MBDA UK Limited

Directors' Report and Financial Statements

For the year ended 31 December 2008

Registered Number: 3144919

Contents

Directors' Report

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

Principal activities

The principal business of the company is the design, development, production and supply of guided weapons systems and related support equipment to the Ministry of Defence and export customers.

Business review

MBDA's ambition is to become the world reference in missile and missile systems. To achieve this we value a set of key principles and behaviours:

- Achieve a profitability level that will sustain our independence and ensure the continuous support of our shareholders in winning new business.
- Respect our commitments towards our customers, our shareholders and our employees.

The principle resources that MBDA UK Ltd. uses to achieve its objectives are its people (page 15, note 3), relationships with suppliers and customers, intellectual property and capital.

MBDA has continued it's work within the UK's defence industries Complex Weapons sector under the Defence Industry Strategy, working with the UK MoD to develop a Strategic Partnering Agreement which will underpin the sovereign UK capability in complex weapons technologies, design, development and manufacturing for the future.

Important progress has been made during the year on development programmes including the achievement of significant milestones on the Meteor and PAAMS programmes.

The principle risks and uncertainties facing the company start with the market we operate in. The company is dependent on defence spending and any reduction could adversely affect the company. Defence spending depends on a complex mix of political considerations and budgetary constraints which mean it may be subject to fluctuations. The company operates in a highly competitive environment subject to export controls and other restrictions with governments being our largest customer.

The company recorded a profit of £6.5m in the year, a decrease from 2007 which recorded a profit of £52.9m. Orders secured in 2008 totalled £484m resulting in a closing order book of £2,335m.

Company turnover in 2008, at £543m decreased by 23.8% on the previous year's total of £713m. This was the result of less production sales than the previous year and because of the life cycle of several contracts moving from production to customer support type contracts.

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.

Proposed dividend

The directors do not recommend the payment of a dividend (2007: no dividend recommended).

Land and buildings

In the opinion of the directors there is no significant difference between the market value of land and buildings and the book value.

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 creditor days at the year end was 29 days. (2007: 31 days)

Directors and directors' interests

The directors who held office during the period under review were:

J.B. Whitehead
S. J. Wadey
A J Hilton
A.Bouvier
K. M. Garden (Appointed 01/01/2008)
G Snider (Appointed 01/01/2008)

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, age, 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 contributions during the year (2007: no contributions made). The company made £35,037 (2007: £13,104) in charitable donations during the year.

Financial instruments

The global nature of the business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations MBDA's policy is to remove exchange rate risk by the placing of foreign currency exchange deals. MBDA accounts for forward currency deals under hedge accounting as permitted by IAS 39.

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.

In the case of each of the persons who were directors of the company at the date of approval of this directors' report that they confirm that, so far as they are aware, there is no relevant audit information of which the company's auditors are individually 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's auditors are aware of that information.

The company is domiciled and incorporated in the UK and its registered office is as shown below.

By order of the Board

C. Evans
Company Secretary

Date: 13th July 2009

PO Box 19
Six Hills Way
Stevenage
Hertfordshire
SG1 2DA

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable laws.

The financial statements are required by law to present fairly the financial position and the performance of the company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

• select suitable accounting policies and then apply them consistently;

• make judgments and estimates that are reasonable and prudent;

• state whether they have been prepared in accordance with IFRSs as adopted by the EU; and

• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MBDA UK LIMITED.

We have audited the financial statements of MBDA UK Ltd for the year ended 31 December 2008 which comprise the primary financial statements the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 5.

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

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

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion:
• the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
• the financial statements have been properly prepared in accordance with the Companies Act 1985; and
• the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

13 July 2009

Income Statement
for the year ended 31 December 2008

	Note	31 December 2008 £ m	31 December 2007 £ m
Contract revenue		543.3	713.1
Raw materials & consumables used		(198.2)	(341.2)
Changes in inventories & work in progress		(104.6)	(75.7)
Staff costs	3	(137.6)	(133.1)
Depreciation & amortisation		(14.2)	(11.9)
Other external charges		(94.6)	(119.8)
Operating profit / (loss)	2	(5.9)	31.4
Finance income	5	12.5	18.5
Profit before taxation		6.6	49.9
Taxation	6	(0.1)	3.0
Profit after taxation		6.5	52.9

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

The notes on pages 11 to 30 form part of the financial statements.

