Matra BAe Dynamics (UK) Limited

Directors' Report and Financial Statements

For the year ended 31 December 1999

Registered Number: 3144919

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

Principal activities

The principal business of the Company was the design, development, production and supply of guided weapons systems and related support equipment to The Ministry of Defence and other UK civil and export customers.

Business review

Significant orders were secured in 1999 amounting to £1.4bn. Of particular significance was the PAAMS contract to develop and produce an air defence system for the Type 45 frigate. Other major orders included the Rapier Tranche 2 contract for the UK MoD and export contracts for Storm Shadow and Rapier. The order book at the end of 1999 stood at £2.78bn an increase of £1.07bn on 1998.

Although the order book rose to £2.78bn, turnover reduced by 7% to £333m when compared to the previous 12 months, this was because of the high proportion of major new funded development contracts now contained in the order book. Production deliveries on the first of these contracts will begin 2001 with other development contracts entering the production phase in subsequent years. Good progress was maintained on the two major development programmes ongoing from 1998, ASRAAM and Storm Shadow.

During the year, Lagardère Group transferred its 50% shareholding in the Company's parent undertaking, Matra BAe Dynamics SAS to Aérospatiale Matra SA.

Research and development

The Company maintains a substantial and continuing commitment to research and development. Such work covers technology products and processes and is aimed at updating existing technologies to maintain a competitive edge and at improving efficiency and reducing costs in design, development and manufacturing.

Year 2000

The company has implemented an examination across the business to identify areas where it is not compliant. The necessary actions will be determined and prioritised before being implemented. The operation of our business also depends on the computer systems of our suppliers. We have sought assurances from third parties and we have planned contingency actions in key risk areas. We have spent around £1.6m in 1999 associated with this activity and this was expensed to profit and loss during the year. No problems have been reported to date as a result of the change over. Monitoring continues to ensure that any Year 2000 issues identified in the future are effectively mitigated.

Proposed dividend

The directors do not recommend the payment of a dividend.

Policy and practice on payment of creditors

The Company's payment policy is to negotiate terms with its suppliers and to ensure that they know the terms on which payment will take place when business is agreed. It is the Company's policy to abide by these terms.

The number of days billing outstanding at the year end was 79 days (1998 67 days).

Directors and Directors' Interests

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

Fabrice Roger Daniel Bregier		
Roger Keith Curtis		
Alan Douglas Garwood		
David Henry Hewitson	Resigned	15.04.99
Guy Rhodri Griffiths	Appointed	15.04.99

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

Employees

The company is committed to creating an environment in which all employees are encouraged to achieve the best in all that they do. As a result, programmes have been created that help employees to develop the skills necessary to help meet the needs of our customers and to take on the challenges of an ever changing business. In addition, a great deal of importance is placed on the need for effective communications with employees. Employees are kept regularly informed of the progress of the company through the production of in-house employee newsletters, and established briefing procedures.

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

Political and charitable contributions

The company made no political or charitable contributions during the year.

Going concern

After making enquiries, the company's directors see no reason why the company should not remain a going concern for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Auditors

The auditor of the company, KPMG Audit Plc, has indicated its willingness to continue in office and a resolution proposing their re-appointment will be put to the Annual General Meeting.

By order of the Board

C.E.I. Bailey
Company Secretary

Date: 23/6/00

PO Box 19
Six Hills Way
Stevenage
Hertfordshire
SG1 2DA

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that year. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors' report to the members of Matra BAe Dynamics (UK) Ltd

We have audited the financial statements on pages 7 to 22.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
Date: 27 June 2000

Profit and Loss account
for the year ended 31 December 1999

	Note	31 December 1999 £000	31 December 1998 £000
Turnover	2	333,019	357,941
Operating Costs	3	(345,139)	(362,581)
Operating loss		(12,120)	(4,640)
Profit/(loss) on sale of fixed assets		133	(3)
Other interest receivable and similar income		501	761
Interest payable and similar charges	8	(1,650)	(1,872)
Loss on ordinary activities before taxation	4	(13,136)	(5,754)
Tax on loss on ordinary activities	9	-	-
Loss for the financial year		(13,136)	(5,754)
Dividends		-	-
Retained loss for the year		(13,136)	(5,754)

Other than the loss for the year there were no other recognised gains and losses for the year ended 31 December 1999 (1998 £nil).

