

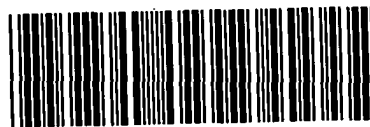
**General Dynamics United Kingdom Limited**

**Annual report and financial statements**

**Registered number 1911653**

**31 December 2022**

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## Strategic Report

### Business Review

General Dynamics United Kingdom Limited (“GDUK” or “the Company”) operates in the defence sector offering a broad portfolio of products and services with customers including the United Kingdom Ministry of Defence (UK MoD). Throughout 2022, the Company has focused on its key strategies of customer first, delivering on contracts, whilst positioning for key pursuit wins for the future. The Company also continued to hold discussions with UK MoD on two of its key contracts: AJAX and Evolve to Open (EvO), whereby 2022 saw a number of highlights including:

- The AJAX programme continued to make progress throughout 2022, with a focus on programme recovery following the delays related to Covid-19 and Noise and Vibration concerns in 2020 and 2021 respectively. Collaboration with the UK MoD in the generation of a revised schedule for the programme was a key focus and activity that underpinned the route towards programme recovery. The revised joint schedule was a key input to a Review Note for the programme that received Government approval to realign the IOC (Initial Operating Capability) and FOC (Final Operating Capability). Confidence in the schedule was underpinned by the successful execution of the User Validation Trials which concluded in November 2022. Successful conclusion of the User Validation Trials set the Technical Baseline for future Programme activity. With an approved schedule and agreed technical baseline, work commenced towards an update to the contract baseline to reflect these revisions including a revised payment plan and updated ways of working to reflect the collaborative approach required to deliver this critical capability to the British Army. Additionally, following conclusion of UVT, the preparation activity was undertaken to restart production in 2023 along with the restart of the Reliability Growth Trials which with a revised contract baseline would unlock payments into and across the AJAX enterprise.

2023 saw the agreement of a contract amendment which along with solid programme execution enabled regular payment to restart in March 2023. The contract amendment with UK MoD also settled outstanding contractual disputes and provided a mechanism to address cost impacts of the revised schedule.

- MORPHEUS Evolve to Open (EvO), a UK MoD programme to transition from the in-service Bowman tactical communications system to a future system, has been concluded with a satisfactory resolution agreed with the UK MoD to close-out the relevant contract.
- Since 2016, the in-service Bowman Tactical Communications System has gone through a series of programme updates to the software and hardware overcoming obsolescence challenges and delivering capability enhancements where appropriate. Following the successful fielding of the 5.6 Bowman Tactical Communications system to the Army’s fleet of vehicles, the system continues to receive positive feedback from the user community and is delivering key capability on operational deployments continuously. Throughout 2021 and 2022 the system was updated with the fielding of Capability Uplift 2, and in 2023 the MOD is now fielding Capability Uplift 3. As well as supporting with these regular capability updates to the BCIP 5.6 baseline, we are now actively working with the customer community to ensure the capability remains fully supported in the future and is adapted to meet changes in operational need until the declared out of service date of 2030/31 and beyond if required.

During 2022, the Company undertook some restructuring activities to reduce its operating costs following a projected decline in revenues on its EvO contract. This resulted in staff redundancies, contract staff terminations and the assessment of future demand for Facility space.

The year ended 31 December 2022 saw revenues fall by 18.1% on 2021 to £495m. Operating profit increased to £30m. The reduction in revenue was driven by changes in the revenue profiles on the AJAX and EvO contracts whilst customer negotiations on the forward plan of both programmes were continuing. Operating Profit increased as there had been some one-off negative impacts to profit in 2021, reducing profitability in that year on the Company’s EvO and AJAX contracts.

Similar to 2020 and 2021, the Company did not receive the anticipated cash receipts, nor did it raise anticipated invoices to UK MoD, pending contractual discussions with the customer on its AJAX and EvO contracts. This timing change and the recurrence in 2023 has been modelled by the Company as part of its going concern assessment. As noted above, regular repayment restarted with an initial significant payment towards the programme received in March 2023.

## Strategic Report *(continued)*

Net current assets increased from £360m in 2021 to £379m in 2022. This was principally caused by an increase in current assets of £415M which was offset by an increase in current liabilities of £396M. The increase in Current Liabilities of £396m was primarily due to:

1. An increase in the amounts owed by the company to related party entities. This is due to additional working capital support from the wider group while contractual discussions with the customer continued.

The increase in Current Assets of £415m was primarily due to:

1. An increase in the contract assets balance by £434m in 2022 primarily driven by delays in gaining approval to invoice customers on the AJAX and EvO contracts partly offset by:
2. A reduction of £8m in the debtor balance following a reduction in sales invoices raised towards the end of the year compared to 2021.
3. A reduction in the Tax and Social Security debtor primarily caused by less input VAT recoverable at 31 December 2022 compared to December 2021. This is due to lower volumes and a reduction in the payments on account.

Business performance is assessed using several performance indicators in addition to the traditional financial measures and programme Key Performance Indicators. These are focused on delivery performance in development and production contracts, staff turnover, the success rate of new business pursuits, employee engagement and the measurement of cost effectiveness and productivity. The company continued to experience a larger amount of staff attrition in 2022 than it has seen in previous years. Part of this was due to restructuring activities that the Company ran to reduce its workforce due to lower volumes of work in its future plan. The Company also experienced some voluntary attrition, which on analysing, is similar to what the wider market has experienced in terms of the well published Great Resignation. The company continues to focus on employee engagement activities in addition to running regular employee briefing sessions.

### Principal Risks and Uncertainties

Individual programme and business segment level risk reviews are undertaken regularly. Whilst the Coronavirus impact has diminished, the Company continues to operate in a hybrid environment, ensuring business continuity and the ability to react to changing circumstances.

As the wider economy experiences higher inflation and also as the Ukraine conflict impacts the cost and availability of key supplies, the organisation continues to monitor and mitigate the supply chain and financial risks associated with these.

As discussed, the Company has been in discussions with the UK MoD on two of its contracts. These discussions are ongoing and, until fully agreed, a degree of uncertainty exists as to the final terms of any contract amendment. The Company continues to monitor this risk closely.

### Regulatory Matters

Some of the Company's contracts are Qualifying Defence Contracts, as defined by the UK Defence Reform Act 2014. The Company is a member of the Single Source Regulator's Operational Working Groups and reports into the regulator on contract performance quarterly and annually.

### Financial Risk Management

Foreign Exchange Rate Risk: Change in foreign exchange rates are dealt with by the Company as follows:

- To the extent possible, the foreign currency exchange rate risk relating to receipts from customers, payments to suppliers and inter-company transactions denominated in foreign currencies are sought to be mitigated via the terms and conditions within contracts.
- The Company will also seek to reduce the impact of foreign exchange risk by concluding transactions in the Company's functional currency or naturally hedging income and expenses in a foreign currency.
- Alternatively, the Company will enter into derivative instruments, principally foreign currency forward purchase and sale contracts, designed to offset and minimise risk. The Company does not use derivatives for trading or speculative purposes.

## Strategic Report *(continued)*

**Credit Risk:** Credit risk is considered to be low given that the majority of sales are to the UK Government.

**Liquidity, Cash-flow and Interest Rate Risk:** There is regular group-wide monitoring and planning of liquidity coordinated by the Group's centralised treasury department. In order to facilitate cash management activities, the Company has entered into a cash pool agreement with other General Dynamics companies within Europe.

The cash pooling arrangement and regular forecasting of cash needs by the cash pool members significantly reduces any cash flow risk to the Company. The principal obligation of the Cash Pool Leader (General Dynamics European Finance Ltd "GDEF") is to maximise the aggregate surplus in cash and interest income and minimise the aggregate deficit in cash and interest expenditure within the cash pool. By accessing the cash pool, the members (which include GDUK) generally pay a lower interest rate on loans received and receive a higher interest rate on loans granted than would be the case if they did not participate in the cash pool. GDEF is authorized to execute a number of cash management tasks to optimise liquidity and cash flow amongst the cash pool members which includes obtaining credit facilities with independent banks to reduce the cost of borrowing for the members if insufficient funds exist within the cash pool to meet members' needs. This enables more favourable interest rates to be obtained with loans required by members being intercompany with GDEF rather than directly with third party banks. GDEF will also enter into loans with other companies in the General Dynamics' group that are not part of the European cash pool arrangement to the extent there is available cash within the wider corporation with interest calculated at arm's length. To this extent, external borrowing can be reduced since there is the ability to utilise the combined funds of the cash pool members and wider corporation excess cash prior to seeking external funding. In the event of the existence of excess funds within the cash pool, GDEF can also invest these to achieve improved returns for the cash pool members. These cash pool arrangements lead to improved cash flow for the members and enable risks, such as those arising from interest rates, to be minimised.

### Section 172 (1) Statement

This statement contains an overview of how the Directors and their delegates have performed their duty to promote the success of the Company as set out in section 172 (1) of the UK's Companies Act 2006. That section requires a Director of a Company to act in a way he/she considers, in good faith, would most likely promote the success of the Company for the benefit of its shareholders. In doing this, the Directors must have regard, amongst other matters, to:

- a. The likely consequences of any decision in the long term
- b. The interests of the Company's employees
- c. The need to foster the Company's business relationships with suppliers, customers and others
- d. The impact of the Company's operations on the community and the environment
- e. The desirability of the Company maintaining a reputation for high standards of business conduct, and
- f. The need to act fairly

### Decision Making

The business units within GDUK report into two of the four operating segments within the General Dynamics Corporation; Mission Systems into the Technologies segment and Land Systems into the Combat Systems segment. The GD Corporate team sets the overall strategy for each operating segment being responsible for the execution of its own strategy and operational performance, whilst also adhering to GDUK's robust policies and processes. Decisions affecting business units are taken in line with Company Delegation of Authority and GDUK's policies and processes.

As part of its operational performance, the business units produce a strategic plan alongside a 5-year financial projection. This is produced annually and reviewed for the subsequent 18 months every quarter, and this includes the development and review of risks and opportunities to this strategy and the financial projections. In conducting this process, regard is given for the business, stakeholders and long-term implications of decisions being undertaken.

### Employees

Employee engagement is a key focus for the Directors and Management of the Company to ensure it is connecting employees to the Company's strategy and empowering them to contribute to operational performance. In addition to the employee engagement described within the Director's report, the Company utilises an internal employee engagement platform where employees can share news and ideas with colleagues. 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.

## **Strategic Report *(continued)***

The Employee Consultation Group provides a safe forum for elected employee representatives to openly discuss business and employment matters with senior management. The Company's implemented policies and processes also provide a means to give employees their views and feedback. Through the implementation by the Company of these policies and processes, the Directors and Management have regard to the interests of the Company's employees.