Statement of recognised income and expense
for the year ended 31 December 2008

	Note	31 December 2008 £ m	31 December 2007 £ m
Effective portion of changes in fair value of cash flow hedges		1.3	1.1
Net change in fair value of cash flow hedges transferred to income statement		(0.4)	(0.8)
Actuarial (losses)/gains BAE Systems pension plan (net of deferred tax)		(75.5)	29.8
Income / (expense) recognised directly in equity		(74.6)	30.1
Profit for year		6.5	52.9
Total recognised income and expense		(68.1)	83.0

Balance Sheet as at 31 December 2008

	Note	31 December 2008 £ m	31 December 2007 £ m
Assets			
Intangible assets	7	102.4	103.1
Property, plant & equipment	8	143.8	140.1
Investments	9	279.6	279.6
Deferred tax assets	14	62.7	57.3
Total non-current assets		588.5	580.1
Inventories	10	77.3	80.3
Trade and other receivables	11	59.7	116.0
Financial assets		1.9	-
Tax receivable		0.9	0.9
Cash and cash equivalents		153.9	90.0
Total current assets		293.7	287.2
Total assets		882.2	867.3
Liabilities			
Payments received on account		(352.0)	(318.2)
Trade and other payables	12	(144.9)	(151.3)
Tax payable		(0.5)	(6.2)
Accruals and deferred income		(126.8)	(132.1)
Total current liabilities		(624.2)	(607.8)
Employee benefits	19	(189.3)	(121.8)
Provisions	13	(1.4)	(1.6)
Deferred tax liability	14	(14.3)	(15.0)
Total non-current liabilities		(205.0)	(138.4)
Net assets		53.0	121.1
Equity			
Called up share capital	15	5.3	5.3
Share premium account	16	62.1	62.1
Profit and loss account	16	(14.4)	53.7
Total equity		53.0	121.1

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

Director A. Hall
13-07-2009

Cash flow statement for the year ended 31st December 2008

	31 December 2008 £ m	31 December 2007 £ m
Cash flows from operating activities		
Profit for year	6.5	52.9
Adjustment for:		
Depreciation & amortisation	14.0	11.9
Interest received	(2.9)	(7.5)
Dividends received	(9.6)	(11.0)
Loss on disposal of property, plant & equipment	0.9	(0.1)
Movement in net inventories	3.0	(15.5)
Movement in progress payment received	33.8	(75.1)
Movement in trade and operating receivables	57.8	(13.4)
Pension movement	(8.0)	84.5
Movement in other creditors	(14.0)	(64.8)
Provisions	(0.2)	(3.8)
Taxation	(11.8)	5.9
Net cash from operating activities	**69.5**	**(36.0)**
Cash flows from investing activities		
Interest received	2.9	7.5
Dividends received	9.6	11.0
Capital expenditure	(18.1)	(19.4)
Net cash from investing activities	**(5.6)**	**(0.8)**
Net increase/(decrease) in cash and cash equivalents	**63.9**	**(36.8)**
Cash and cash equivalents at 1st January	**90.0**	**126.8**
Cash and cash equivalents at 31st December	**153.9**	**90.0**

Notes - (forming part of the financial statements)

1. Accounting policies

MBDA UK Ltd ("the Company") is a company incorporated in the UK.

Basis of preparation

The company is exempt by virtue of section 228 of the Companies Act 1985 and IAS 27 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), and under the historical cost accounting rules with the exception of financial instruments which are held at fair value.

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

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of businesses. Goodwill is stated at cost less any accumulated impairment losses and is not amortised but is tested annually for impairment.

In respect of acquisitions prior to 1st January 2005, goodwill is included at 1st January 2004 on the basis of its deemed cost, which represents the amount recorded under UK GAAP.

Expenditure on research activities is recognised in the income statement as incurred.