All results arise from continuing operations

There is no difference between the result as stated and that calculated on an unmodified historical cost basis.

The notes on pages 9 to 22 form part of the financial statements.

Balance Sheet as at 31 December 1999

	Note	31 December 1999		31 December 1998	
		£000	£000	£000	£000
Fixed Assets					
Intangible Assets	10		103,917		109,837
Tangible Assets	11		39,667		35,472
Investments	12		259		200
			143,843		145,509
Current Assets					
Stocks	13	87,503		42,842	
Debtors (falling due within one year)	14	78,492		69,317	
Cash at bank and in hand		102,824		4,334	
		268,819		116,493	
Creditors: amounts falling due within one year	15	(374,423)		(212,632)	
Net current liabilities			(105,604)		(96,139)
Total assets less current liabilities			38,239		49,370
Provisions for liabilities and charges	16		(16,226)		(14,221)
Net assets			22,013		35,149
Capital and reserves					
Called up share capital	18		4		4
Share premium account	19		13,996		13,996
Other reserves	19		21,703		27,481
Profit and loss account	19		(13,690)		(6,332)
Shareholder's funds (including non-equity interests)	20		22,013		35,149

These financial statements were approved by the Board of directors on 23 June 2000 and were signed on its behalf by:

R K Curtis

R K Curtis
Director

Notes - (forming part of the financial statements)

1. Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

The company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Land and Buildings	-	the term of the lease
Plant and Machinery, Office equipment	-	10 years
Computing equipment	-	5 years
Motor Vehicles	-	4 years
Research equipment	-	8 years

Foreign Currencies

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

Government grants

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

Research and development expenditure

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

Notes *(continued)*

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Long term contracts

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

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

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

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

Goodwill

Goodwill arising on the acquisition of a company or business (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised as an intangible asset on the balance sheet. Amortisation is provided to write off purchased goodwill through the profit and loss account over the Directors' estimate of its useful life.

Pensions

The pension cost is charged to the profit and loss on a systematic basis over the service life of employees in accordance with the advice of actuaries using the projected unit method.

2. Segmental analysis

The only class of business of the company is guided weapons. The turnover by country of destination is as follows:-

	31 December 1999 £000	31 December 1998 £000
U.K.	229,011	201,019
Rest of Europe	35,092	75, 580
Middle East	40,045	78,191
Asia and Pacific	28,060	2,851
Other	811	300
	333,019	357,941

3. Operating costs

	31 December 1999 £000	31 December 1998 £000
Raw materials and other bought in stock	275,754	180,123
Changes in stocks of finished goods and work in progress	(85,967)	18,701
Staff costs (Note 6)	85,317	84,328
Depreciation and other amounts written off tangible and intangible fixed assets	11,786	11,356
Operating exceptional items (Note 5)	2,897	9,510
Net provisions created		
In provisions for liabilities and charges	2,006	2,061
In stocks and elsewhere	(1,638)	2,000
Other external charges	73,029	72,783
Other operating income	(18,045)	(18,281)
	345,139	362,581

4. Loss on ordinary activities before taxation

	31 December 1999 £000	31 December 1998 £000
Loss on ordinary activities before taxation is stated		
after charging		
Auditors' remuneration:		
Audit	201	180
Depreciation and other amounts written off tangible fixed assets:		
Owned	4,077	3,975
Leased	1,789	1,603
Goodwill amortised	5,920	5,778
Research and development expenditure in the year	7,275	7,206
after crediting		
Exchange gains	391	59

5. Operating Exceptional Items

	31 December 1999 £000	31 December 1998 £000
Rationalisation	(2,897)	(9,510)

6. 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	
	31 December 1999	31 December 1998
Direct Employees	1,706	1,758
Indirect Employees	885	934
Sub-Contractors	167	160
	2,758	2,852

	31 December 1999 £000	31 December 1998 £000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	71,453	71,064
Social security costs	6,870	6,277
Other pension costs	6,994	6,987
	85,317	84,328

7. Directors' Emoluments

	31 December 1999 £000	31 December 1998 £000
Directors' Emoluments	709	580
	709	580

The aggregate emoluments of the highest paid director during the year were £320,500 (1998 £253,000). He is a member of a defined benefit scheme, which the accrued pension to which he would be entitled from normal retirement date if he were to retire at the year end was £66,683p.a. (1998 £41,387 p.a.). Under this scheme there is no separate entitlement to a lump sum benefit.