### **Fostering business relationships with suppliers, customers and other**

The Board of Directors and Management of the Company believe that the prime value of the Company is generated from its employees, supply chain and customer relationships. Fostering business relationships with key stakeholders, such as customers and suppliers is considered as essential to the Company's success.

The Senior Management and Supply Chain team within the Company meet with key suppliers in order to develop and enhance strategic relationships with them. The Company also works closely with its supply chain through several forums and continues to pledge support to the UK Government's Small- Medium Sized enterprise agenda.

The EDGE UK® is a concept developed by GD, which provides Small and Medium Sized Enterprises, academia and customers with access to virtual and physical collaboration environments. This enables Small and Medium Sized Enterprises with a route to market and provides customers with potential solutions to complex engineering problems.

The Company also continues to focus on building collaborative relationships with customers and external stakeholders. The Directors and their delegates sit on a number of UK Government Defence supplier groups and work directly with its customer base to build strong relationships. The Company obtained the ISO 44001 Collaborative Business Relationship Management accreditation in 2019 and continues to utilise across its programmes.

### **The community and the environment**

The Directors recognise and agree the importance of leading a Company that not only generates value for the shareholders but also contributes to the wider community. The Company is committed to the Armed Forces Covenant and to maintaining its Employer Recognition Scheme Gold Award status. The Company has further recognised the importance of being able to articulate the value brought as a Defence related business in terms of the social value contribution and job opportunities for school leavers and graduates in addition to wider supply chain nationally and locally.

In addition, the Company regularly supports Armed Forces charities. Charitable donations and community involvement are encouraged across all sites and employees are supported by well-developed policies and practices.

Corporate Sustainability is rooted in the Company ethos. Climate change is a concern to the Directors who are committed to reducing global environmental impact and striving to be a leader in improving environmental quality. The Company refers more to its commitment to the environment in the Directors Report.

### **Maintaining a reputation for a high standard of conduct**

The Directors and the Management of the Company promote the GD Corporate policy of Ethos, which demonstrates distinguishing moral nature. The Company prides itself on values of Honesty, Transparency, Trust and Alignment throughout its workforce and operations. These values drive how the Company operates its business, governs how to interact with each other including customers, partners and suppliers, guide the way employees are treated and determines how to connect with the community.

The Company has a Standards of Business Ethics and Conduct Handbook that applies to all employees. This ethics programme also includes periodic training on ethics and compliance topics for all employees and a 24-hour ethics helpline, which employees can access via telephone or online to communicate any business-related ethics concerns. The Company has implemented an Ethics code specifically applicable to the Board of Directors, which embodies the commitment to manage the business in accordance with the highest standards of ethical conduct.

The Directors periodically review and approve frameworks such as its Modern Slavery Statements, to ensure that its high standards are maintained both internally and within external business.

The tax strategy is developed by General Dynamics Corporation and is applicable to General Dynamics United Kingdom Ltd for which General Dynamics Corporation (GDC) has ultimate control. The tax strategy is publicly available on the website of the Company to enable external stakeholders to understand the Group's approach to tax.

### **Environmental**

Corporate Sustainability is rooted in the Company ethos.

## Strategic Report *(continued)*

In the period covered by the report, GDUK saw energy consumption reductions through improved control and scheduling within our Building Management Systems (BMS) for heating, ventilation and cooling (HVAC), and through operational improvements implemented in our Merthyr production facility ensuring the shop floor lighting was proactively monitored and switched off outside of operating hours.

In our production facility, natural gas consumption reductions were made through integrating the shop floor radiant gas powered heating with the BMS. This created the ability to schedule heating zones in line with business requirements.

Business travel by land reduced by 171,917 miles. We have attributed this to greater use of remote meeting capabilities and technology, and embedded hybrid working.

The company's formal reporting environmental disclosure is as follows:

### Quantification and Reporting Methodology

The company has followed the 2019 UK Government Environmental Reporting Guidelines and used the 2022 UK Government's Conversion Factors for Company Reporting.

### Organisational boundary

The company has used the financial control approach.

### Operational scopes

The company has measured its scope 1, 2 and employee car business travel scope 3 emissions.

### Intensity Measurement

The company has chosen the metric gross scope 1 and 2 emissions in tonnes of CO<sub>2</sub>e per tonne of Full Time Equivalent as this is the most relevant business metric for the industry sector.

### Base Year

We have a fixed base year of 2020. We chose this year as it was the first year for which we considered that we had sufficient and evidential data. Our base year recalculation policy is to recalculate our base year and the prior year emissions for relevant significant changes which meet our significance threshold of 5% of base year emissions.

### Targets

GDUK published its updated Carbon Reduction Plan in September 2022, re-communicating our commitment to achieving net zero emissions by 2050 and setting out the decarbonisation road map and targets to achieve this:

## Strategic Report (continued)

### OUR DECARBONISATION ROADMAP



**2022**

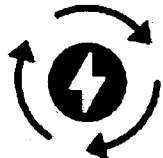
- Footprint appraisal inclusive of full value chain completed
- Target feasibility study completed - net zero targets set and global initiative, Science Based Target Initiative, set to meet the 1.5 degrees Celsius scenario by 2030

**2022 - 2024**



- Seek lower emission-intensive freight alternatives within our freight distribution network
- Focus on creating a more sustainable travel policy aimed at reduction of mileage and flights
- Build on current Social Value working group - continuing to evolve and develop the Sustainability working group

**2025 - 2027**



- Switch to a 100 per cent renewable electricity tariff - contracting 100 per cent green energy in 2025
- Convert to electrical heating at Wales-based sites in 2027 for Scope 1 and 2 emissions

**2045**



- Transition to use of full electric vehicle hire cars
- Become a carbon neutral organisation through carbon offsetting all remaining emissions which the Company cannot reduce further

**2050**

- Achieve net zero carbon emissions

### OUR TARGETS

General Dynamics Corporation has committed to reducing all Scope 1 and Scope 2 energy / utility use by 40 per cent - to be achieved by 2034.

General Dynamics UK will contribute to this commitment through a two per cent year-on-year reduction of Scope 1 and Scope 2 energy and utility use - working towards achieving net zero carbon emissions by 2050.

**33.7%**



By 2030: we aim to reduce our (Scope 1, 2, and 3) market-based emissions by 33.7 per cent - meeting the Science Based Target initiative

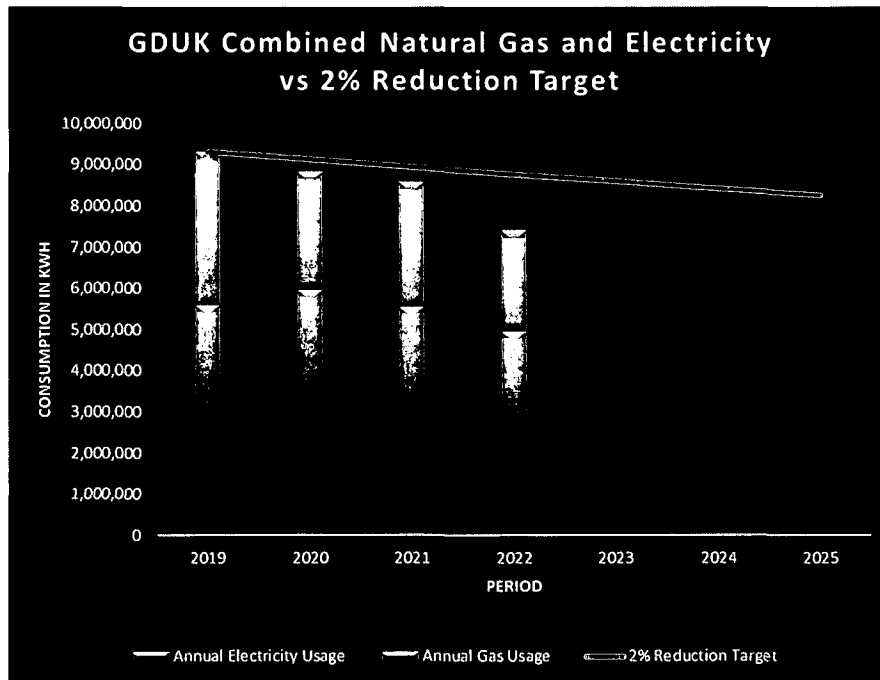
**85.1%**



By 2050: we aim to reduce our (Scope 1, 2, and 3) market-based emissions by 85.1 per cent



## Strategic Report (continued)



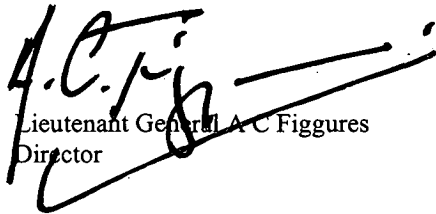
Energy consumption used to calculate 2022 emissions: 7,979,923 kWh	Current Reporting Year 2022 UK (no offshore activity)	% of activity data that is estimated	Comparison Reporting Year 2021 (no offshore activity)	Comparison Reporting Year 2020 UK (no offshore activity)
<b>SCOPE 1 tCO<sub>2</sub>e</b> Emissions from activities for which the company own or control including combustion of fuel & operation of facilities		0%		
Gas Consumption	448		556	527
Process emissions	258		250	3
Fugitive emissions	104		81	138
<b>Total Scope 1</b>	<b>810</b>		<b>887</b>	<b>665</b>
<b>SCOPE 2 tCO<sub>2</sub>e</b> Emissions from purchase of electricity purchased for own use (location-based factors)	962	0%	1,181	1,393
<b>Total gross Scope 1 &amp; Scope 2 emissions tCO<sub>2</sub>e</b>	<b>1,773</b>		<b>1,269</b>	<b>2,061</b>
<b>Company's chosen intensity ratio (scope 1&amp;2) tCO<sub>2</sub>e per Full Time Equivalent</b>	<b>1.57</b>		<b>1.46</b>	<b>1.55</b>


**Strategic Report (continued)**

<b>SCOPE 3 tCO<sub>2</sub>e</b> Emissions from employee business travel for which the company does not own or control. Business travel activities included: rental, personal and company cars	164	0%	213	221
<b>Total Gross Scope 1, Scope 2 (location) &amp; Scope 3 emissions tCO<sub>2</sub>e</b>	1,937		1,482	2,282

**2022 Summary**

The Company continued to deliver on its programmes in 2022 but experienced reductions in revenue due to changes in two of its key contracts. Programmes execution, delivery and customer satisfaction continue to be a priority for the business, coupled with ongoing investment activities to position the Company well for future opportunities. Employees, customers and suppliers continue to be at the forefront of the Company's prime value generation and the ongoing focus on these key relationships will ensure a vibrant future for the Company.