Development costs are capitalised when the activity is commercially and technically feasible and the company has sufficient resources to complete the development. These are amortised over the estimated number of units produced and are reviewed for impairment annually, when the asset is not in use and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Other development expenditure is recognised in the income statement as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Computer software	-	3 years to 5 years

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis and is charged to the income statement over the estimated useful economic life as follows:

Freehold land	-	Not depreciated
Buildings	-	50 years
Plant and machinery	-	10 years
Office equipment	-	10 years
Computing equipment	-	3 years to 5 years
Motor vehicles	-	4 years
Research equipment	-	8 years

Inventories

Inventories 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 moving 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.

Trade and other receivables

Trade and other receivables are stated at their nominal amount less impairment losses.

Long term contracts

Contract work in progress is stated at costs incurred, less that transferred to the income statement, after deducting foreseeable losses and payments on account not matched with turnover. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits

Impairment

The carrying amounts of the companies assets, inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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 income statement.

Derivative financial instruments and hedging

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

Employee benefits

The calculation of employee benefits is made in accordance with IAS 19 " Employee Benefits ".

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit and loss when they are due.

Defined benefit plans

For defined benefit retirement plans, the cost of providing benefits is determined periodically by independent actuaries and charged to the income statement in the period in which those benefits are earned by the employees. Actuarial gains and losses are recognised in full in the period in which they occur, and are recognised in the statement of recognised income and expense. Past service cost is recognized immediately to the extent the benefits are already vested, or otherwise is amortised on a straight – line basis over the average period until the benefit becomes vested.
The retirement benefit obligations recognised in the balance sheet represents the present value of the defined benefit obligations as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets.

MBDA is a member of several multi-employer defined benefit pension schemes operated by BAE Systems Plc basis. For 2008 MBDA has received sufficient information to account for its participation in these schemes on a defined benefit obligation basis.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Revenue recognition

Sales comprise the net value of deliveries made, work completed or services rendered during the year. Sales are recognised when title passes or a separately identifiable phase of a contract or development has been completed. Revenue represents sales made by the company and represents technical achievements.

Profit is recognised at the time of the sale. The amount of profit attributable to the stage of completion of a long term contract is arrived at by reference to the estimated profitability of the contract. Appropriate provisions are made for any losses in the year they are first foreseen. Contract work in progress is stated at costs incurred, less that transferred to the income statement, after deductible foreseeable losses and payment on account not matched with turnover. Costs include all expenditure relating directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity. Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Finance income

Finance income comprises interest receivable on funds invested. It is recognised in the income statement as it accrues.

Taxation

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. Operating profit / (loss)

	31 December 2008 £ m	31 December 2007 £ m
Operating profit / loss is stated after charging		
Auditors' remuneration:		
Audit	0.3	0.3
Depreciation of property, plant & equipment	11.4	9.2
Loss on disposal of property, plant & equipment	0.9	0.1
Goodwill and intangible amortisation	2.6	2.6
Research and development expenditure in the year	9.1	12.2
Lease costs – land and buildings	3.1	3.3
Exchange losses	0.2	0.3

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	
	31 December 2008	31 December 2007
Direct employees	1,783	1,873
Indirect employees	638	672
	2,421	2,545

	31 December 2008 £ m	31 December 2007 £ m
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	108.0	104.8
Social security costs	9.4	9.3
Other pension costs	20.2	19.0
	137.6	133.1

4. Directors' emoluments

	31 December 2008 £ m	31 December 2007 £ m
Wages and salaries	0.9	0.9
Company contribution to pension plan	0.2	0.2
	1.1	1.1

The aggregate emoluments of the highest paid director during the year were £351,601 (2007: £295,655). He is a member of a defined benefit scheme, and the accrued pension to which he would be entitled from normal retirement date if he were to retire at the year end was £40,089 p.a. (2007: £36,812 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	
	2008	2007
Defined benefit schemes (Note 19)	4	4

No directors have any rights to subscribe in shares of the Company or its subsidiaries.

