benefit from the key advantages of the AJAX common base platform approach, including a lower cost of ownership and smaller logistics footprint thanks to the commonality of its components across the fleet.

GDUK also performs Long Term Evolution (LTE) Research and Development, and provides a range of best-in-class avionics products including tactical processors, ground to air data links, weapon management computers and secure data recorders. This wealth of experience in the avionics business has made GDUK a key supplier to programmes such as Typhoon and Wildcat.

### **Research and development**

The Company has a policy of selective investment in the design and development of new technologies and capabilities that support our business.

Our major areas of interest include the development of open systems architectures, modelling and simulation. Work continues to maximise leverage from available technologies from within the larger General Dynamics Corporation.

We continue to use our EDGE UK® facility to source potential solutions and thereby help provide Small and Medium Enterprises with new business opportunities.

### **Results and proposed dividend**

Profit after taxation for the year ended 31 December 2017 was £82.8m compared to £65.8m for the year ended 31 December 2016. The directors paid no dividend for the year (2016: £120m).

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

### **Directors**

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

Sir Andrew Cahn  
Lord Levene of Portsoken (Chairman)  
C Marzilli  
G L Whited

### **Corporate Responsibility**

During 2017, 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 Company is committed to the Armed Forces Corporate Covenant. We support service leavers by attending Transition Fairs designed to promote employment opportunities, contribute to military thought leadership and support employees who wish to serve in the Reserves and undertake military training. In 2017, General Dynamics UK was awarded the Armed Forces Covenant Employer Recognition Scheme Gold Award for its ongoing commitment to service leavers.

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 supports 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 their 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 using organisation wide questionnaires with the aim of achieving a common awareness on all aspects affecting the performance of the Company. The Employee Consultation Group provides a forum for elected employee representatives to openly discuss business and employment matters with senior management.

### **Political and charitable contributions**

The company made no political contributions during the year (2016: *£nil*). Donations to local community charities amounted to £82,630 in 2017 (2016: £26,663).

31 December 2017

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

### **Disclosure of information to auditor**

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 auditor is 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 auditor is aware of that information.

### **Auditor**

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

By Order of the Board



**Lord Levene of Portsoken**  
Director

21 Holborn Viaduct  
London  
EC1A 2DY

Date..... 24 September ..... 2018

31 December 2017

## Strategic Report

### Business Review

The year ended 31 December 2017 has been a positive year with profit above target. Total turnover increased by 20% to £680m in 2017 compared to 2016 driven by greater than planned volumes on existing contracts and the award of new contracts, particularly the Evolve to Open contract award. Total operating profit increased by £9.5m to a profit of £88.5m in 2017 compared to profit of £79.0m in 2016; however, gross profit reduced by £7.4m. This is driven by the fact that the new contracts that were awarded in 2017 are at lower operating margins than previous contract awards driven by the new Defence Reform Act legislation that was introduced in 2014. Revenue and Operating Profit are considered as key performance indicators of the growth of our business. The impact of adoption of IFRS15 on results in the current year is shown in note 1.

Performance against top level strategic objectives was above expectations. Our goal to grow our order book through UK MoD orders was achieved as GDUK was awarded a contract to design and develop the next generation of tactical communications and information system as the initial phase of the MORPHEUS programme. The system will be used to plan, deploy, manage and monitor communications and information for the UK Armed Forces. It will allow users to integrate new radios, applications and other system components faster and with greater ease.

The AJAX programme achieved key milestones in 2017 including completing the first 2 ARES (001/002) through Government Acceptance Test and into Train the Trainer Training. Level 2/3 Maintainer Training was also completed. APOLLO & ATLAS completed Logistics Readiness Review and ATHENA entered trials. AJAX completed (CT40) manned live fire and all facilities upgrades including a test track were completed.

In 2013, as a result of the events in North Africa GDUK received a Letter of Credit claim for the non-completion of a contract with the government of Libya. The value of the claim was £15m and was paid (despite GDUK's protest) via established bonds. In response, GDUK initiated arbitration proceedings in Switzerland against the State of Libya to recover the bond monies as well as damages for breach of contract permitted under Swiss law. The arbitration hearings were completed in December 2014 and, in January 2016, found in favour of GDUK. A Petition confirming foreign arbitral award was served on the Libyan Ministry of Defence in April 2016. In June 2016 GDUK filed a motion for default judgement against respondent Libya. GDUK were awarded the default judgement in October 2016 and have received the clerk's certificate certifying the judgement is final. Substantial work is being undertaken to enforce against this judgement. The claim of £15.7m is shown in trade debtors' amounts falling due over one year as we anticipate a drawn out recovery process.

Business performance is assessed 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.

Company risks and opportunities are reviewed regularly by the executive management at the individual programme and the enterprise levels. The major risk to the business associated with strategic, financial, or significant operating initiatives is securing the funds following the award of the Libyan bond claim. The executive management team continues to work through the implications of BREXIT for the business following the triggering of Article 50 by the UK Government. This activity will continue into 2018 to address the key risks and changes, as more information becomes available.



**Lord Levene of Portsoken**  
Director

21 Holborn Viaduct  
London

EC1A 2DY

Date.....24 September.....2018

## **Statement of directors' responsibilities in respect of the Directors' report, the Strategic report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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



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Brighton Road  
Crawley  
RH11 9PT

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

### **Opinion**

We have audited the financial statements of General Dynamics United Kingdom Limited ("the company") for the year ended 31 December 2017 which comprise the Income Statement, Balance Sheet, Statement of Other Comprehensive Income, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

### **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### **Strategic report and directors' report**

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

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

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

### **Matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.





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

### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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

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

**Steve Masters (Senior Statutory Auditor)**  
**For and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*

1 Forest Gate  
Brighton Road  
Crawley  
RH11 9PT

Date

27 September 2018

31 December 2017

**Income statement**  
*for the year ended 31 December 2017*

	<i>Note</i>	<b>2017</b>	2016
		<b>£000</b>	£000
<b>Turnover</b>	2	<b>680,242</b>	565,405
Cost of sales		<b>(569,689)</b>	(447,433)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>110,553</b>	117,972
Administrative expenses	6	<b>(22,020)</b>	(38,998)
		<hr/>	<hr/>
<b>Operating profit</b>		<b>88,533</b>	78,974
Interest receivable and similar income	4	<b>244</b>	531
Interest payable and similar charges	5	<b>(46)</b>	(24)
		<hr/>	<hr/>
<b>Profit before taxation</b>	6	<b>88,731</b>	79,481
Tax on profit	8	<b>(5,895)</b>	(13,711)
		<hr/>	<hr/>
<b>Profit for the financial year</b>		<b>82,836</b>	65,770
		<hr/>	<hr/>

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.