Retirement benefits are accruing to the following number of directors' under:

	Number of Directors	
	1999	1998
Defined Benefit Schemes	3	3

8. Interest payable and similar charges

	31 December 1999 £000	31 December 1998 £000
On bank loans and overdrafts	1,650	1,872
	1,650	1,872

9. Tax

No corporation tax liability arises as the company made a loss for the year (1998 £nil). No provision for deferred taxation has been made in respect of these losses.

10. Intangible fixed assets

	Goodwill £000
Cost	
At 1 January 1999	122,356
Additions	-
At 31 December 1999	122,356
Amortisation	
At 1 January 1999	(12,519)
Charged in year	(5,920)
At 31 December 1999	(18,439)
Net Book Value	
At 31 December 1999	103,917
At 31 December 1998	109,837

11. Tangible fixed assets

	Short Leasehold Land and Buildings £000	Plant and Machinery £000	Fixtures, fittings, tools and equipment £000	Payments on account and assets in course of construction £000	Total £000
Cost					
At beginning of year	3,474	99,985	22,367	7,303	133,129
Additions	752	821	2,989	5,547	10,109
Disposals	-	(5,984)	(14)	-	(5,998)
Transfers between items	-	309	2,466	(2,775)	-
At end of year	4,226	95,131	27,808	10,075	137,240
Depreciation					
At beginning of year	313	83,991	13,353	-	97,657
Charged for year	161	5,394	311	-	5,866
On disposals	-	(5,936)	(14)	-	(5,950)
At end of year	474	83,449	13,650	-	97,573
Net Book Value					
At 31 December 1999	3,752	11,682	14,158	10,075	39,667
At 31 December 1998	3,161	15,994	9,014	7,303	35,472

Of the tangible fixed assets as at 31 December 1999, assets with a net book value of £5,499,000 are owned by a third party (1998 £5,011,000). The Company pays no lease or rental charges for these assets, but has full responsibility for the maintenance of the assets. They have therefore been capitalised within the books of the company, in accordance with UITF 7, and are being depreciated over 5 years. Depreciation charged to profit and loss was £1,789,000 (1998 £1,603,000)

12. Investments

	31 December 1999 £000	31 December 1998 £000
Net Book Value		
At 1 January 1999	200	200
Additions	59	-
At 31 December 1999	259	200

On 26 April 1999 British Aerospace Defence Systems Ltd transferred ownership of 50 ordinary shares, held in UKAMS Ltd, to Matra BAe Dynamics (UK) Ltd. This transfer, at nil value, brought the Company's holding in UKAMS Ltd up to 100% of the issued ordinary share capital. The addition during the year represents a capital injection into UKAMS Ltd to enable it to acquire a 1/3 share of the ordinary share capital of EUROPAAMS BV.

13. Stocks

	31 December 1999 £000	31 December 1998 £000
Raw materials and consumables	816	1,316
Long term contract balances	84,677	40,257
Finished goods and goods for resale	2,010	1,269
	87,503	42,842

Work in progress includes the following amounts in respect of long-term contracts:

	31 December 1999 £000	31 December 1998 £000
Net cost less foreseeable losses	389,338	301,808
Less payments on account received and receivable not matched with turnover	(304,661)	(261,551)
	84,677	40,257

14. Debtors

	31 December 1999 £000	31 December 1998 £000
Trade debtors – Amounts recoverable on contracts	64,651	62,927
Amounts owed by group undertakings	7,239	687
Other debtors	5,168	481
Prepayments and accrued income	1,434	5,222
	78,492	69,317

15. Creditors: amounts falling due within one year

	31 December 1999 £000	31 December 1998 £000
Payments received on account	190,115	81,535
Trade creditors	96,167	66,866
Amounts owed to group undertakings	19,144	-
Taxation and social security	18,442	12,537
Other creditors	4,859	9,773
Accruals and deferred income	45,696	41,921
	374,423	212,632

16. Provisions for liabilities and charges

	Long Term Contract provisions £000
At 1 January 1999	14,221
Created	2,006
Utilised	(1)
At 31 December 1999	16,226

17. Deferred tax

The amounts not provided in respect of deferred tax are as follows:

	Cumulative Unprovided £000
Accelerated Capital Allowances	2,962
Short Term Timing Differences	(904)
Losses	(3,860)
	(1,802)

The losses have yet to be agreed with the Inspector of Taxes.