5. Finance income

	31 December 2008 £ m	31 December 2007 £ m
Interest receivable on bank deposits	2.9	7.5
Dividends received from subsidiary companies	9.6	11.0
	12.5	18.5

6. Taxation recognised in the income statement

	31 December 2008 £ m	31 December 2007 £ m
Current tax		
Current tax charge for period	1.3	9.1
Double tax relief	(1.3)	-
	0.0	9.1
Deferred tax (Note 14)		
Origination and reversal of temporary differences	0.1	(12.1)
	0.1	(3.0)

Reconciliation of effective tax rate

	31 December 2008 £ m	31 December 2007 £ m
Profit before tax	6.6	49.9
Tax charge on profit at UK rate of 28.5% (2007: 30%)	1.9	15.0
Expenses/income not tax effected	(1.8)	(18.0)
	0.1	(3.0)

With effect from 1 April 2008, the standard rate of corporation tax changed from 30% to 28%.
The current year rate is a pro-rata rate representing 3 months at 30% and the remainder of the period at 28%.

7. Intangible assets

	Goodwill	Computer Software	Total
	£ m	£ m	£ m
Cost			
At 1 January 2007	98.2	30.3	173.5
Acquisitions	0.1	1.8	1.9
Disposals	-	(0.6)	(0.6)
At 31 December 2007	98.3	31.5	174.8
Acquisitions	-	1.9	1.9
Disposals	-	(2.1)	(2.1)
At 31 December 2008	98.3	31.3	174.6
Amortisation and impairment			
At 1 January 2007	-	24.6	69.6
Amortisation	-	2.6	2.6
Disposal	-	(0.5)	(0.5)
At 31 December 2007	-	26.7	71.7
Amortisation	-	2.6	2.6
Disposal	-	(2.1)	(2.1)
At 31 December 2008	-	27.2	72.2
Net Book Value			
At 31 December 2007	98.3	4.8	103.1
At 31 December 2008	98.3	4.1	102.4

Amortisation and impairment charges are recognised in the income statement as depreciation and amortisation. Goodwill is tested annually for impairment based on the 5 year business plan.
There have been no impairments of intangible assets in the year (2007: none). Value in use was determined by discounting the future cash flows generate from the continued use of the assets and was based on the key assumptions : cash flow from the 5 year business plan and terminal value based on average operating results extrapolated for an infinite period using a constant discount rate of 10% (2007:10%) . The terminal value is justified due to the long term nature of our business.

8. Property, plant & equipment

	Land and buildings £ m	Plant and machinery £ m	Fixture, fittings, tools and equipment £ m	Total £ m
Cost				
Balance at 1 January 2007	98.6	92.3	40.3	231.2
Acquisitions	1.1	4.5	12.1	17.7
Disposals	-	(10.4)	(2.9)	(13.3)
Transfers between items	-	-	-	-
Balance at 31 December 2007	99.7	86.4	49.5	235.6
Acquisitions	0.5	4.9	10.8	16.2
Disposals	(0.1)	(1.0)	(4.0)	(5.1)
Transfers between items	(18.4)	-	18.4	-
Balance at 31 December 2008	81.7	90.3	74.7	246.7
Depreciation and impairment				
Balance at 1 January 2007	12.9	55.8	30.8	99.5
Depreciation charge for the year	2.1	3.8	3.3	9.2
Disposals	-	(10.3)	(2.9)	(13.2)
Transfers between items	-	-	-	-
Balance at 31 December 2007	15.0	49.3	31.2	95.5
Depreciation charge for the year	1.6	3.5	6.3	11.4
Disposals	-	(0.9)	(3.1)	(4.0)
Transfers between items	(4.4)		4.4	-
Balance at 31 December 2008	12.2	51.9	38.8	102.9
Net book value				
At 31 December 2007	84.7	37.1	18.3	140.1
At 31 December 2008	69.5	38.4	35.9	143.8

Land and buildings contains land with a cost of £21,411,759 that does not attract any depreciation (2007: £21,411,759).
No items of property, plant & equipment are held under finance leases (2007: none).
There have been no impairments of property, plant and equipment in the year (2007: none).

9. Investments

	31 December 2008 £ m	31 December 2007 £ m
Net Book Value		
At 1st January	279.6	279.6
At 31st December	279.6	279.6

Company Name	% Shareholding	Company Activity	Country of Incorporation
UKAMS Ltd.	100	Agent for MBDA UK Limited	UK
Marconi Overseas Limited	100	Supply, install and commission military equipment	UK
MBDA Inc.	100	Supply, install and commission military equipment	USA
AMS Dynamics Limited	100	Supply, install and commission military equipment	Guernsey
Horizon Land Limited	100	Landowner	UK
Direct Investment Fund	9.72	Investment	Kuwait

The above investments are accounted for at cost. All shareholdings are in ordinary shares.