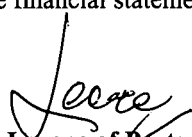
The notes on pages 11 to 41 form part of these financial statements.

31 December 2017

**Balance sheet**  
*At 31 December 2017*

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Fixed assets</b>			
Goodwill	9	600	2,400
Intangible assets	9	4,032	6,186
Tangible assets	10	31,191	24,919
		<hr/>	<hr/>
		35,823	33,505
<b>Current assets</b>			
Stock and work in progress	11	76	41
Debtors	12	519,061	329,174
Other financial assets	15	14,889	7,971
Cash at bank		13	470
		<hr/>	<hr/>
		534,039	337,656
<b>Creditors: amounts falling due within one year</b>	13	(297,785)	(151,257)
		<hr/>	<hr/>
<b>Net current assets</b>		236,254	186,399
<b>Debtors: amounts falling due after more than one year</b>	12	15,678	15,678
Other financial assets	15	11,535	12,667
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		299,290	248,249
<b>Creditors: amounts falling due after more than one year</b>	14	(6,730)	(7,829)
<b>Other financial liabilities</b>	15	-	-
<b>Provisions for liabilities and charges</b>	17	(13,961)	(9,921)
		<hr/>	<hr/>
<b>Net assets including pension liability</b>		278,599	230,499
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	18	9,262	9,262
Capital redemption reserve		88	88
Other reserves		1	1
Cashflow hedge reserve		26,422	20,638
Profit and loss account		242,826	200,510
		<hr/>	<hr/>
<b>Equity Shareholders' funds</b>		278,599	230,499
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 24/9/2018 and were signed on its behalf by:

  
**Lord Levene of Portsoken**  
Director

The notes on pages 11 to 41 form part of these financial statements.

31 December 2017

## Other Comprehensive Income

	2017 £000	2016 £000
Profit for the financial year	82,836	65,770
Actuarial gain/(loss) recognised on the pension scheme	2,886	(3,624)
Movement on deferred tax relating to actuarial gain on the pension scheme	491	616
Reversal of deferred tax on de-recognition of pension surplus	(491)	(616)
De-recognition of pension surplus	(3,840)	3,381
Change in fair value of cash flow hedges	5,784	85,584
<b>Total comprehensive income for the year</b>	<b>87,666</b>	<b>151,111</b>

## Statement of Changes in Equity

	Called up Share Capital £000	Capital redemption reserve £000	Other reserves £000	Cash flow hedge reserve £000	Profit and loss account £000	Total £000
Balance at 1 January 2017	9,262	88	1	20,638	200,510	230,499
IFRS15 Revenue Recognition Impact (refer to note 1)	-	-	-	-	(38,604)	(38,604)
Restated balance sheet as at 1 January 2017	9,262	88	1	20,638	161,906	191,895
Retained profit for the year	-	-	-	-	82,836	82,836
Actuarial gain on pension schemes	-	-	-	-	2,886	2,886
IFRS 2 share based payment charges	-	-	-	-	(962)	(962)
IAS 19 (derecognition of pensions surplus)	-	-	-	-	(3,840)	(3,840)
Fair value of cashflow hedges	-	-	-	5,784	-	5,784
Dividend paid	-	-	-	-	-	-
<b>At 31 December 2017</b>	<b>9,262</b>	<b>88</b>	<b>1</b>	<b>26,422</b>	<b>242,826</b>	<b>278,599</b>

	Called up Share Capital £000	Capital redemption reserve £000	Other reserves £000	Cash flow hedge reserve £000	Profit and loss account £000	Total £000
Balance at 1 January 2016	9,262	88	1	(64,946)	255,693	200,098
Retained profit for the year	-	-	-	-	65,770	65,770
Actuarial loss on pension schemes	-	-	-	-	(3,624)	(3,624)
IFRS 2 share based payment charges	-	-	-	-	(710)	(710)
IAS 19 (derecognition of pensions surplus)	-	-	-	-	3,381	3,381
Fair value of cashflow hedges	-	-	-	85,584	-	85,584
Dividend Paid	-	-	-	-	(120,000)	(120,000)
<b>At 31 December 2016</b>	<b>9,262</b>	<b>88</b>	<b>1</b>	<b>20,638</b>	<b>200,510</b>	<b>230,499</b>

31 December 2017

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

General Dynamics United Kingdom Limited (the “Company”) is a private company incorporated, domiciled and registered in the UK.

#### ***Basis of Preparation***

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (“FRS 101”). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company has early adopted IFRS15 within these financial statements on a cumulative catch up basis and thus prior period comparatives have not been restated.

The Company’s ultimate parent undertaking, General Dynamics Corporation includes the Company in its consolidated financial statements. The consolidated financial statements of General Dynamics Corporation are prepared in accordance with US GAAP and are available to the public and may be obtained from 2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management; and
- Disclosures in respect of the compensation of Key Management Personnel.
- Disclosures in relation to new standards not yet applied.

As the consolidated financial statements of General Dynamics Corporation include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments, excluding the Save As You Earn scheme;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

31 December 2017

## Notes (continued)

### 1 Accounting policies (continued)

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### *Going Concern*

The directors have assessed the Company's financial resources and forecasts and based on this review have concluded that the business has sufficient funds as well as a pipeline of work and thus it is appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements.