  
Lieutenant General A.C Figgures  
Director

21 Holborn Viaduct  
London  
EC1A 2DY  
Date...  ...2024

## Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2022.

### Principal Activities

GDUK has two business units

1. **Mission Systems**, which specialises primarily in the design, delivery and through-life support of solutions in the Command, Control, Communications, Computing and Information (C4I) domain.
2. **Land Systems**, which designs, manufactures and sustains land combat platforms; most notably the AJAX armoured fighting vehicle.

C4I 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. In 2004 the Company delivered Bowman, one of the world's most advanced battlefield communication systems, to the UK MoD. In 2017, the Company was awarded the first phase of the MORPHEUS contract, known as Evolve to Open (EvO), which aims to modernise the UK's communications and command and control systems by evolving the Bowman network into a more open system, able to maintain pace with ever-advancing technology. The Company has also been successful in providing a Tactical Communications System for the Dutch Marines.

The Company is contracted for the Demonstration, Production and Extended Support Phases of the AJAX programme for the UK Army. The AJAX armoured fighting vehicle, a next generation medium weight tracked combat vehicle, offers advanced electronic architecture and proven technology for an unparalleled balance of survivability, lethality and mobility along with high reliability for a vehicle in its weight class.

Work on the AJAX programme has transitioned from engineering to test and then full production. Completion of all 589 vehicles in six different variants is anticipated in 2027 based on current delivery schedule and solutions agreed with the customer.

The Company also provides a range of best-in-class avionics products including tactical processors, tactical data links, weapon management computer systems and secure data recorders. This wealth of experience in the avionics business has made the Company a key supplier to programmes such as Typhoon and Wildcat.

### Research and development

To foster innovation, product development and evolution, the Company has a policy of targeted investment in the design and development of new technologies and capabilities that support business growth and the pursuits that the business is planning to win in future periods.

Major areas of interest include the development of new products for future Tactical Communication competitions and investing in the Typhoon mid-life update as well as future unmanned combat air platforms.

Further areas of focus in the Land sector are joint AJAX capability growth experimentation with the UK Army (including so-called Manned/Unmanned Teaming or MUM-T), AFV sustainment related technologies such as Health and Usage Monitoring Systems (HUMS), ensuring vehicle electronic architectures are aligned with MORPHEUS and helping develop the Land Environment's latest ISTAR thinking.

### Financial Instruments risk, policy and exposure

The Company is subject to foreign exchange rate risk, which is detailed in the Strategic Report. Where receipts and disbursements cannot be denominated in the functional currency or offset by an equal amount with identical timing to create a natural hedge, it is Company practice to enter into hedge contracts that reduce the impact of currency movements over a period of time.

Foreign exchange exposure is reviewed on a monthly basis and explanation provided for any unhedged transactions greater than \$1m. Responsibility for monitoring and review is delegated to senior management who are responsible for the day to day financial operations and a foreign exchange exposure report is prepared and reviewed on a quarterly basis to capture this detail. As a result, the Company's exposure to foreign exchange risk is considered low.

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

### **Results and proposed dividend**

Profit after taxation for the year ended 31 December 2022 was £12.7m compared to £10.4m for the year ended 31 December 2021. The directors do not recommend payment of a dividend for the year ended 31 December 2022 (2021: £80.5m).

### **Directors**

The directors who held office during the year and to the date of this report were as follows:

#### Non-Executive Directors:

Lieutenant General Andrew Collingwood Figgures

Steven Edward Rowbotham

#### Executive Directors:

Danny Deep

### **Directors' indemnities**

Certain directors benefited from qualifying third-party indemnity provisions in place during the financial year and at the date of this report. The Company has maintained liability insurance for Directors and officers. Neither the insurance nor the indemnity provides cover where a Director acts fraudulently or dishonestly.

### **Corporate Responsibility**

During 2022, the Company continued to build on its solid progress and actively ensured delivery of stakeholder commitments. The Company website explains to stakeholders the Company policies, strategies and business progress and is updated on a regular basis. Employees receive frequent updates on progress and the latest Company initiatives through an e-newsletter. In addition, the Company utilises a social media communication platform that enables employees to connect and share information about the latest news and activities across the business.

The Company strives to maintain the highest standards of ethical conduct and corporate responsibility. Employees receive annual training on this subject, and support mechanisms are in place for employees through an information telephone line, which is operational 24 hours a day, 365 days of the year. By operating proactive policies, the Company manages its customer and supplier relationships responsibly.

The Company is committed to the Armed Forces Covenant, and to maintaining its Employer Recognition Scheme Gold Award. Service leavers are supported by attending Transition Fairs designed to promote employment opportunities, contribute to military thought leadership and support existing employees undertaking Reserve service and cadet instructors with a period of paid leave.

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 our sites and employees are supported by well-developed policies and practices.

### **Employees**

Employees are considered by the Company as the key part to the success of the business. Employee engagement is assessed through regular formal surveys in addition to regular one to one sessions between Employees and Management. Employee Communication is considered a key attribute to enhanced employee engagement and the Company's approach to this is laid out in the Section 172 disclosure within the Strategic Report.

The Company is committed to promoting diversity and creating a fully inclusive working environment, where every employee can fulfil their potential. The Company recognises that diversity of experience, perspectives and capabilities is good for the team, wider stakeholders and it is critical to future success. The Company has a commitment to a comprehensive inclusion and diversity strategy; a working group has been established across the UK and is investing in areas that foster an inclusive, diverse and transparent working environment for all colleagues.

## Directors' Report *(continued)*

During 2022, the Company continued to support the Women in Defence charter and introduced and implemented some focus groups with senior executive sponsors.

On December 31, 2022, the Company employed 954 employees across its sites in Oakdale in South Wales, Merthyr Tydfil in South Wales, Hastings in East Sussex, Chippenham in Wiltshire and Bristol. Of these employees 88 are represented by a Union.

### Political

The Company made no political contributions during the year (2021: nil).

### Going Concern Assessment

Following assessment and review, the Directors have a reasonable expectation that the Company has sufficient resources to continue to operate for at least the next 12 months from the date of approval of these financial statements. Further detail on the going concern assessment is disclosed in note 1.

### 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

  
Lieutenant General A C Figgures  
Director

21 Holborn Viaduct  
London  
EC1A 2DY  
Date  2024

## **Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements**

The directors are responsible for preparing the Annual 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.

# **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 2022 which comprise the Income statement, Other Comprehensive Income, Balance Sheet and Statement of Changes in Equity and related notes, including the accounting policies in note.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 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**

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

## **Fraud and breaches of laws and regulations – ability to detect**

### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that management may be in a position to make inappropriate accounting entries;
- the risk of bias in accounting estimates including those related to revenue. The amount of revenue recognised in a year is based on the assessment of the percentage of completion of long-term contracts and the forecast cost profile of each contract. The estimated outturn requires significant judgement to be applied in estimating total costs to deliver the contract. The nature of these estimates means their continual refinement can have impacts on revenue which can be significant.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These include those posted by individuals who do not typically post journal entries, those posted to unusual accounts or account combinations, and those posted and approved by the same individual.
- Assessing significant accounting estimates for bias including estimates linked to long-term contract revenue.

#### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pensions legislation and taxation legislation. and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, environmental legislation, data protection laws, employment law and contracts legislation (including government contracts), recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

#### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

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

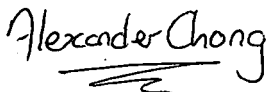
#### **Auditor's responsibilities**

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

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



**Alexander Chong (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
 66 Queen Square  
 Bristol  
 BS1 4BE

7 January 2024

## Income Statement

for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Turnover	2	494,948	604,373
Cost of sales		(428,960)	(557,634)
<b>Gross profit</b>		<b>65,988</b>	<b>46,739</b>
Administrative expenses		(36,341)	(31,680)
<b>Operating profit</b>		<b>29,647</b>	<b>15,059</b>
Interest receivable and similar income	5	717	152
Interest payable and similar expenses	6	(16,818)	(1,740)
Other losses	7	-	(28)
<b>Profit before taxation</b>	8	<b>13,546</b>	<b>13,443</b>
Tax on profit	10	(800)	(3,077)
<b>Profit for the financial year</b>		<b>12,746</b>	<b>10,366</b>

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

The notes on pages 19 to 55 form part of these financial statements.

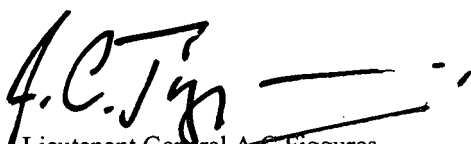
## Other Comprehensive Income

		2022 £000	2021 £000
Profit for the financial year		12,746	10,366
<b>Items that will not be reclassified subsequently to profit and loss:</b>			
Actuarial (loss) / gain on the pension scheme (net of deferred tax)	24	(706)	518
<b>Items that will be reclassified subsequently to profit or loss:</b>			
Change in fair value of cash flow hedges (net of deferred tax)	21	3,266	(13,453)
<b>Total comprehensive income / (expense) for the year</b>		<b>15,306</b>	<b>(2,569)</b>

**Balance Sheet**  
*At 31 December 2022*

	Note	2022 £000	2021 £000
<b>Fixed assets</b>			
Intangible assets	11	432	556
Tangible assets	12	36,230	39,155
		<u>36,662</u>	<u>39,711</u>
<b>Current assets</b>			
Stock and work in progress	13	606	404
Debtors	14	1,501,392	1,084,621
Other financial assets	17	-	1,670
		<u>1,501,998</u>	<u>1,086,695</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(1,123,125)</u>	<u>(727,057)</u>
<b>Net current assets</b>		<u>378,873</u>	<u>359,638</u>
<b>Total assets less current liabilities</b>		<u>415,535</u>	<u>399,349</u>
Creditors: amounts falling due after more than one year	16	(4,600)	(7,876)
Provisions for liabilities and charges	19	(22,155)	(16,874)
<b>Net assets</b>		<u><u>388,780</u></u>	<u><u>374,599</u></u>
<b>Capital and reserves</b>			
Called up share capital	20	9,262	9,262
Capital redemption reserve		88	88
Other reserves		1	1
Cashflow hedge reserve	21	83	(3,183)
Profit and loss account		379,346	368,431
<b>Shareholders' funds</b>		<u><u>388,780</u></u>	<u><u>374,599</u></u>

These financial statements were approved by the board of directors on 7 Feb 2024 and were signed on its behalf by:

  
Lieutenant General A C Figgures  
Director

The notes on pages 19 to 55 form part of these financial statements.