10. Inventories

	31 December 2008 £ m	31 December 2007 £ m
Raw materials and consumables	14.5	15.1
Work in progress	53.7	35.8
Finished goods and goods for resale	9.1	9.3
	77.3	80.3

Included within work in progress is a provision for £3.2m (2007: £3.0m)

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

	31 December 2008 £ m	31 December 2007 £ m
Net cost less foreseeable losses	461.9	547.5
Less payments on account received and receivable not matched with turnover	(408.2)	(511.7)
	53.7	35.8

11. **Trade and other receivables**	**31 December 2008 £ m**	**31 December 2007 £ m**
Trade receivables – amounts recoverable on contracts	49.2	55.0
Amounts owed by group undertakings	5.2	41.5
Other receivables	4.2	19.1
Prepayments and accrued income	1.1	0.4
	59.7	116.0

Included in trade receivables is a bad debt provision of £1.5m (2007: £1.5m)

12. Trade and other payables

	31 December 2008 £ m	**31 December 2007 £ m**
Amounts due within one year		
Trade payables	21.8	33.7
Amounts owed to group undertakings	102.1	117.0
Other creditors	21.0	0.6
	144.9	151.3

13. Provisions

Contract Provisions	**31 December 2008 £ m**	**31 December 2007 £ m**
At 1st January	1.6	1.6
Created	-	-
Utilised and released	(0.2)	-
At 31st December	1.4	1.6

In respect of ongoing contracts, in assessing profitability, provision is made to cover costs and losses identified where there is a likelihood of crystallisation. The associated outflows are estimated to occur over the period of the contract, normally between 1 and 5 years.

Rationalisation Provision	**31 December 2008 £ m**	**31 December 2007 £ m**
At 1st January	-	3.8
Created	-	10.3
Utilised and released	-	(14.1)
At 31st December	-	-

Provisions relate primarily to long term contracts and Company reorganisation.

14. Deferred tax

An analysis of the deferred tax balance is shown below:

	1 January 2008	Recognised in income	Recognised in equity	31 December 2008
Accelerated capital allowances	(14.8)	0.5	-	(14.3)
On Pension provision	34.0	(2.9)	21.3	52.4
Trade and other payables	13.8	-	(13.8)	-
Taxable losses	8.7	2.2	(0.7)	10.2
IAS 39 fair value adjustment	0.2	-	(0.7)	(0.5)
Other	0.4	0.1	0.1	0.6
Net tax asset / (liability)	42.3	(0.1)	6.2	48.4

	1 January 2007	Recognised in income	Recognised in equity	31 December 2007
Accelerated capital allowances	(14.4)	(0.4)		(14.8)
On Pension provision	59.0		(25.0)	34.0
Trade and other payables		9.1	4.7	13.8
Taxable losses	5.9	2.8		8.7
IAS 39 fair value adjustment	0.1		0.1	0.2
Other	-	0.6	(0.2)	0.4
Net tax asset / (liability)	50.6	12.1	(20.4)	42.3

15. Called up share capital

	31 December 2008 £	31 December 2007 £
Authorised, Allotted, Called Up and Fully Paid		
5,339,292 Ordinary shares of £1 each	5,339,292	5,339,292
6,000 Preferred ordinary shares of £1 each	6,000	6,000
	5,345,292	5,345,292

Ordinary shares carry one vote per share. Preferred ordinary shares do not attract any voting rights.

16. Statement of movement in reserves

	Share Capital £m	Share premium account £ m	Profit and loss account £ m
At 1 January 2007	5.3	62.1	(29.3)
Fair value reserve	-	-	0.3
Actuarial gains & losses re defined benefit obligations	-	-	29.8
Retained profit for the year	-	-	52.9
At 31 December 2007	5.3	62.1	53.7
At 1 January 2008	5.3	62.1	53.7
Fair value reserve	-	-	1.3
Actuarial gains & losses re defined benefit obligations	-	-	(75.9)
Retained profit for the year	-	-	6.5
At 31 December 2008	5.3	62.1	(14.4)

No dividends were proposed in the year (2007: none).