#### *Intangible assets*

##### *(i) Goodwill*

Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognised. Such benefits include future synergies expected from the combination and intangible assets not meeting the criteria for separate recognition. Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortised and is tested annually for impairment at country level, representing the lowest level at which it is monitored for internal management purposes, by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill relates. The recoverable amount is assessed by reference to the net present value of expected future pre-tax cash-flows ('value-in-use') or fair value less costs to sell if higher. The discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustments for the risks associated with the relevant cash generating unit or groups of cash generating units. When the recoverable amount of the goodwill is less than its carrying amount, an impairment loss is recognised immediately in the income statement which cannot be subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

##### *(ii) Customer relationships*

Customer relationships represent the future economic benefits arising from specific supplier or customer lists, or are party to supplier or customer relationships that are valuable. Customer relationships are held at cost less any provisions for impairment, with impairment reviews being performed annually. Amortisation commences when the Customer Relationship assets are available and is over the estimated useful life of 8 years.

##### *(iii) Other Intangibles*

The other Intangibles are a Royalty-Fee licence for relief from royalty. Royalty-Fee licence relief is held at cost less any provisions for impairment, with impairment reviews being performed annually. Amortisation commences when the Royalty-Fee licence relief is available and is over the estimated useful life of 8 years.

##### *(iv) Computer software*

Where software is not an integral part of a related item of computer hardware, it is classified as an intangible asset. Costs that are directly associated with the acquisition or production of identifiable software products controlled by the Group, which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Capitalised costs include those of software licences and development, including costs of employees, consultants and an appropriate portion of relevant overheads. Costs that are directly associated with identifying, sourcing, evaluating or maintaining computer software are recognised as an expense as incurred. Software under development is held at cost less any provisions for impairment, with impairment reviews being performed annually. Amortisation commences when the software assets are available for use and is over their estimated useful lives of three to four years.

31 December 2017

## Notes (continued)

### 1 Accounting policies (continued)

#### *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are 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*

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

## Notes (continued)

### 1 Accounting policies (continued)

#### Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### Long Term Contracts

The majority of projects at GDUK are long-term development or support contracts spanning multiple financial years. The company has early adopted IFRS15: Revenue from Contracts with Customers with a date of initial application of 1 January 2017. The cumulative catch-up method has been applied within the 2017 accounts and so 2016 results have not been restated and continue to be reported under IAS11 but a 2017 comparator to IAS11 is detailed below:

	2017 As reported	IFRS15 Changes	2017 Balances without adoption of IFRS15
	£000	£000	£000
Turnover	680,242	-3,433	676,809
Retained profit for the financial year	82,836	-3,433	79,403
Debtors	516,079	33,047	549,126
Creditors: amounts falling due within one year	-297,785	-2,528	-300,313
Profit and loss account	242,826	-42,036	200,790
Equity Shareholders' funds	278,599	-42,036	236,563

The impact demonstrated above due to the adoption of IFRS15 is primarily driven by the splitting of the contracts into multiple performance obligations, particularly the AJAX contract (£33,421k profit and loss adjustment), along with moving from a prospective to cumulative catch up basis (see below).

Accounting for long-term contracts and programs involves the use of various techniques to estimate total contract revenue and costs. For long-term contracts, we estimate the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognise that profit over the life of the contract.

Contract estimates are based on various assumptions to project the outcome of future events that often span several years. These assumptions include labour productivity and availability; the complexity of the work to be performed; the cost and availability of materials; the performance of subcontractors; and the availability and timing of funding from the customer.

The nature of our contracts gives rise to some types of variable consideration, including incentive fees and final contract pricing adjustments. We include incentive fees in the estimated transaction price when there is a basis to reasonably estimate the amount of the fee. These estimates are based on experience, anticipated performance and our best judgment at the time. Because of our certainty in estimating these amounts, they are included in the transaction price of our contracts and the associated remaining performance obligations.

As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our contract-related estimates regularly. We recognise adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date on a contract is recognised in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognised using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognise the total loss in the period it is identified.



## **Notes** *(continued)*

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

#### ***Foreign Currencies***

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account, except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

#### ***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 activities is recognised in the profit and loss account as an expense as incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Leases*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred. Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

#### *Employee Benefits*

##### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

##### *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans and other post employment benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

##### *Retirement Plans.*

Our Company sponsors a hybrid arrangement that includes both a defined contribution section and a defined benefit section. The defined benefit section was closed from 6th April 1997, at which time members ceased to accrue benefits on a defined benefit basis. The assets of the scheme are held separately from the assets of the Company.

The defined benefit section costs and obligations depend on several assumptions and estimates. The key assumptions include mortality and interest rates used to discount estimated future liabilities and projected long-term rates of return on plan assets. We determine the long-term expected rate of return on cash by reference to bank base rates, the long-term return on bonds by reference to UK long dated government and corporate bond yields, and the long-term rate of return on equities based on the rate of return on bonds allowing for forward-looking returns.

These retirement plan estimates are based on our best judgement, including consideration of current and future market conditions. In the event any of the assumptions change, pension and post-retirement benefit cost could increase or decrease. In line with the requirements of the Scheme regulator any shortfalls in asset value in the actuarial valuation for the defined benefit section are met by the company over an agreed period. For additional information on the Pension Scheme, see note 21 of the Annual report and financial statements.

## **Notes (continued)**

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

#### ***Employee Benefits (continued)***

##### ***Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### ***Termination benefits***

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

##### ***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 IFRS 2, 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 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 into 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.

##### ***Classification of financial instruments issued by the Company***

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

##### ***Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

31 December 2017

## Notes (continued)

### 1 Accounting policies (continued)

#### *Non-derivative financial instruments (continued)*

##### *Trade and other debtors and creditors*

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### *Investments in debt and equity securities*

Ordinary shares are stated at cost less impairment. Financial instruments held for trading, or designated upon initial recognition or at the IAS 39 transition date if later are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Other investments in debt and equity securities held by the Company are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity (in the fair value reserve), except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Investments in jointly controlled entities and subsidiaries are carried at cost less impairment.