18. Called up share capital

	31 December 1999 £	31 December 1998 £
Authorised, Allotted, Called Up and Fully Paid		
1000 Ordinary share of £1 each	1,000	1,000
3000 Preferred Ordinary Shares of £1 each	3,000	3,000
	4,000	4,000

19. Statement of movement in reserves

	Share premium account £000	Other Reserves £000	Profit And loss Account £000
At 1 January 1999	13,996	27,481	(6,332)
Retained loss for the year	-	-	(13,136)
Transfer goodwill amortised	-	(5,778)	5,778
At end of year	13,996	21,703	(13,690)

Note: Nominal share capital at 31 December 1999 was £4,000 (1998 : £4,000)

Non-equity interests in shareholders' funds are analysed by class of share as follows:

	31 December 1999 £000	31 December 1998 £000
Preferred ordinary shares (no voting rights)	3	3
Non-equity interests	3	3

20. Reconciliation of movements in shareholders' funds

	31 December 1999 £000	31 December 1998 £000
Reconciliation of movements in shareholders' funds		
Loss for the financial year	(13,136)	(5,754)
Net reduction to shareholders' funds	(13,136)	(5,754)
Opening shareholders' funds	35,149	40,903
Closing shareholders' funds	22,013	35,149

Attributable to:-

	31 December 1999 £000	31 December 1998 £000
Equity shareholders	22,010	35,146
Non-equity shareholders	3	3
	22,013	35,149

21. Contingent liabilities

The Directors are not aware of any unprovided contingent liabilities. Specific claims against the company, which arise in the ordinary course of business, have been provided for.

22. Commitments

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

	31 December 1999 £000	31 December 1998 £000
Contracted	2,423	870
	2,423	870

23. Pension scheme

Employees of the company are members of a funded defined benefit pension scheme operated by BAE SYSTEMS plc, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary. The most recent valuation was at 5 April 1999. The main assumptions are:

-Investment yield	8% p.a. (including capital growth and interest and dividend income)
-Dividend growth	3% p.a. (net)
-Earnings increase	5.5% p.a. plus a scale to reflect promotion etc.

The most recent actuarial valuation showed that the market value of the schemes assets was £4.3 billion and that the actuarial value of those assets represented 90% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Consequently the Company's contribution rate has increased to 11.7%. Employee contributions remain unchanged. Under the shareholder agreement between BAE SYSTEMS plc and Lagardère Group, the Company is required to maintain an "X account" to control any variation between the contribution rate required by the trustees of the pension scheme and an agreed rate. The balance on this account is calculated at 5 April each year, and is either paid to, or repaid by BAE SYSTEMS so that the Company's effective contribution rate remains constant. Any balance on this account falls due to be paid to, or repaid by, BAE SYSTEMS immediately in 12 monthly instalments. This agreement will continue until 31 December 2007. For the year to 31 December 1999, there are no payments to be made or received by the Company under the terms of this agreement.

24. Related party disclosures

The company has taken advantage of the exemption in Financial Reporting Standard 8 not to disclose related party transactions with its parent company, Matra BAe Dynamics SAS and other group companies.

The company undertook the following transactions with one of its ultimate controlling shareholders, British Aerospace PLC and its subsidiaries in the year:

	31 December 1999 £000	**31 December 1998 £000**
Sales	25,500	81,600
Purchases	(62,500)	(31,600)
Property rental	(4,300)	(4,300)

At 31 December 1999 the Company owed £772,000 to British Aerospace PLC and its subsidiaries (1998 £9,144,000 was owed by British Aerospace PLC and its subsidiaries).

25. Parent undertaking and ultimate parent companies

The largest and smallest groups in which the results of the company are consolidated is that headed by Matra BAe Dynamics SAS, incorporated in France. Matra BAe Dynamics SAS is jointly owned by BAE SYSTEMS plc (formerly British Aerospace PLC) incorporated in England, and Aérospatiale Matra SA incorporated in France.

Copies of the financial statements of Matra BAe Dynamics SAS are available to the public from 11 The Strand, London, WC2N 5HR.