## 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 2022	9,262	88	1	(3,183)	368,431	374,599
Other Comprehensive income for the year	-	-	-	3,266	12,040	15,306
IFRS 2 share based payment charges	-	-	-	-	(1,125)	(1,125)
At 31 December 2022	9,262	88	1	83	379,346	388,780

	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 2021	9,262	88	1	10,270	439,334	458,955
Other Comprehensive income for the year	-	-	-	(13,453)	10,884	(2,569)
Dividend paid	-	-	-	-	(80,498)	(80,498)
IFRS 2 share based payment charges	-	-	-	-	(1,289)	(1,289)
At 31 December 2021	9,262	88	1	(3,183)	368,431	374,599

## 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 England and Wales. The registered number is 1911653 and the registered address is 21 Holborn Viaduct, London, EC1A 2DY.

#### *Basis of Preparation*

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 (“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.

As the Company’s ultimate parent undertaking, General Dynamics Corporation, includes the Company in its consolidated financial statements, which are intended to give a true and fair view of the assets, liabilities, financial position, and profit and loss, the Company qualifies for the preparation of accounts using FRS101 with reduced disclosures. 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 11011 Sunset Hills Road, Reston, VA 20190.

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 capital management;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures in respect comparatives of Fixed Assets; and Intangibles.

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 where equivalent disclosures are not included in the consolidated financial statements;
- 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.

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

#### *Measurement Convention*

The financial statements are prepared on the historic cost basis except for derivatives which are stated at fair value.

The financial statements are presented in GBP round thousands.

#### *Going Concern*

The company meets its day to day working capital requirements from intercompany loan and trading balances with the group headed by General Dynamics Corporation, the ultimate parent company.

The directors have prepared cash flow forecasts and performed a going concern assessment which indicates that, in both the base and reasonably possible downsides, the company will require significant additional funds, through funding from its ultimate parent company, General Dynamics Corporation, to meet its liabilities as they fall due during 12 month period ending 31st December 2023, the going concern assessment period.

In preparing the forecasts, the Directors have considered reasonably possible downside scenarios.

## Notes (continued)

### 1 Accounting policies (continued)

#### Going Concern (continued)

Specifically, they have considered the following factors:

- The Company's contracts contain defined payment plans under which the Company receives cash through the life of the contract to fund activities on those contracts. The Company remains in negotiation with the UK MoD in relation to two of its significant contracts (AJAX and MORPHEUS). The Company has modelled the completion of these negotiations at two different points in the downside scenario planning.
- Separately, the Company has also considered the impact of milestone payment delays on other key contracts within its portfolio.
- The majority of the Company's trade is with the UK MoD. During the reporting period, the Company saw a deterioration in payments from UK MoD, in particular the non-receipt of any payments from during 2022 on its AJAX contract. Whilst payment has been received in the first quarter of 2023 and regular payments have recommenced thereafter throughout the 2023 financial year, the downside modelled includes a scenario in which no payments are received from the MOD in the going concern period. In this downside scenario parental support would be available.
- Contracts with customers other than the UK MoD have not seen a deterioration in the timeliness of receivables settlements noting that while they are with third parties, substantially all relate to either government bodies or are related to underlying contracts with government bodies (both UK and International).
- The Company continues to manage its supply chain closely to ensure continuity of supply in support of contract delivery.

The Company finances its activities through its cash balances. These cash balances are held in a cash pool operated by its intermediate parent company General Dynamics European Finance Limited ("GDEF"). Under the terms of the cash pooling agreement with GDEF the Company and any other member of the cash pool may drawdown funds from GDEF. The agreement does not restrict the cash pool members to drawing down only those funds already deposited but allows cash pool members to borrow further funds from the cash pool up to GDEF's external borrowing limits. In the downside scenario described above, the Company would need to borrow from the cash pool in excess of the cash balances deposited during the forecast period. The directors are not able to assess whether GDEF would be able to provide the extent of funding which the Company requires given they cannot assess the borrowing requirements of the other cash pool members. In the event the Company cannot borrow the amounts required from the GDEF cash pool, it would instead need to rely on the support of General Dynamics Corporation, the Company's ultimate parent undertaking ("the parent").

Therefore, those forecasts are dependent on the parent not seeking repayment of amounts due to the group, which at 31 December 2022 amounted to £22.2M, and providing additional financial support during that period.

General Dynamics Corporation has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts currently due to the group, which at 31<sup>st</sup> December 2022 amounted to £938.8M, during the going concern assessment period. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Intangible assets*

##### *(i) 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, and consultants. Costs that are not directly attributable such as identifying, sourcing, evaluating or maintaining computer software, training and overheads 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 3 to 4 years.

#### *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.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date (or transition date for leases existing on the implementation of IFRS16 on 1 January 2019). At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS16.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date / transition date. The future lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate ('IBR'). Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by adopting the rates utilised at the corporate level. The Treasury function is managed at the European Treasury level. This function exists to provide expediency and convenience for foreign operations; however, any action including additional borrowing, requires Corporate Treasury approval. As such, European Treasury functions are not autonomous, cannot borrow funds independently and are extensions of the Corporate Treasury function. Since all funding is managed by the Corporate Treasury function, all leases of a similar term have similar risk characteristics from the lessor's perspective, regardless of the business unit. Additional funding is obtained through the Corporate Treasury function regardless of the functional currency of the lease. As such, risk is based on the consolidated treasury function and rates would remain uniform. It is considered that use of the corporate borrowing rate is appropriate due to the centralised nature of the treasury function.

The IBR is based on the NSS (Nelson, Sigel, Svensson) yield curve obtained from Bloomberg. The NSS curve is a specialised yield curve with five components that account for the shapes found in yield curves and most accurately reflects the cost of borrowing. Varying rates are applied for varying lease terms with rates published monthly. The weighted average IBR applied is 2.6256%.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments
- Extensions only where the contract contains an option to extend and it is reasonably certain to be exercised.
- Where variable lease payments may be possible due to the contractual existence of lease pricing reviews, the payments have been assumed to remain at their current fixed amount over the lease term given the uncertainty of future changes.

Right of use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The asset is depreciated using the straight-line method from the commencement date / remaining lease term following the transition date, to the end of the lease term.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Tangible fixed assets and depreciation (continued)*

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. An asset is considered to be low-value where it has a value of less than \$5k when new. Short-term leases are those with a lease term of 12 months or less.

The Company leases several assets including property, motor vehicles and IT equipment.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date / remaining lease term following the transition date, to the end of the lease term.

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
Right-of-use assets	Life span of lease
Plant, Machinery and Motor Vehicles:	4-8 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

#### *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 Current tax is the expected tax payable or receivable on the 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.

Deferred taxation at 35% is applied to UK pension surplus, being the rate applicable to refunds from a scheme.

#### *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.



## 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.

#### *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.

#### *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 employees render services.

Where members retire during the year and the value of their money purchase funds did not cover their defined benefit underpin benefits, the net shortfall would be recognised as a liability whilst they are deferred members.

Upon retirement, the money purchase funds are transferred to the defined benefit assets and the full liability for these members is recognised.

##### *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.

Re-measurements 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.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Employee benefits (continued)*

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.

#### *General Dynamics Retirement and Death Benefit Scheme (the Scheme)*

The 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. The Company determines 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 scheme 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 24 of the Annual report and financial statements.

Paragraph 11(b) of IFRIC 14 states that if the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognise an asset. The Company does have an unconditional right to a refund and the pension surplus has been recognised as an asset on the balance sheet.

The Trustees of the pension fund are required by law to act in the best interests of the plan participants and during 2019 entered into a binding agreement with Legal and General to insure the liabilities of the scheme known as a buy-in. The Company is committed to convert to a buy-out.

#### *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's ultimate parent. 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.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Employee share schemes (continued)*

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.

#### *Financial Instruments*

##### *Recognition and initial measurement*

Trade receivables and debt securities are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at 'fair value through profit or loss' (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

##### *Classification and subsequent measurement*

###### *Financial assets*

###### *Classification*

On initial recognition, a financial asset is classified as measured at amortised cost; Fair Value through OCI ('FVOCI') or Fair Value through the Profit or Loss account (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely principal and interest on the principal amount outstanding.

A debt instrument is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This investment is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in joint ventures are carried at cost less impairment.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Financial Instruments (continued)*

##### *Subsequent measurement of gains and losses*

Financial assets at FVTPL – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost – these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

Debt instruments at FVOCI – these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI – these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

##### *De-recognition of financial assets*

The Company recognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

#### *Financial liabilities and equity*

##### *Classification*

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- 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
- 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 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.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on de-recognition is also recognised in profit or loss.

##### *De-recognition of financial liabilities*

The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or they expire.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Financial Instruments (continued)*

##### *Effective Interest Method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shortened period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

##### *Derivative financial instruments and hedging*

###### *Derivative financial instruments*

The Company enters into forward contracts as derivative financial instruments to manage its exposure to foreign exchange rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

###### *Hedge accounting*

The Company designates certain hedging instruments in respect of foreign currency risk as cash flow hedges where the hedges are of foreign exchange risk on firm commitments.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item.

###### *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is no longer expected to occur. The gain or loss accumulated in equity is recognised immediately in profit or loss.

Certain ineffectiveness can arise during the hedging process. The main sources of hedge ineffectiveness are considered to be timing differences between entering into the hedged items and into the hedging instruments and differences between the maturity profile of the hedged items and the hedging instruments.

###### *Impairment*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected.

## Notes (continued)

### 1 Accounting policies (continued)

#### Derivative financial instruments and hedging (continued)

When determining whether credit risk of a financial asset has increased significantly since initial recognition and when estimating Expected Credit Losses (ECL), the Company considers reasonable and supportable information which is relevant and available without undue cost of effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment, including forward looking information.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Loss allowances for trade receivables and contract assets (as defined in IFRS 15) are always measured at an amount equal to lifetime ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a short period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between cash flows due to the entity in accordance with the contract and the cash flows the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

#### Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

#### Write-offs

The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery.

## Notes (continued)

### 1 Accounting policies (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:

	2022 £000	2021 £000
United Kingdom	480,258	591,020
Rest of Europe	13,153	1,015
North America	109	9,102
Rest of the World	1,428	3,236
	<u>494,948</u>	<u>604,373</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:

	Number of employees	
	2022	2021
Administration	227	266
Production	863	1,001
	<u>1,090</u>	<u>1,267</u>

The aggregate payroll costs of these persons were as follows:

	2022 £000	2021 £000
Wages and salaries	64,765	68,159
Social security costs	6,406	6,699
Other pension costs (see note 24)	9,229	9,850
	<u>80,400</u>	<u>84,708</u>

Wages and salaries includes severance of £3,494k (2021: £879k).