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

#### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

##### *Cash flow hedges*

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

31 December 2017

## Notes (continued)

### 2 Turnover

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

	2017 £000	2016 £000
United Kingdom	673,625	555,774
Europe	5,251	6,069
North America	731	1,420
Rest of the World	635	2,142
	<u>680,242</u>	<u>565,405</u>

### 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:

	2017 Number of employees	2016
Administration	185	151
Production	842	707
	<u>1,027</u>	<u>858</u>

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	48,176	41,621
Social security costs	5,571	4,902
Other pension costs (see note 21)	7,144	6,327
	<u>60,891</u>	<u>52,850</u>

31 December 2017

## Notes (continued)

### 4 Other interest receivable and similar income

	2017 £000	2016 £000
Bank interest	140	288
Pension interest	104	243
	<u>244</u>	<u>531</u>

### 5 Interest payable and similar charges

	2017 £000	2016 £000
On all other loan interest payable	(46)	(24)
	<u>(46)</u>	<u>(24)</u>

### 6 Profit/(loss) on ordinary activities before taxation

	2017 £000	2016 £000
The profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Operating leases		
- Land and buildings	735	801
- Motor vehicles	158	83
Research and development	1,642	566
Depreciation of owned fixed assets	1,459	1,231
Depreciation of leased assets	52	226
Goodwill impairment	1,800	14,140
Intangible amortisation	3,057	2,400
Grants received	-	(176)
Exchange loss	(575)	(10,075)
IFRS 2 share based payment charges	(963)	(710)
Restructuring charge	(120)	121
<b>Auditor's Remuneration</b>		
Audit of these Financial Statements	217	213
Taxation compliance services	154	92
	<u>217</u>	<u>213</u>

The restructuring costs were due to the exit of various properties and redundancy costs.

31 December 2017

## Notes (continued)

### 7 Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	241	262
Company contributions to money purchase pension schemes	12	11

Two Directors exercised share options of the ultimate parent company in the year (2016: 2). The above amounts do not include any gains made on the exercise of share options. Gains made on the exercise of share options by these Directors were £561,075 (2016:£412,314). These shares had an average market price of £145.24 (2016:£129.53).

Two of the director's emoluments represent the intercompany recharge of their salary for time spent on affairs of the company.

#### Pensions

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

	2017 Number	2016 Number
Money purchase scheme	2	2

#### Highest paid director

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

	2017 £000	2016 £000
Directors' emoluments	84	84
Company contributions to money purchase pension schemes	0	0

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.

31 December 2017

## Notes (continued)

### 8 Taxation

	2017 £000	2016 £000
UK deferred tax (see note 17)	447	892
UK current tax	6,323	15,058
Adjustments in respect of prior periods	(875)	(2,239)
	<hr/>	<hr/>
Income statement	5,895	13,711
	<hr/>	<hr/>
Reconciliation of effective tax rate	2017 £000	2016 £000
Profit for year	82,836	65,770
Total tax expense	5,895	13,711
	<hr/>	<hr/>
Profit excluding taxation	88,731	79,481
<i>Tax using the Corporate tax rate of 19.25% (2016:20%)</i>	17,080	15,896
Non-deductible expenses	(1,648)	(2,453)
Tax exempt revenues	(2,065)	(706)
Capital allowances for year in excess of depreciation	388	2,320
Under/(over) provided in prior years	(875)	(2,238)
Deferred tax	447	892
Other , IFRS15	(7,432)	-
	<hr/>	<hr/>
Total tax expense	5,895	13,711
	<hr/>	<hr/>

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to the UK Corporation tax rate was announced in the 2016 Budget to further reduce the tax rate to 17% (to be effective from 1 April 2020). This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2017 and 2016 has been calculated on the rate of 17%.

The deferred tax on IFRS15 has been calculated at 19% of the adjustment in the retained earnings brought forward due to the change in revenue recognition rules.



31 December 2017

## Notes (continued)

### 9 Intangible assets

	Goodwill £000	Customer relationships £000	Other £000	Software £000	Total £000
Cost at 1 January 2017	17,141	14,200	1,820	5,506	38,667
Additions	-	-	-	903	903
<b>Total Cost at 31 December 2017</b>	<b>17,141</b>	<b>14,200</b>	<b>1,820</b>	<b>6,409</b>	<b>39,570</b>
Accumulated amortisation at 1 January 2017	14,741	11,574	1,498	2,268	30,081
Amortisation charge for the year	-	1,775	228	1,054	3,057
Impairment loss recognised	1,800	-	-	-	1,800
<b>Amortisation at 31 December 2017</b>	<b>16,541</b>	<b>13,349</b>	<b>1,726</b>	<b>3,322</b>	<b>34,938</b>
<b>Net book value at 31 December 2017</b>	<b>600</b>	<b>851</b>	<b>94</b>	<b>3,087</b>	<b>4,632</b>
Net book value at 31 December 2016	2,400	2,626	322	3,238	8,586

The net book value of Goodwill has been reduced by recognising an impairment loss of £1.8m as a result of our review of the Company's future UK MoD ISTAR programmes.

	Goodwill £000	Customer relationships £000	Other £000	Software £000	Total £000
Cost at 1 January 2016	17,141	14,200	1,820	3,172	36,333
Additions	-	-	-	2,334	2,334
<b>Total Cost at 31 December 2016</b>	<b>17,141</b>	<b>14,200</b>	<b>1,820</b>	<b>5,506</b>	<b>38,667</b>
Accumulated amortisation at 1 January 2016	-	9,799	1,270	1,454	12,523
Amortisation charge for the year	-	1,775	228	814	2,817
Impairment loss recognised	14,741	-	-	-	14,741
<b>Amortisation at 31 December 2016</b>	<b>14,741</b>	<b>11,574</b>	<b>1,498</b>	<b>2,268</b>	<b>30,081</b>
<b>Net book value at 31 December 2016</b>	<b>2,400</b>	<b>2,626</b>	<b>322</b>	<b>3,238</b>	<b>8,586</b>
Net book value at 31 December 2015	17,141	4,401	550	1,718	23,810

31 December 2017

## Notes (continued)

### 9 Intangible assets (continued)

#### Key impairment assumptions

Management approved forecasts were used covering a period of 5 years. A discount rate of 10% was used.