The fair value reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

17. Contingent liabilities

The directors are not aware of any proceedings which are threatened or pending, which may have a material effect on our financial position, results of operations or liquidity. Specific claims against the company, which arise in the ordinary course of business, have been provided for, where the directors consider it probable that the claims will be settled.

18. Commitments

a. There are no unrecognised contractual commitments at the year end (2007: none).

b. Total commitment of future minimum lease payments

Due in	31 December 2008 £ m	31 December 2007 £ m
1 year	2.8	2.9
2 to 5 years	3.2	6.6
After 5 years	0.3	0.5
Total	6.3	10.0

All operating leases relate to land and buildings. An expense of £3.1m (2007: £3.3m) is recognised in the income statement.

19. Employee benefits

	2008 £ m	2007 £ m
Recognised liability for defined benefit obligation	779.1	816.6
Liability for long service award	0.4	0.4
Fair value of plan assets	(590.2)	(695.2)
Total	(189.3)	(121.8)

Assets of defined benefits pensions plans	2008 £ m		2007 £ m	
Equities	365.9	62%	431.0	62%
Bonds	165.3	28%	180.7	26%
Property	47.2	8%	62.6	9%
Other	11.8	2%	20.9	3%
	590.2	100%	695.2	100%

MBDA is a member of several multi-employer defined benefit pension schemes operated by BAE Systems Plc. MBDA UK Ltd.'s share of assets and liabilities is determined based upon proportion of current contributions as compared to total contributions made by all employers to the pension scheme.
There are no share–based payments as defined in IFRS 2.

Defined benefit pension plan amounts for the current and previous 2years.	**2008 £m**	**2007 £m**	**2006 £m**
Defined benefit obligations	(779.1)	(815.3)	(915.0)
Plan assets at bid value	590.2	695.2	713.3
Total deficit before tax	(188.9)	(120.1)	(201.7)
Actuarial gain/(loss) on plan liabilities	75.3	53.2	23.3
Actuarial gain/(loss) on plan assets (at bid value)	(160.6)	(7.3)	28.7

Financial assumptions used for MBDA pension schemes	**2008 range**	**2007 range**
Inflation Rate	1.8% - 2.9%	1.9% - 3.3%
Discount rate	3.4% - 6.3%	4.3% - 5.8%
Increase for salaries	3.0% - 3.9%	3.0% - 4.3%
Increase for pension in payment	1.8% - 3.4%	1.9% - 3.3%
Increase for deferred pension	2.9%	3.3%

Expected rate of return on any plan assets	**2008**	**2007**
Equities	8.25%	8.0%
Bonds	4.3% / 6.3%	4.9%
Property	6.0%	6.0%
Other	2.0%	5.5%

Movement in present value of obligations	**2008**	**2007**
Defined benefit obligation 1 January	(816.6)	(915.0)
Current service cost	(12.6)	(14.2)
Past service cost	(1.4)	(0.8)
Interest on obligation	(47.3)	(43.3)
Actuarial (losses)/ gains recognised in equity	75.3	53.2
Actuarial Adj related to deficit allocation in equity	(10.1)	71.8
Benefits paid	36.3	33.5
Members contributions	(2.7)	(1.8)
Defined benefit obligation 31 December	(779.1)	(816.6)

Movement in present value of plan assets	**2008**	**2007**
Fair value of plan assets at 31 January	695.2	713.3
Contributions paid into plan	30.9	30.9
Other finance income	1.2	3.3
Expected return on plan assets	48.6	46.7
Actuarial (losses)/ gains recognised in equity	(160.6)	(7.3)
Actuarial Adj related to deficit allocation in equity	8.5	(60.0)
Benefits paid	(36.3)	(33.5)
Member contributions	2.7	1.8
Fair value of plan assets at 31 December	590.2	695.2

20. Related party disclosures

The Company undertook the following transactions with group companies as follows.