## Notes (continued)

### 4 Leases

The Company leases commercial property for its operations. The leases typically run for a period of 5 years with no option to renew. One lease is for the land on which a Company owned commercial building is located. This lease does contain an option to renew and runs for 125 years. The lease payments on the land are negotiated every 10 years to reflect market rentals and were last agreed on 1 January 2015. The value recognised in the accounts assumes that lease payments are fixed as it is not possible to accurately forecast changes in value as a result of future inflationary adjustments.

Other leases that represent right-of-use-assets include vehicles, IT equipment and property utilised by certain business travellers. The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low value or term (where the lease is for a period of less than 1 year).

Calculation of the incremental borrowing rate is detailed in note 1. The weighted average applied is 2.6256%.

The Company presents right-of-use assets as tangible assets with lease liabilities split between creditors due within one year and in more than one year accordingly on the balance sheet.

#### Right-of-use assets

	Long leasehold Land & buildings £000	Short leasehold Land & buildings £000	Vehicles £000	IT Equipment £000	Total £000
Balance at 1 January 2022	1,229	5,101	143	1,429	7,902
Additions to right-of-use assets	18	185	175	47	425
Depreciation of right-of-use assets	(121)	(1,665)	(143)	(531)	(2,460)
Balance at 31 December 2022	1,126	3,621	175	945	5,867

#### Amounts recognised in profit and loss

##### Leases under IFRS16

	2022 £000	2021 £000
Interest on lease liabilities	17	215
Expenses relating to short term leases	33	100
Expenses relating to leases of low value assets	128	131
Depreciation of leased assets	2,460	2,243
	2,638	2,689

Expenses relating to short term leases are shown in the profit and loss account within the expense category associated with the nature of the expense.

### 5 Other interest receivable and similar income

	2022 £000	2021 £000
Bank interest	202	69
Pension interest	51	35
Gain on foreign exchange	464	48
	717	152



## Notes (continued)

### 6 Interest payable and similar charges

	2022 £000	2021 £000
Other interest payable	(16,801)	(1,525)
Interest on lease liabilities	(17)	(215)
	<u>(16,818)</u>	<u>(1,740)</u>

### 7 Other losses

	2022 £000	2021 £000
Loss recognised on ineffective hedge	-	(28)
	<u>-</u>	<u>(28)</u>

### 8 Profit on ordinary activities before taxation

	2022 £000	2021 £000
The profit on ordinary activities before taxation is stated after charging/(crediting):		
Short-term Leases/Operating leases		
- Land and buildings	30	90
- Motor vehicles and office equipment	131	141
Research and development	4,011	3,975
Profit on disposal of leased assets	-	37
Depreciation of owned fixed assets	2,216	2,407
Depreciation of leased assets	2,460	2,243
Intangible amortisation	200	146
IFRS 2 share based payment charges	(1,125)	(1,289)
Restructuring charge / (reversal)	66	(134)
Auditor's Remuneration		
Audit of these Financial Statements	468	383
Audit-related other assurance services	82	69
Taxation compliance services	57	100
Other non audit services	4	32

## Notes (continued)

### 9 Directors' remuneration

	2022 £000	2021 £000
Directors' emoluments	351	302
Company contributions to money purchase pension schemes	16	6

Two Directors exercised share options in the ultimate parent company in the year (2021: two). 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 £0.7m (2021:£0.3m). These shares had an average market price of £183.45 (2021:£116.34). One of the Directors' 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:

	2022 Number	2021 Number
Hybrid pension	1	1

#### Highest paid director

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

	2022 £000	2021 £000
Directors' emoluments	140	147
Company contributions to pension schemes	16	-

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)

### 10 Taxation

	2022 £000	2021 £000
UK deferred tax movement (see note 19)	(250)	866
UK current tax	1,050	2,126
Adjustments in respect of prior periods	-	85
	<hr/>	<hr/>
Income statement	800	3,077
	<hr/>	<hr/>
	2022	2021
Reconciliation of effective tax rate	£000	£000
	<hr/>	<hr/>
Profit for year	12,746	10,366
Total tax expense	800	3,077
	<hr/>	<hr/>
Profit excluding taxation	13,546	13,443
	<hr/>	<hr/>
Tax using the Corporate tax rate of 19% (2021:19%)	2,574	2,554
Non-deductible expenses	404	280
Tax exempt revenues	(2,538)	(624)
Capital allowances for year in excess of depreciation	360	782
Underprovided in prior years	-	85
	<hr/>	<hr/>
Total tax expense	800	3,077
	<hr/>	<hr/>
<b>Income tax recognised in other comprehensive income</b>		
Deferred tax		
Net gain/ (loss) on revaluation of cash flow hedges	775	(3,156)
	<hr/>	<hr/>
Total income tax recognised in other comprehensive income	775	(3,156)
	<hr/>	<hr/>

The effective tax rate has been impacted by the movement in deferred tax with detail provided in note 19. In 2022, this movement has been reported in the tax reconciliation within the category that reflects the type of income/expense it represents. The presentation of the deferred tax movement in 2021 was shown as a separate item but has now been adjusted in the 2022 financial statements to adopt the same method of disclosure. Overall tax expense remains unchanged.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. The deferred tax liability as at 31 December 2022 has been calculated at 25% (2021:25%) except for the deferred tax on the pension scheme surplus where a rate of 35% has been used which reflects the rate of tax payable on any return of the defined benefit pension surplus.

## Notes (continued)

### 11 Intangible assets

	Software
	£000
<b>Cost</b>	
At 1 January 2022	7,082
Additions	76
Disposals	(5,844)
	<hr/>
<b>At 31 December 2022</b>	<b>1,314</b>
	<hr/>
<b>Accumulated amortisation and impairment</b>	
Accumulated impairment	6,526
Amortisation charge for the year	200
Depreciation eliminated on disposal	(5,844)
	<hr/>
<b>Amortisation and impairment</b>	<b>882</b>
Accumulated impairment	
	<hr/>
<b>Net book value</b>	
<b>At 31 December 2022</b>	<b>432</b>
	<hr/>
Net book value	556
At 31 December 2021	
	<hr/>

### Investments

Investment entity	Holding company	Share capital	Proportion held	Loss in year £000
General Dynamics Information 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.

## Notes (continued)

### 12 Tangible fixed assets

	Premises land and buildings	Long leasehold land and Buildings	Short leasehold land and buildings	Plant machinery and vehicles	Leased plant machinery and vehicles	Total
<i>Cost</i>	£000	£000	£000	£000	£000	£000
At 1 January 2022	29,220	2,970	12,868	43,268	3,067	91,393
Adjustment to opening balance	-	-	-	(126)	-	(126)
Additions (excluding IFRS16)	-	128	-	1,308	-	1,436
IFRS16 additions	-	18	185	-	222	425
Reclassification	26	660	(26)	(4,494)	3,834	-
Disposals	-	-	-	(14,203)	-	(14,203)
<b>At 31 December 2022</b>	<b>29,246</b>	<b>3,776</b>	<b>13,027</b>	<b>25,753</b>	<b>7,123</b>	<b>78,925</b>
<i>Depreciation</i>						
At 1 January 2022	6,305	1,825	7,755	34,858	1,495	52,238
Adjustment to opening balance	-	-	-	(16)	-	(16)
Charge for year (excluding IFRS16)	558	95	-	1,563	-	2,216
IFRS16 charge for year	-	15	1,771	-	674	2,460
Reclassification	-	14	(14)	(2,823)	2,823	-
Disposals	-	-	-	(14,203)	-	(14,203)
<b>At 31 December 2022</b>	<b>6,863</b>	<b>1,949</b>	<b>9,512</b>	<b>19,379</b>	<b>4,992</b>	<b>42,695</b>
<i>Net book value</i>						
<b>At 31 December 2022</b>	<b>22,383</b>	<b>1,827</b>	<b>3,515</b>	<b>6,374</b>	<b>2,131</b>	<b>36,230</b>
At 31 December 2021	22,915	1,145	5,113	8,410	1,572	39,155

Land not depreciated was valued at £2,204k (2021: £2,204k).

During the year certain assets were reclassified. These reclassifications, netting to nil, have no effect on the total closing net book value of assets at 31 December 2022.

Assets totalling £14.2k with a net book value of nil were disposed of in the year. These fully depreciated assets were identified as no longer in use.

### 13 Stocks and work in progress

	2022 £000	2021 £000
Raw materials and consumables	606	404

Given the nature of the contracts, contract stock is booked to cost of sales as utilised in the year. Immaterial amounts are expensed to the income statement. There was no write-down of stock to net realisable value nor reversal of write-downs.

## Notes (continued)

### 14 Debtors

	2022 £000	2021 £000
<b>Amounts falling due within one year:</b>		
Amounts owed by related parties	4,641	4,515
Contract assets	1,441,993	1,008,310
Taxation and social security	16,574	24,534
Trade debtors	4,339	12,100
Foreign exchange hedge asset (see note 17)	204	1,670
Prepayments and other debtors	15,194	14,255
<b>Total amounts falling due within one year</b>	<b>1,482,945</b>	<b>1,065,384</b>
<b>Debtor amounts greater than one year</b>		
Trade debtor	15,678	15,678
Contract assets	500	500
Pension surplus (see note 24)	2,242	3,005
Foreign exchange hedge asset (see note 17)	27	54
<b>Total debtors</b>	<b>1,501,392</b>	<b>1,084,621</b>

Debtors falling due within one year are all expected to be recoverable within one year. The trade debtor greater than one year relates to the award of a default judgement against the State of Libya in favour of the Company. Substantial work is being undertaken to recover the debt and recovery is not expected within one year.

The contract asset has increased in line with the retention of payments by the UK MoD as a path forward is agreed. Further detail is included within note 30 on subsequent events.

Amounts owed by related parties comprise the following:

	2022 £000
General Dynamics Land Systems Canada Corporation	263
General Dynamics European Finance Ltd	20
General Dynamics Ltd	33
General Dynamics Mission Systems International Ltd	53
General Dynamics Global Holdings Ltd	68
General Dynamics Mission Systems Inc	3,629
General Dynamics Mission Systems Italy SRL	419
Gulfstream Aerospace	139
General Dynamics Land Systems Inc	14
General Dynamics Network Systems	3
	<b>4,641</b>

Payment terms are as determined by the related party and / or in accordance with agreed milestone payment plans. The balance owed by General Dynamics European Finance Ltd is the result of the sweeping of principal accounts to manage the collective cash needs of the cash pool member companies. This balance is deemed repayable on demand with interest calculated using the SONIA index.