#### Intangibles and investments

Investment entity	Holding company	Share capital	Proportion held	Loss in year £000
General Dynamics Informations Systems and Technology Arabia Company, Olaya Area, Al-Munajem Building, PO Box 30505, Riyadh 11361	General Dynamics UK Ltd	SAR12,000,000	49%	-

All investments have been written down to zero in prior years.

31 December 2017

**Notes (continued)**

**10 Tangible fixed assets**

	Premises land and buildings £000	Short leasehold land and buildings £000	Plant, machinery and motor vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2017	18,992	6,182	38,361	63,535
Additions	4,663	23	3,097	7,783
Transfers	2,587	-	(2,587)	-
Disposals	-	-	(454)	(454)
<b>At 31 December 2017</b>	<b>26,242</b>	<b>6,205</b>	<b>38,417</b>	<b>70,864</b>
<b>Depreciation</b>				
At 1 January 2017	3,626	5,990	29,000	38,616
Charge for year	264	64	1,183	1,511
Transfers	107	-	(107)	-
Disposals	-	-	(454)	(454)
<b>At 31 December 2017</b>	<b>3,997</b>	<b>6,054</b>	<b>29,622</b>	<b>39,673</b>
<b>Net book value</b>				
<b>At 31 December 2017</b>	<b>22,245</b>	<b>151</b>	<b>8,795</b>	<b>31,191</b>
At 31 December 2016	15,366	192	9,361	24,919

The net book value of plant and machinery and motor vehicles above includes a net book value of £273,000 (2016: £325,000) in respect of assets held under finance leases. Depreciation charged in the year on these assets was £52,000 (2016: £226,000). Land and buildings not depreciated was valued at £6,147,000 (2016: £6,147,000).

	Premises land and buildings £000	Short leasehold land and buildings £000	Plant machinery and motor vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2016	13,449	6,041	37,548	57,038
Additions	-	141	6,356	6,497
Transfers	5,543	-	(5,543)	-
<b>At 31 December 2016</b>	<b>18,992</b>	<b>6,182</b>	<b>38,361</b>	<b>63,535</b>
<b>Depreciation</b>				
At 1 January 2015	3,291	5,926	27,961	37,178
Charge for year	335	64	1,039	1,438
Disposals	-	-	-	-
<b>At 31 December 2016</b>	<b>3,626</b>	<b>5,990</b>	<b>29,000</b>	<b>38,616</b>
<b>Net book value</b>				
<b>At 31 December 2016</b>	<b>15,366</b>	<b>192</b>	<b>9,361</b>	<b>24,919</b>
At 31 December 2015	10,158	116	9,586	19,860

31 December 2017

## Notes (continued)

### 11 Stocks and work in progress

	2017 £000	2016 £000
Raw materials and consumables	76	41

### 12 Debtors

	2017 £000	2016 £000
<b>Amounts falling due within one year:</b>		
Amounts owed by fellow subsidiary	102,053	109,480
Amounts recoverable on contracts	386,291	198,650
Trade debtors	5,099	6,885
Prepayments and other debtors	25,618	14,159
<b>Total amounts falling due within one year</b>	<b>519,061</b>	<b>329,174</b>
<b>Trade debtor amounts greater than one year</b>	<b>15,678</b>	<b>15,678</b>
<b>Total debtors</b>	<b>534,739</b>	<b>344,852</b>

### 13 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Obligations under finance leases (see note 16)	144	214
Payments on account on long term contracts	122,576	50,472
Trade creditors	110,670	39,377
Taxation and social security	21,954	23,112
Deferred tax liability (note 17)	1,329	882
Accruals and deferred income	40,737	36,825
Intercompany amount owed to subsidiary	375	375
	<b>297,785</b>	<b>151,257</b>

31 December 2017

## Notes (continued)

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

	2017 £000	2016 £000
Cash flow liability	1	-
Obligations under finance leases (see note 16)	129	129
Welsh Development Agency grant	6,600	7,700
	<u>6,730</u>	<u>7,829</u>

The £7.7m Welsh Development Grant was received in 2016 in order to help fund the development of the Merthyr Tydfil site. The grant is repayable in equal instalments over 7 years.

### 15 Other financial asset and liabilities

	2017		2016	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
<b>Current</b>				
Cashflow hedges – foreign exchange contracts	14,889	-	7,971	-
<b>Non-current</b>				
Cashflow hedges – foreign exchange contracts	11,535	-	12,667	-
	<u>26,424</u>	<u>-</u>	<u>20,638</u>	<u>-</u>

The Company is exposed to market risk, primarily from foreign currency exchange rates. It may use derivative financial instruments to hedge some of these risks as described below. It does not use derivatives for trading or speculative purposes.

The foreign currency exchange rate risk relates to receipts from customers, payments to suppliers and inter-company transactions denominated in foreign currencies. To the extent possible, the Company include terms in our contracts that are designed to protect us from this risk. Otherwise, it enters into derivative financial instruments, principally foreign currency forward purchase and sale contracts, designed to offset and minimise our risk. It recognises derivative financial instruments on the Balance Sheet at fair value.

The Company records changes in the fair value of derivative financial instruments in operating costs and expenses in the Statements of Earnings or in other comprehensive income within the Statements of Comprehensive Income depending on whether the derivative is designated and qualifies for hedge accounting. Gains and losses related to derivatives that qualify as cash flow hedges are deferred in other comprehensive income until the underlying transaction is reflected in earnings. The Company adjusts derivative financial instruments not designated as cash flow hedges to market value each period and records the gain or loss in the Statements of Earnings. The gains and losses on these instruments generally offset losses and gains on the assets, liabilities and other transactions being hedged. Gains and losses resulting from hedge ineffectiveness are recognised in the Statements of Earnings for all derivative financial instruments, regardless of designation. Fair value is calculated at group level with reference to active markets.