## Notes (continued)

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

	2022 £000	2021 £000
Obligations under right of use assets (see note 18)	2,422	2,417
Contract liabilities	64,715	65,844
Trade creditors	99,448	99,567
Accruals	16,463	22,309
Amounts owed to related undertakings	938,802	530,148
Welsh Development Agency grant	1,051	1,084
Foreign exchange hedge liability (see note 17)	78	5,561
Overdraft	146	127
	<u>1,123,125</u>	<u>727,057</u>

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

	2022 £000	2021 £000
Foreign exchange hedge liability (see note 17)	-	41
Obligations under right of use assets (see note 18)	3,596	5,668
Welsh Development Agency grant	1,004	2,167
	<u>4,600</u>	<u>7,876</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. Creditors reflects the payments outstanding of £1.1m due within 12 months and £1.1m due after more than one year discounted to reflect the time value of money.

Amounts owed to related undertakings comprise the following:

	2022 £000
GD Santa Barbara Sistemas S.A	64,082
General Dynamics Corporation	1,211
General Dynamics Land Systems Inc	1,050
General Dynamics Land Systems Canada Corporation	363
General Dynamics Mission Systems Inc	7,292
General Dynamics European Finance Ltd	864,724
General Dynamics Network Systems	16
General Dynamics Mission Systems Canada	64
	<u>938,802</u>

Payment terms are as determined by the related party and / or in accordance with agreed milestone payment plans. Invoices processed and approved for payment are generally settled in the month. The balance owed to General Dynamics European Finance Ltd is the result of the sweeping of principal accounts to manage the collective cash needs of the cash pool member companies. This balance is deemed repayable on demand with interest calculated using the SONIA index + 80bps.

## Notes (continued)

### 17 Other financial asset and liabilities

	2022	2021
	Assets	Assets
	£000	£000
<b>Current</b>		
Gross cash flow hedges held at fair value – foreign exchange asset	204	1,670
Gross cash flow hedges held at fair value – foreign exchange liability (see note 15)	(78)	(5,561)
<b>Non-current</b>		
Gross cash flow hedges held at fair value – foreign exchange asset (see note 14)	27	54
Gross cash flow hedges held at fair value – foreign exchange liability (see note 16)	-	(41)
	<u>153</u>	<u>(3,878)</u>

During the year, gains of £41k on non-qualifying hedges were credited to the income statement (2021: £80k).

In 2022, the foreign exchange asset has been included within other debtors and no longer disclosed separately on the face of the balance sheet.

#### Financial risk management

##### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

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 its contracts that are designed to protect it from this risk. The Company will also seek to reduce the impact of foreign exchange risk by concluding transactions in the Company's functional currency or naturally hedging income and expenses in a foreign currency. Otherwise, it enters into derivatives, principally foreign currency forward purchase and sale contracts, designed to offset and minimise its risk. The Company does not use derivatives for trading or speculative purposes.

To further reduce risks from market price volatility resulting from changes in price, the Company enters into fixed price contracts with customers and suppliers.

##### Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

Credit risk is considered low given that the majority of sales are to UK and overseas governments.

##### Liquidity risk and cash flow risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Cash flow risk is the risk that the Company's available cash will not be sufficient to meet its financial obligations. The Company's liquidity is ensured by means of regular group-wide monitoring and planning of liquidity coordinated by the Group's centralised treasury department. The Group consists of the members of the European cash pool agreement.

In order to facilitate cash management activities, the Company has entered into a cash pool agreement for which General Dynamics European Finance Ltd operates as the cash pool leader. The zero balancing cash pool consists of four underlying pools of different currencies (Euro, Swiss Francs, USD and GBP). Cash pool members pool their accounts to obtain a reduction in external financing costs and can obtain more favourable credit and debit interest rates due to economies of scale. The cash pooling arrangement and regular forecasting of cash needs by the cash pool members significantly reduces any cash flow risk to the Company. As a cash pool member, the Company has requested that General Dynamics Worldwide Holdings Inc. (the guarantor) guarantees potential claims for payment of funds to General Dynamics European Finance Ltd in accordance with the terms of the cash pool agreement. As such, the guarantor unconditionally, absolutely and irrevocably guarantees the payment obligations of the Company arising from the cash pool.



## Notes (continued)

### 18 Obligations under right of use assets

The maturity of obligations under right of use assets is as follows:

	2022 £000	2021 £000
Within one year	2,422	2,417
In the second to fifth years	2,558	4,644
Later than five years	1,038	1,023
	<u>6,018</u>	<u>8,084</u>

### 19 Provisions for liabilities and charges

	01-Jan-22 £'000	Recognised in income £'000	Recognised in equity £'000	31-Dec-22 £'000
Deferred tax	2,552	(250)	775	3,077
Warranty	14,322	4,756	-	19,078
	<u>16,874</u>	<u>4,506</u>	<u>775</u>	<u>22,155</u>

The warranty provision was re-profiled in 2021 in recognition of the additional development and refinements to the vehicles which will now be embedded as part of the revised delivery schedules. It also now encompasses information that has been gained from the further testing and use of the vehicles and is better aligned to the group wide experience on similar programmes.

#### Deferred tax assets and liabilities

	01-Jan-22 £'000	Recognised in income £'000	Recognised in equity £'000	31-Dec-22 £'000
Tangible fixed assets	2,800	256	-	3,056
Share-based payments	(552)	(239)	-	(791)
Pension	1,051	(267)	-	784
Hedge Loss	(747)	-	775	28
	<u>2,552</u>	<u>(250)</u>	<u>775</u>	<u>3,077</u>

A rate of 25% has been used for calculation of deferred tax except for the deferred tax on the pension scheme surplus was calculated at a rate of 35% which reflects the rate of tax payable on any return of the defined benefit pension surplus rather than the 25%.

## Notes (continued)

### 20 Share capital

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

	Number of Shares	2022 £000	Number of Shares	2021 £000
Allotted, called-up and fully paid	18,523,150	9,262	18,523,150	9,262

### 21 Hedging reserve

	2022 £000	2021 £000
Opening balance	(3,183)	10,270
Effect of change in tax rate	(238)	-
<b>Gain / (loss) recognised on cash flow hedges</b>		
Foreign currency forward contracts	3,532	(14,228)
<b>Income tax related to losses recognised in other comprehensive income</b>	(28)	752
<b>Transfer to income statement:</b>		
Foreign currency forward contract ineffectiveness	-	28
Income tax related to gains / (losses) transferred to income	-	(5)
Closing balance	<u>83</u>	<u>(3,183)</u>

The fair value of foreign currency forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity in the contract using a risk-free interest rate.

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in income statement when the hedge transaction impacts the income statement. A loss of £2.391m was recycled to the income statement on maturity of the qualifying hedges.

Ineffectiveness can arise if there are to differences in the forecast cash flows for which a foreign currency forward contract was entered to in order to mitigate foreign currency exposure. Forecast cash flows are based on management's best judgement at the time the hedges are put in place.

Where identification of hedged items are performed by reference to time buckets and a hedge transaction occurs outside of that time bucket, it cannot be considered to be the same hedged item. If there are no cash flows within a time bucket, then there can be no hedged item. To the extent that insufficient cash flow can be allocated against a hedge instrument within the "time bucket," hedge ineffectiveness is recognised on the remaining deficit with the corresponding gain / loss moved from reserves to the profit and loss account.

Implementation Guidance in the previous IAS39 suggests that a 3-month layering approach for the designation of highly probable forecast transactions designated in cash flow hedging relationships may be appropriate. In the absence of specific implementation guidance in IFRS9, consideration has also been given to commercial considerations and a desire to settle invoices within 30 days. As a result, a time bucket of 30 days prior to hedge maturity and 30 days after hedge maturity has been adopted.

## Notes (continued)

### 22 Financial commitments

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

	2022 £000	2021 £000
Contracted	200	264
Authorised but not contracted	1,789	1,507
	<u>1,989</u>	<u>1,771</u>

(b) Aggregate commitments for low value and short-term leases are as follows:

	2022		2021	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Non right-of-use assets which expire:				
Within one year	7	97	33	78
In the second to fifth years inclusive	-	108	-	64
	<u>7</u>	<u>205</u>	<u>33</u>	<u>142</u>

### 23 Contingent liabilities

	2022 £000	2021 £000
Offset bond expressed in AED	AED 4,195k	AED 4,195k
- expressed in GBP	£951k	£851k

The offset bond was a requirement of a contract that the Company held in the United Arab Emirates where as part of the terms and conditions of the contract, the Company is required to provide in country services such as knowledge transfer or invest in local product development activity. If the Company were unsuccessful with these activities, the bond would be retained. The value has been converted into GBP at a spot rate at the Balance Sheet date of 0.227.

## Notes (continued)

### 24 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.

The defined benefit pension scheme of General Dynamics Information Technology Ltd (GDIT: a related party) was transferred to the Company in 2019 following the cessation of trade of GDIT and remains an entirely separate scheme to that of General Dynamics United Kingdom Ltd. A binding agreement was entered into with Legal and General to insure the liabilities of the GDIT scheme known as a buy-in with the full intention to convert to a buy-out. The detail contained in this note excludes the GDIT scheme due to immateriality other than where certain financial disclosures are required to reconcile to the financial statements. Where GDIT disclosures have been included, the notes reflect the consolidated position for both schemes. The IAS19 2019 accounting disclosures allowed for the impact of the buy in by extinguishing the value of the liabilities and corresponding assets, leaving a surplus of £25,000. Since there has been no further action on the scheme during 2022 and, given the immateriality of the scheme, it was not considered necessary to prepare full IAS19 disclosures for the GDIT scheme in 2022 and therefore the financial statements continue to recognise a surplus of £25,000.

#### *Defined contribution element*

The pension cost for the year was £9,228,556 (2021: £9,849,582) being contributions to the defined contribution plan inclusive of £107,000 of expenses paid out of planned assets in respect of the defined benefit plan. There were no outstanding or prepaid contributions at 31 December 2022 (2021: £nil).

#### *Defined Benefit Section*

A full actuarial valuation of this scheme was carried out by a qualified independent actuary at 5 April 2021. This has been updated on an approximate basis to 31 December 2022.

During 2019, the trustees purchased an insurance policy that covers all the retirement benefit obligations within the scheme, thereby removing exposure to the significant risks within the scheme. The impact of this buy-in was accounted for as a settlement in the 31 December 2019 financial statements. There have been no other plan amendments, curtailments or settlements in the year ended 31 December 2022.

The scheme's insurer is responsible for ensuring that there are sufficient assets to meet all future pension obligations, and is subject to EU solvency regulations. There is no volatility associated with the insurance policy asset as under IAS19 its value is deemed to match the scheme liabilities. Asset volatility is limited only to the assets remaining in the scheme which are expected to meet additional costs with any balance returned to the Company on wind-up of the scheme. Additional assets invested with Legal & General remain within the scheme. These assets represent the balance from the premium paid to complete the buy-in and will be used to meet the cost of any potential GMP equalisation adjustment required to the insured members and expenses. Tax of 35% has been recognised on the remaining surplus which is payable on any amount returned to the Company on the winding-up. The value of insured assets are matched against the value of liabilities with the remaining invested assets (£1.4m net of deferred tax) included within plan assets and recognised on the balance sheet. No contributions have been made in the year.

#### *Assumptions*

The inflation risk premium has been set based on the Gilt Inflation Curve (2021: Gilt Inflation Curve). For CPI, the long term gap between RPI and CPI will reduce as we approach 2030, and was 0.4% at the year-end. This reflects the belief that the market has largely adjusted to changes to RPI with an RPI/CPI gap from 2030 of nil.

In line with IAS19, mortality assumptions are based on the CMI 2021 model.

The mortality assumptions adopted at 31 December 2022 imply the following life expectancies in years:

Male retiring in 2022	22.2
Female retiring in 2022	23.9
Male retiring in 2042	23.5
Female retiring in 2042	25.4

## Notes (continued)

### 24 Pension scheme (continued)

#### Expected long term rates of return

	Period commencing 01/01/2023 % per annum
Buy-in policy	4.10%
Equity	-
Bonds	-
Gilts	4.10%
Property	-
Multi Asset Fund	8.10%
Cash	4.90%
Overall for scheme	4.26%

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

	2022	2021	2020
Revaluation rate for deferred pensioners	2.89%	3.03%	2.64%
Rate of increase in pensions in payment and deferred pensions	2.89%	3.03%	2.64%
Discount rate applied to scheme liabilities	4.93%	1.77%	1.45%
Inflation assumption	3.29%	3.43%	3.04%

In valuing the liabilities of the pension fund at 31 December 2022, 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 2022 would have increased by £405k before deferred tax. The value of the reported assets will also increase by this same amount due to the insurance policy on buy-in.

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). While there remains considerable uncertainty over movements in financial markets, given the nature of the assets (the majority being annuities which match liabilities held) we would not expect there to be a material impact since the balance sheet date compared to that shown in the report.

## Notes (continued)

### 24 Pension scheme (continued)

#### Scheme assets

None of the fair values of the assets shown below include any direct investments in the Company's own financial instruments or any property occupied by, or other assets used by, the Company. All of the scheme assets have a quoted market price in an active market with the exception of the Trustee's bank account balance. There are no additional assets pledged, and no additional arrangements agreed between the Company and trustees to secure members' benefits under the plan.

	2022 £000	2021 £000
Fair value of plan assets	16,582	26,846
Present value of funded deferred benefit obligations	(14,393)	(23,895)
Historic contribution adjustment	53	53
Surplus	2,242	3,004
Deferred tax at 35%	(785)	(1,051)
Net pension asset	1,457	1,953

Following a review of the pension scheme and in accordance with IFRIC 14, the pension surplus is deemed recoverable and the gross pension debtor has been recognised in the 2022 accounts together with deferred tax of 35%. Reconciliation of opening and closing balances of the present value of the scheme liabilities.

	2022 £000	2021 £000
Scheme liabilities at start of year - GDUK	21,986	25,106
Scheme liabilities at start of year - GDIT	1,909	1,909
Interest cost	375	354
Actuarial gains	(8,278)	(2,056)
Benefits paid, death in service insurance premiums and expenses	(1,599)	(1,418)
Defined benefit obligation at end of period	14,393	23,895

## Notes (continued)

### 24 Pension scheme (continued)

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

	2022 £000	2021 £000
Fair value of scheme assets at start of year - GDUK	24,912	27,654
Fair value of scheme assets at start of year - GDIT	1,934	1,934
Interest income	426	389
Actuarial gains/(Loss)	(8,984)	(1,538)
Benefits paid	(1,599)	(1,418)
Administrative Expenses	(107)	(175)
	<hr/>	<hr/>
Fair value of scheme assets at end of year	16,582	26,846

Movement in the surplus during the year

	2022 £000	2021 £000
Surplus in the Scheme at 1 January - GDUK	2,979	2,601
Surplus in the Scheme at 1 January - GDIT	25	25
Other finance expense	51	35
Administrative expenses from plan assets	(107)	(175)
Actuarial (losses)/Gain	(706)	518
	<hr/>	<hr/>
Surplus in the Scheme at 31 December	2,242	3,004

Analysis of amounts included in income statement:

	2022 £000	2021 £000
Interest income	426	389
Interest on pension scheme liabilities	(375)	(354)
Administrative expenses	(107)	(175)
	<hr/>	<hr/>
	(56)	(140)

## Notes (continued)

### 24 Pension scheme (continued)

Analysis of amount recognised in Other Comprehensive Income:

	2022 £000	2021 £000
Return on plan assets (excluding amounts included in net interest cost)	(8,984)	(1,538)
Experience gains arising on Scheme liabilities	(2,123)	1,145
Changes in assumptions underlying the present value of Scheme liabilities	10,401	911
	<u>(706)</u>	<u>518</u>

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

	2022 £000	2021 £000
Gilts	1,452	2,305
Cash	784	1,130
Insured assets	14,346	23,411
	<u>16,582</u>	<u>26,846</u>
Total	16,582	26,846
	<u>(8,984)</u>	<u>(1,538)</u>
Actual return on plan assets (loss) / gain	(8,984)	(1,538)

The expected contribution to be paid to the scheme in the next financial year is nil (2022: nil).

The total amount recognised in the other comprehensive income in respect of actuarial gains and losses is a loss of £0.7m (2021: £0.5m gain).



## Notes (continued)

### 25 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 28). The table below summarises the intercompany transactions arising during the year ended 31 December 2022.

Year ended 31 December 2022					
Purchase/Sale	Contracting party	Country	Type of Transaction	Value (£000)	
Sale	General Dynamics Mission Systems Canada	Canada	Inventory	80	
Sale	General Dynamics Mission Systems Italy	Italy	Service	0.4	
Sale	General Dynamics Information Technology Inc.	USA	Service	220	
Sale	General Dynamics Mission Systems Inc.	USA	Service	276	
Sale	Pagetel Sistem Muhendisligi Sanayi Ve Ticaret Limited	Turkey	Service	4	
Sale	General Dynamics Global Holdings Limited	UK	Service	53	
Sale	General Dynamics Swiss Financial Management Limited	UK	Service	7,	
Sale	General Dynamics Mission Systems International Limited	UK	Service	43	
Sale	General Dynamics Mission Systems Canada	Canada	Service	2,022	
Purchase	Santa Barbara Sistemas S.A.	Spain	Inventory	144,707	
Purchase	General Dynamics Mission Systems Italy	Italy	Service	169	
Purchase	General Dynamics Land Systems Inc	USA	Service	7,797	
Purchase	General Dynamics Land Systems - Canadian Services Limited	Canada	Service	309	
Purchase	General Dynamics Land Systems Canada	Canada	Service	4,182	
Purchase	General Dynamics Global Holdings Limited	UK	Service	187	
Purchase	General Dynamics Land Systems Canada Services Lic	Canada	Service	249	
Purchase	General Dynamics European Finance Limited	UK	Service	65	
Purchase	General Dynamics Corporation	USA	Service	438	
Purchase	General Dynamics Mission Systems Canada	Canada	Service	3,694	
Purchase	General Dynamics Mission Systems Inc	USA	Service	9,338	
Loan Interest Receivable	General Dynamics European Finance Limited	UK	Loan Interest Receivable	171	
Loan Interest Payable	General Dynamics European Finance Limited	UK	Loan Interest Payable	16,800	

## Notes (continued)

### 26 Employee benefits

#### Share based payments

The Save As You Earn (SAYE) scheme is offered to all employees of General Dynamics United Kingdom Ltd (GDUK) once a year and employees have the option of entering either a 3 year or 5 year scheme.

There was no 2021 SAYE award granted by the parent.

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
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
2018 Cash-settled 5 year SAYE award to employees. Granted by parent on 27/11/18.	GDUK 4,227	5 years from start of contract	2024
2019 Cash-settled 3 year SAYE award to employees. Granted by parent on 29/11/19.	GDUK 18,980	3 years from start of contract	2023
2019 Cash-settled 5 year SAYE award to employees. Granted by parent on 29/11/19.	GDUK 1,960	5 years from start of contract	2025
2020 Cash-settled 3 year SAYE award to employees. Granted by parent on 30/11/20.	GDUK 44,388	3 years from start of contract	2024
2020 Cash-settled 5 year SAYE award to employees. Granted by parent on 30/11/20.	GDUK 9,052	5 years from start of contract	2026
2022 Cash-settled 3 year SAYE award to employees. Granted by parent on 06/07/22.	GDUK 7,481	3 years from start of contract	2025
2022 Cash-settled 5 year SAYE award to employees. Granted by parent on 06/07/22.	GDUK 1,802	5 years from start of contract	2027

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

	2022 Weighted Average option price £	2022 Number of options	2021 Weighted Average option price £	2021 Number of options
Outstanding at the beginning of the year	99.43	74,021	102.16	98,390
Forfeited during the year	98.70	(15,328)	111.06	(19,340)
Exercised during the year	114.67	(13,897)	108.02	(5,044)
Granted during the year	152.37	9,310	82.40	15
Lapsed during the year	-	-	-	-
Outstanding at the end of the year	104.84	54,106	99.43	74,021
Exercisable at the end of the year	101.53	2,231	97.99	188

## Notes (continued)

### 26 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 £165.48 (2021: £130.04).

The options outstanding at the year-end have an exercise price in the range of £89.33 to £152.37 and a weighted average remaining contractual life of 2.25 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	
	2022	2021	2022	2021
Fair value at grant date	45.8606	-	48.3627	-
Weighted average share price	152.3678	-	152.3678	-
Exercise price	152.3678	-	152.3678	-
Expected volatility (expressed as % used in the modelling under Black Scholes model)	25.389%	-	22.543%	-
Option life (expressed as weighted average life used in the modelling under Black Scholes model)	39 months	-	63 months	-
Expected dividends	2.3%	-	2.3%	-
Risk-free interest rate (based on national government bonds)	2.921%	-	3.075%	-

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

	2022	2021
	£000	£000
Equity settled share based payments (Restricted Stock and EC options for which the Company has applied the exemption)	210	148
Cash settled share based payments (SAYE)	484	680
Total carrying amount of liabilities (SAYE)	3,165	2,096

## Notes (continued)

### 27 Financial Instruments

#### Fair value of financial instruments

At 31 December, the Company held the following instruments to hedge exposures to changes in foreign currency.