31 December 2017

## Notes (continued)

### 16 Obligations under finance leases

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

	2017 £000	2016 £000
Within one year	144	214
In the second to fifth years	129	129
	<u>273</u>	<u>343</u>

### 17 Provisions for liabilities and charges

	Deferred tax £000	Warranty provision £000	Total £000
At 1 January 2017	882	9,921	10,803
Profit and loss	447	4,040	4,487
At 31 December 2017	<u>1,329</u>	<u>13,961</u>	<u>15,290</u>

The elements of deferred taxation are as follows:

	2017 £000	2016 £000
Difference between accumulated depreciation and capital allowances	1,465	901
Other timing differences	(136)	(19)
Deferred tax liability	<u>1,329</u>	<u>882</u>

### 18 Share capital

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

	2017 Number of Shares	£000	2016 Number of Shares	£000
Allotted, called-up and fully paid	<u>18,523,150</u>	<u>9,262</u>	<u>18,523,150</u>	<u>9,262</u>

31 December 2017

## 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:

	2017 £000	2016 £000
Contracted	64	86
Authorised but not contracted	86	368
	<u>          </u>	<u>          </u>

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

	2017		2016	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	6	158	801	108
In the second to fifth years inclusive	645	93	1,446	28
Over five years	7,155	-	5,184	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	7,806	251	7,431	136
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

### 20 Contingent liabilities

	2017	2016
Performance guarantees	£414k	£264k
Offset bond (expressed in AED)	AED 4,416k	AED 4,416k

Performance guarantees in 2017 are made up of a deferment guarantee of £300,000 (2016: £150,000) and performance bonds of £114,000 (2016: £114,000).

## 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 £7,144,000, (2016: £6,327,000). There were no outstanding or prepaid contributions at 31 December 2017 (2016: £nil).

#### *Defined Benefit Section*

A full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 5 April 2015. This has been updated on an approximate basis to 31 December 2017.

The actuarial valuation resulted in an asset. This was based on assumptions taking a worst case scenario of all eligible employees retiring early.

The contributions made by the Company totalled £850,000 (2016: £850,000). The pension costs for the year were £nil (2016: £nil) on the basis that the Directors consider it unlikely that all eligible employees will retire early and therefore the scheme is in balance.

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#### **Assumptions**

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

The mortality assumptions adopted at 31 December 2017 imply the following life expectancies:

Male retiring at age 65 in 2017	22.2
Female retiring at age 65 in 2017	24.3
Male retiring at age 65 in 2037	24.0
Female retiring at age 65 in 2037	26.2



31 December 2017

## Notes (continued)

### 21 Pension scheme (continued)

#### 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 01/01/2018 % per annum	Period commencing 01/01/2017 % per annum
Equity	5.78%	5.87%
Bonds	2.54%	2.70%
Gilts	1.78%	1.87%
Property	5.28%	5.37%
Cash	2.54%	2.70%
Overall for scheme	3.84%	4.10%

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

	2017	2016	2015
Revaluation rate for deferred pensioners	2.40%	2.55%	2.12%
Rate of increase in pensions in payment and deferred pensions	2.40%	2.55%	2.12%
Discount rate applied to scheme liabilities	2.50%	2.70%	3.78%
Inflation assumption	3.30%	3.45%	3.02%

In valuing the liabilities of the pension fund at 31 December 2017 mortality assumptions have been made as indicated above. 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 2017 would have increased by £762,000 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 IAS 19 liabilities and the surplus of assets below the IAS 19 liabilities (which equals the gross pension asset).

31 December 2017

## Notes (continued)

### 21 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:

	2017 £000	2016 £000
Fair value of plan assets	25,887	21,682
Present value of funded deferred benefit obligations	(18,588)	(18,223)
Actuary contributions timing adjustment	-	-
	<hr/>	<hr/>
Surplus	7,299	3,459
De-recognition of surplus	(7,299)	(3,459)
	<hr/>	<hr/>
Net pension asset	-	-
	<hr/>	<hr/>

The pension surplus of £7,299k has been de-recognised in accordance with IAS 19 as it is not recoverable.

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

	2017 £000	2016 £000
Scheme liabilities at start of year	18,223	13,892
Interest cost	497	519
Actuarial (losses)/gains	(470)	4,112
Benefits paid, death in service insurance premiums and expenses	(387)	(380)
Past service costs	-	-
Impact of Defined Benefits underpin member retirements	725	80
	<hr/>	<hr/>
Scheme liabilities at end of year	18,588	18,223
	<hr/>	<hr/>

31 December 2017

## Notes (continued)

### 21 Pension scheme (continued)

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

	2017 £000	2016 £000
Fair value of scheme assets at start of year	21,682	19,882
Expected return on scheme assets	601	762
Actuarial gains/(losses)	2,416	488
Contributions by employer	850	850
Benefits paid, death in service insurance premiums and expenses	(387)	(380)
Impact of Defined Benefits underpin member retirements	725	80
	<hr/>	<hr/>
Fair value of scheme assets at end of year	25,887	21,682
	<hr/>	<hr/>

#### Movement in the surplus during the year

	2017 £000	2016 £000
Surplus in the Scheme at 1 January	3,459	5,990
Contribution	850	850
Other finance expense	104	243
Actuarial gain/(loss)	2,886	(3,624)
	<hr/>	<hr/>
Surplus in the Scheme at 31 December	7,299	3,459
	<hr/>	<hr/>

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

	2017 £000	2016 £000
Expected return on pension scheme assets	601	762
Interest on pension scheme liabilities	(497)	(519)
Past service costs		
	<hr/>	<hr/>
	104	243
	<hr/>	<hr/>

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

	2017 £000	2016 £000
Actual return less expected return on Scheme assets	2,416	488
Experience gains arising on Scheme liabilities	1,182	1,055
Changes in assumptions underlying the present value of Scheme liabilities	(712)	(5,167)
De-recognition of pension surplus	(3,736)	2,774
	<hr/>	<hr/>
	(850)	(850)
	<hr/>	<hr/>