	0-6 months £000	6-12 months £000	>12 months £000	Total £000
<i>Foreign currency risk</i>				
<i>Forward exchange contracts</i>				
Net exposure	1,242	796	552	2,590
Average GBP-CAD forward contract rate	1.7608	1.7714	1.7169	

With the exception of the trade debtor greater than one year, where it is not considered that the carrying value and book value are materially different, the carrying value of the following current financial instruments approximates fair value because of the short period to maturity:

- Cash and cash equivalents
- Trade receivables
- Prepayments & other debtors
- Trade payables
- Accruals and deferred income

The fair value measurement of some derivatives requires assumptions and management's assessment of certain market parameters. Where a market price is not available, a valuation model which takes into consideration discounted cash flows is used with consideration for the special characteristics of the underlying asset. The fair value of foreign currency forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity in the contract using a risk-free interest rate.

Carrying amount and fair value of each class of financial assets and liabilities are presented in the table below:

As at 31 December 2022	Financial assets measured at fair value through Other Comprehensive Income (£000)	Financial assets measured at amortised cost (£000)	Financial assets measured at fair value through profit or loss (£000)	Financial liabilities measured at amortised cost (£000)	Total carrying amount (£000)	Fair value (£000)
Trade debtors within 1 year <sup>1</sup>	-	1,451,473	-	-	1,451,473	1,451,473
Prepayments and other debtors	-	15,194	-	-	15,194	15,194
Gross derivative financial assets	111	-	120	-	231	231
Trade debtor greater than 1 year	-	15,678	-	-	15,678	15,678
<b>Total assets</b>	<b>111</b>	<b>1,482,345</b>	<b>120</b>	<b>-</b>	<b>1,482,576</b>	<b>1,482,576</b>
Cash pooling <sup>2</sup>	-	864,724	-	-	864,724	864,724
Trade creditors <sup>3</sup>	-	-	-	229,882	229,882	229,882
Cash	-	146	-	-	146	146
Gross derivative financial liabilities	-	-	78	-	78	78
Accruals & deferred income	-	-	-	16,463	16,463	16,463
<b>Total liabilities</b>	<b>-</b>	<b>864,870</b>	<b>78</b>	<b>246,345</b>	<b>1,111,293</b>	<b>1,111,293</b>

<sup>1</sup> Trade debtors includes contract assets and intercompany receivables.

<sup>2</sup> Cash pooling represents amounts owed to a related party under the cash pooling arrangements.

<sup>3</sup> Trade creditors includes amounts owing to a related party, loan and contract liabilities.

## Notes (continued)

### 28 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 11011 Sunset Hills Road, Reston, VA 20190.

### 29 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 recognised 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 recognised in these consolidated financial statements include:

#### *Provisions for liabilities and charges*

The Company has made a legal claim in connection with a debt owed by the State of Libya. The Company was successful in being awarded a default judgement and substantial work is being undertaken to recover the £16m debt. Management has made judgements as to the likelihood of recovery of the debt owed and, as a result, the full debtor is recognised within debtors greater than one year. The time for concluding the legal claim and recovery of money owed is uncertain. Despite the debt being deemed recoverable in more than 1 year, management do not consider the carrying value and book value to be materially different and have not discounted the expected future cash flow.

#### *Long Term Contracts*

The majority of the Company's projects are long-term development or support contracts spanning multiple financial years. Revenue on long-term contracts is recognised over time as work progresses using costs incurred to date relative to total estimated costs at completion to measure progress towards satisfying 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, subcontractor costs and G&A expenses. The revenue recognised by the Company at a point in time relates to the Company's equipment contracts. Revenue on these contracts is recognised when the customer obtains control of the asset, which is upon delivery and acceptance of the equipment.

The Company estimates 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.

As a significant change in one or more of these assumptions could affect the profitability of contracts, the Company reviews and updates its contract-related estimates regularly. The Company recognises 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, the Company recognises the total loss in the period it is identified.

The majority of revenue is derived from long-term contracts and programmes that can span several years. Revenue is accounted for in accordance with IFRS15.

## Notes (continued)

### 29 Accounting Estimates and Judgements (continued)

#### *Long Term Contracts: AJAX*

At the year-end, the Company was in active discussions with the Customer (UK MOD) on a path-forward to resolve contractual disputes, agree a revised delivery plan and to address the cost impacts of the delays to the programme (as noted in the Strategic Report), which were uncertain at that time.

In advance of the conclusion of these discussions, the directors have exercised judgement as to the outcome of the negotiations and the level of claims and variations (including the impact of potential contractual penalties) included in the contract forecast.

The directors have made this judgement considering the status of discussions with the customer and the opinions of the Company's advisors, including consideration of the options available to the Company under the contract. The directors consider that the amounts cumulatively recognised as revenue to date under the contract of £4,050M (2021: £3,631M) and contract asset of £1,394M (2021: £977M), appropriately represent the Company's best estimates and, in respect of variable consideration for claims and variations, that it is highly probable that those amounts will not result in a significant reversal of revenue.

However, the estimates of revenue, costs to complete and progress represent significant estimates that could collectively require material adjustments in the next financial year.

In September 2023, the company and customer executed a contract amendment that embodied a revised delivery schedule, settled outstanding contractual disputes and provided a mechanism to address cost impacts of the revised schedule. The modifications are not expected to have a material effect on the amounts reported in respect of the contract.

### 30 Revenue – IFRS 15

#### *Performance Obligations*

An assessment is conducted on contract inception to identify the number of performance obligations pertaining to the contract award using the 5-step methodology defined in IFRS15. A number of 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, the contract's transaction price is allocated to each performance obligation using the 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 for that distinct goods or service performance obligation. The transaction price is allocated to each distinct performance obligation and recognised as revenue as, the performance obligation is satisfied.

The nature of the Company's contracts gives rise to some types of variable consideration, including positive incentive adjustments and final contract pricing adjustments. Positive incentive adjustments are included within the estimated transaction price when there is a basis to reasonably estimate the amount of the recovery and there is no significant risk of reversal. These estimates are based on experience, anticipated performance and best judgment at the time of reviewing the contract financials. Variable considerations are re-assessed on significant contracts at least every six months.

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 97.5% of revenue in 2022 (2021: 96.6%). Substantially all of the revenue is recognised over time, because control is transferred continuously to customers. The majority of revenue recognised at a point in time is for sales of specialised product. Revenue on these contracts is recognised when the customer receives the product and a billing is raised.

Warranty obligations are accounted for within the contract estimates at completion and the basis of assumptions reviewed quarterly. As programme costs are incurred, an accrual is made based upon the assumptions within the estimate at completion and held on the balance sheet until warranty returns are received.

At 31 December 2022, the Company had £668M of remaining performance obligations, which is also referred to as total backlog, the majority of which relates to the AJAX contract. At 31 December 2022, the Company expects to recognise approximately 48.4% of the remaining performance obligations as revenue in 2023, a further 28.5% by the end of 2024 and the balance thereafter.

## Notes (continued)

### 30 Revenue IFRS 15 (continued)

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

Year Ended December 31	2022	2021
Revenue	(1)	(41)
Operating Profit	(1)	(41)

### Revenue by Category

The portfolio of products and services consists of 328 active profit centres compared to 354 at the end of 2021. The following series of tables presents revenue disaggregated by several categories.

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

Year Ended December 31	2022	2021
C4	41	70
Avionics	31	31
LS	423	503
Total	<u>495</u>	<u>604</u>

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

Year Ended December 31, 2022	C4	Avionics	LS	Total Revenue
Firm Fixed-Price	41	31	423	495
<i>Firm Fixed Price 2021</i>	70	31	503	604
<b>Total revenue</b>	<b>41</b>	<b>31</b>	<b>423</b>	<b>495</b>
<i>Total revenue 2021</i>	<i>70</i>	<i>31</i>	<i>503</i>	<i>604</i>

Each of these contract types presents advantages and disadvantages. Typically, more risk is assumed with fixed-price contracts. However, these types of contracts offer additional profits when work is completed for less than originally estimated. Time and Material contracts generally are lower risk. Accordingly, the associated base fees are usually lower than fees earned on fixed-price contracts.

Revenue by customer was as follows (£m):

	C4/ Avionics	LS	Total Revenue
UK Government	39	419	458
Non-UK Government	33	4	37
<b>Total revenue</b>	<b>72</b>	<b>423</b>	<b>495</b>

## Notes (continued)

### 30 Revenue IFRS 15 (continued)

#### Contract Modifications

Contract modifications are routine in the performance of 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. An assessment is conducted for every contract modification to determine if the amendment results in a separate performance obligation or if the modification results in the combining of performance obligations.

The revenue traded in 2022 is primarily related to contracts that were awarded pre 1 January 2022. £489m of the revenue recognised in the current period relates to performance obligations, which have been fully or partially satisfied in previous periods.

#### Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	Note	2022 £000	2021 £000
Receivables	14	24,658	32,293
Contract assets	14	1,441,993	1,008,310
Contract liabilities	15	64,715	65,844

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. At 31 December 2022 the Company held £1.4Bn of contract assets compared to £1Bn in 2021. The contracts contributing to this contract asset value are AJAX and EvO.

#### Contract Liabilities

Sometimes advances or deposits from customers can be received before revenue is recognised, resulting in contract liabilities. These liabilities are reported on the Balance Sheet at the end of each reporting period. At 31 December 2021, the Company held £65.8M of contract liabilities. During 2021, £40m of this was traded as revenue, primarily related to the AJAX, Bowman & Typhoon contracts. At the close of 2022, the Company held £64.7m of contract liabilities primarily relating to the AJAX, Typhoon, NIMCIS and Bowman programmes.

### 31 Subsequent Events

The AJAX programme met key milestones and made significant progress during 2023, since the balance sheet date:

- Following completion of the successful user validation trials in December 2022 and then successful initial phases of reliability growth trials in early 2023; in March 2023, payments from the customer recommenced with £650m having been received in 2023 to date.
- A revised contract was agreed and executed in September 2023 which includes a revised delivery schedule and path forward to delivery by 2028. Pursuant to the revised contract, the parties have been engaged to support the revised delivery schedule, including joint efforts to address costs of the revised schedule.

The EvO contract concluded after the balance sheet date following a satisfactory resolution agreed between the Company and UK MoD.

During 2023 the Company restructured some of its operations and a decision was made to exit a leased facility in South Wales and a leased facility in Chippenham. A provision has been made in 2023 related to these closures.

These subsequent events support the position presented in these financial statements and are not considered to be events requiring adjustment in these financial statements.