31 December 2017

## Notes (continued)

### 21 Pension scheme (continued)

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

	2017 £000	2016 £000
Equity	6,990	5,941
Bonds	7,481	7,167
Gilts	6,117	3,695
Property	1,750	1,608
Cash	178	2
Diversified growth	3,371	3,269
Total	25,887	21,682
Actual return on plan assets	3,017	1,250

A history of experience gains and losses at 31 December 2017 would have been as follows:

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
<b>Difference between the expected and actual return on scheme assets:</b>					
Amount	2,416	488	(16)	1,223	996
Percentage of scheme assets (at end of year)	9%	2%	0%	7%	7%
<b>Experience losses on scheme liabilities:</b>					
Amount	470	(4,122)	3,372	322	1,426
Percentage of present value of scheme liabilities (at end of year)	3%	23%	17%	2%	10%
<b>Total amount recognised in statement of total recognised gains and losses:</b>					
Amount	2,886	(3,624)	(850)	(850)	84
Percentage of present value of scheme liabilities (at end of year)	16%	20%	4%	5%	1%

### History of plans

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

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Present value of scheme liabilities	(18,588)	(18,223)	(13,892)	(18,254)	(14,155)
Fair value of scheme assets	25,887	21,682	19,882	18,714	15,760
Actuary contribution timing	-	-	-	-	53
Surplus/(deficit)	7,299	3,459	5,990	460	1,658

31 December 2017

## **Notes** *(continued)*

### **21 Pension scheme** *(continued)*

The expected contribution to be paid to the scheme in the next financial year is £850,000.

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is £2,886,000 gain (2016: £ (3,624,000 loss)).

Cumulative actuarial gains and losses reported in the statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under IAS 19, are £8,134,000 (2016: (£7,284,000)).

### **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 24).

### **23 Employee benefits**

#### **Share based payments**

The Save As You Earn (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 terms and conditions of grants are as follows:

31 December 2017

## Notes (continued)

### 23 Employee benefits (continued)

#### Share based payments (continued)

Grant date/ Employees entitled/ nature of scheme	Number of instruments	Vesting conditions	Contractual life of options
2011 Cash-settled 5 year SAYE award to employees. Granted by parent on 30/11/11.	GDUK 7,174	5 years from start of contract	2017
2012 Cash-settled 5 year SAYE award to employees. Granted by parent on 30/11/12.	GDUK 2,795	5 years from start of contract	2018
2013 Cash-settled 3 year SAYE award to employees. Granted by parent on 5/12/13.	GDUK 7,979	3 years from start of contract	2017
2013 Cash-settled 5 year SAYE award to employees. Granted by parent on 5/12/13.	GDUK 2,448	5 years from start of contract	2019
2014 Cash-settled 3 year SAYE award to employees. Granted by parent on 3/12/14.	GDUK 13,111	3 years from start of contract	2018
2014 Cash-settled 5 year SAYE award to employees. Granted by parent on 3/12/14.	GDUK 1,838	5 years from start of contract	2020
2015 Cash-settled 3 year SAYE award to employees. Granted by parent on 30/11/15.	GDUK 16,297	3 years from start of contract	2019
2015 Cash-settled 5 year SAYE award to employees. Granted by parent on 30/11/15.	GDUK 2,961	5 years from start of contract	2021
2016 Cash-settled 3 year SAYE award to employees. Granted by parent on 30/11/16.	GDUK 16,689	3 years from start of contract	2020
2016 Cash-settled 5 year SAYE award to employees. Granted by parent on 30/11/16.	GDUK 2,710	5 years from start of contract	2022
2017 Cash-settled 3 year SAYE award to employees. Granted by parent on 30/11/17.	GDUK 15,278	3 years from start of contract	2021
2017 Cash-settled 5 year SAYE award to employees. Granted by parent on 30/11/17.	GDUK 2,801	5 years from start of contract	2023

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

	2017 Weighted Average exercise price £	2017 Number of options	2016 Weighted Average exercise price £	2016 Number of options
Outstanding at the beginning of the year	81.44	54,861	62.93	56,056
Forfeited during the year	88.61	(1,523)	71.41	(8,930)
Exercised during the year	144.65	(6,939)	92.07	(11,664)
Granted during the year	119.19	22,734	103.19	19,399
Lapsed during the year			-	-
Outstanding at the end of the year	97.37	69,133	81.44	54,861
Exercisable at the end of the year	80.43	416	-	-

31 December 2017

## Notes (continued)

### 23 Employee benefits (continued)

#### Share based payments (continued)

The weighted average share price at the date of exercise of share options exercised during the period was £144.65 (2016: £92.07).

The options outstanding at the year-end have an exercise price in the range of £36.14 to £127.66 and a weighted average remaining contractual life of 2.6 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. Measurement inputs and assumptions are as follows:

	SAYE 3 year		SAYE 5 year	
	2017	2016	2017	2016
Fair value at grant date	30.1131	35.0728	33.6241	37.6981
Weighted average share price	127.6591	103.1855	127.6591	103.1855
Exercise price	127.6591	103.1855	127.6591	103.1855
Expected volatility (expressed as % used in the modelling under Black Scholes model)	17.559	16.702	17.353	19.057
Option life (expressed as weighted average life used in the modelling under Black Scholes model)	39 months	39 months	63 months	63 months
Expected dividends	1.8%	2.0%	1.8%	2.0%
Risk-free interest rate (based on national government bonds)	1.618%	0.976%	1.952%	1.247%

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

	2017	2016
	£000	£000
Equity settled share based payments (Restricted Stock and EC options for which we have applied the exemption)	97	95
Cash settled share based payments (SAYE)	322	111
Total carrying amount of liabilities (SAYE)	<u>1,993</u>	<u>1,268</u>
Total intrinsic carrying amount of liabilities in respect of vested benefits	<u>-</u>	<u>-</u>

### 24 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 and smallest 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.

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## Notes (continued)

### 25 Accounting Estimates and Judgements

#### *Accounting estimates and judgements*

The preparation of the consolidated financial statements in conformity with FRS101 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The reported amounts and note disclosures reflect management's best estimate of the most probable set of economic conditions and planned course of actions. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements include:

#### *Allowance for doubtful accounts*

In its determination of the valuation of trade and other receivables, including the allowance for doubtful accounts, management relies on current customer information, which include customer creditworthiness and past experiences, and its planned course of action as well as assumptions about business and economic conditions in the future period over which the receivables are collectible. If future collections differ from estimates, future earnings would be affected.

#### *Revenue IFRS 15*

The majority of our revenue is derived from long-term contracts and programs that can span several years. We account for revenue in accordance with IFRS15.

#### *Performance Obligations*

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in IFRS15. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and is, therefore, not distinct. Some of our contracts have multiple performance obligations, most commonly due to the contract covering multiple phases of the product lifecycle (development, production, maintenance and support). For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we forecast our expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct good or service.

Contract modifications are routine in the performance of our contracts. Contracts are often modified to account for changes in contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct, and, therefore, are accounted for as part of the existing contract on a cumulative catch up basis.

Our performance obligations are satisfied over time as work progresses or at a point in time. Revenue from products and services transferred to customers over time accounted for 99.9% of our revenue in 2017, 99.8% in 2016 and 100% in 2015. Substantially all of our revenue is recognised over time, because control is transferred continuously to our customers. Revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labour, material, overhead and G&A expenses.

Revenue from goods and services transferred to customers at a point in time accounted for 0.1% of our revenue in 2017, 0.2% in 2016 and 0% in 2015. The majority of our revenue recognised at a point in time is for sales of specialised Bowman cables. Revenue on these contracts is recognised when the customer receives the cable and a billing is raised.

On December 31, 2017, we had £2.5bn of remaining performance obligations, which we also refer to as total backlog. We expect to recognize approximately 19% of our remaining performance obligations as revenue in 2018,



31 December 2017

an additional 20% by the end of 2019 and the balance thereafter.

## Notes (continued)

### 25 Accounting Estimates and Judgements (continued)

#### Contract Estimates

Accounting for long-term contracts and programs involves the use of various techniques to estimate total contract revenue and costs. For long-term contracts, we estimate the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognise that profit over the life of the contract.

Contract estimates are based on various assumptions to project the outcome of future events that often span several years. These assumptions include labour productivity and availability; the complexity of the work to be performed; the cost and availability of materials; the performance of subcontractors; and the availability and timing of funding from the customer.

The nature of our contracts gives rise to some types of variable consideration, including incentive fees and final contract pricing adjustments. We include incentive fees in the estimated transaction price when there is a basis to reasonably estimate the amount of the fee. These estimates are based on experience, anticipated performance and our best judgment at the time. Because of our certainty in estimating these amounts, they are included in the transaction price of our contracts and the associated remaining performance obligations.

As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our contract-related estimates regularly. We recognise adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date on a contract is recognised in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognised using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognise the total loss in the period it is identified.

The impact of adjustments in contract estimates on our operating earnings can be reflected in either operating costs and expenses or revenue. The aggregate impact of adjustments in contract estimates increased our revenue and operating earnings as follows (£m):

Year Ended December 31	2017	2016
Revenue	4	2
Operating earnings	4	2

The adjustment to one of the Bowman contracts was significant in 2017 and the associated impact of this was recorded within the accounts in Q3 of 2017 and is included within the numbers above.

31 December 2017

## Notes (continued)

### 25 Accounting Estimates and Judgements (continued)

#### Revenue by Category.

Our portfolio of products and services consists of almost 250 active contracts. The following series of tables presents our revenue disaggregated by several categories.

Revenue by major products and services was as follows (£m):

Year Ended December 31	2017	2016
Bowman	99	112
MORPHEUS	51	3
Surveillance & Protection	1	3
Other C4I	3	6
Typhoon	18	34
Other Avionics	13	18
Other	5	7
AJAX	490	382
<b><u>TOTAL GDUK</u></b>	<b><u>680</u></b>	<b><u>565</u></b>

Revenue by contract type was as follows (£m):

Year Ended December 31, 2017	C4	Land Systems	Total Revenue
Firm Fixed-Price	185	481	666
Time and Materials	3	9	12
Other	2	0	2
Total revenue	<u>190</u>	<u>490</u>	<u>680</u>

Each of these contract types presents advantages and disadvantages. Typically, we assume more risk with fixed-price contracts. However, these types of contracts offer additional profits when we complete the work for less than originally estimated. Cost-reimbursement contracts generally subject us to lower risk. Accordingly, the associated base fees are usually lower than fees earned on fixed-price contracts. Under time-and-materials contracts, our profit may vary if actual labour-hour rates vary significantly from the negotiated rates. Also, because these contracts can provide little or no fee for managing material costs, the content mix can impact profitability. Revenue by customer was as follows (£m):

Year Ended December 31, 2017	C4	Land Systems	Other	Total Revenue
UK Government	152	489	-	641
Non-UK Government	38	1	-	39
Total revenue	<u>190</u>	<u>490</u>	<u>-</u>	<u>680</u>

## **Notes** *(continued)*

### **25 Accounting Estimates and Judgements** *(continued)*

#### *Revenue by Category (continued)*

##### *Contract Balances.*

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (Debtors Less than 1 year), and customer advances and deposits (Creditors less than 1 year) on the Balance Sheet. Amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. However, we sometimes receive advances or a deposit from our customers before revenue is recognised, resulting in contract liabilities. These assets and liabilities are reported on the Balance Sheet at the end of each reporting period.

GDUK does not currently have any Financing components, as defined by IFRS15 but continues to review contracts for implicitly or explicitly implied financing components. All Variable considerations are included within the contract estimates and reviewed as part of the Earnings Rate Review process regularly for impairment.

### **26 Post balance sheet events**

There were no post balance sheet events in 2017.