MBDA France	**31 December 2008 £ m**	**31 December 2007 £ m**
Sales	4.6	27.0
Purchases	(16.5)	(41.0)
Owed to	(39.1)	(3.2)
Receivable from	1.3	4.4

MBDA Italy	**31 December 2008 £ m**	**31 December 2007 £ m**
Sales	0.1	0.1
Purchases	(17.5)	(31.9)
Owed to	(6.3)	(6.4)
Receivable from	0.2	0.2

MBDA Germany	**31 December 2008 £ m**	**31 December 2007 £ m**
Sales	-	-
Purchases	(0.3)	(6.0)
Owed to	(0.1)	0.6
Receivable from	0.1	0.1

MBDA Services	**31 December 2008 £ m**	**31 December 2007 £ m**
Recharged services	20.8	21.4
Purchases	(23.3)	(24.1)
Owed to	-	(7.1)
Receivable from	2.9	6.0

Roxel	31 December 2008 £ m	31 December 2007 £ m
Sales	0.0	0.0
Purchases	(11.8)	(18.6)
Owed to	-	(0.1)
Receivable from	-	-

The Company undertook the following transactions with one of its ultimate shareholders, BAE SYSTEMS plc and its subsidiaries in the year:

	31 December 2008 £ m	31 December 2007 £ m
Sales	13.9	14.5
Purchases	(158.5)	(123.2)

At 31 December 2008 the Company owed £3.5m to BAE SYSTEMS plc and its subsidiaries (2007: £17.7m was owed to BAE SYSTEMS plc by the Company).

The Company undertook the following transactions with one of its ultimate shareholders, EADS NV and its subsidiaries in the year.

	31 December 2008 £ m	31 December 2007 £ m
Sales	0.3	-
Purchases	-	(15.1)

As at 31 December 2008 the Company owed £0.0m to subsidiaries of EADS NV (2007: the Company owed £0m to subsidiaries of EADS NV).

The company undertook the following transactions with one of its ultimate shareholders, Finmecannica SpA and its subsidiaries in the year.

	31 December 2008 £ m	31 December 2007 £ m
Sales	0.4	0.7
Purchases	(4.8)	(8.9)

At the 31 December 2008 the company owed £1.6m to Finmecannica SpA and its subsidiaries (2007: £0.6m was owed to Finmecannica and its subsidiaries).

21. Financial instruments.

Exchange risk

The global nature of the business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations MBDA's policy is to remove exchange rate risk by the placing of foreign currency exchange deals. MBDA accounts for forward currency deals under hedge accounting as permitted by IAS 39.

Interest risk

MBDA UK Ltd loans cash to MBDA Treasury Co. on which interest is received based on LIBOR/EUROBOR. The business is therefore exposed to volatility in underlying interest rates.

Forward currency deals

Forward currency deals are carried at fair value in the balance sheet.

	2008		2007	
	Asset	Liability	Asset	Liability
	£m	£m	£m	£m
USD purchase	1.8	-	14.4	-
USD sale	0.2	1.9	-	8.2
EUR purchase	10.2	-	14.8	-
EUR sale	-	7.8	-	44.0
SEK purchase	0.2	-	2.3	-
SEK sale	-	0.6	-	3.5
AUD purchase	-	-	-	-
AUD sale	-	0.1	-	0.8
Total	12.4	10.4	31.5	56.5

The £2.0m net financial asset (2007 liability: £0.6m) gives rise to a deferred tax liability of £0.6m (2007 asset: £0.2m). The positive effect on the fair value reserve in equity is therefore £1.4m (2007 adverse: £0.4m).

The fair value of the financial instrument is the price at which one party would assume the rights/and or duties of another party and reflects the future gain or loss that would have occurred should the hedge have not been in place. The fair values are determined based on current market exchange rates at the balance sheet date.

Maturity of the net forward currency deals is as shown below.

	2008				2007			
	Less than one year	One to five years	More than five years	total	Less than one year	One to five years	More than five years	total
	£m		£m			£m		£m
EUR	75.4	(6.1)	(2.7)	66.6	(20.4)	(1.6)	(6.7)	(28.7)
USD	3.4	(4.4)	0.3	(0.7)	5.6	(2.7)	-	2.9
Other	0.4	(0.4)	-	-	(1.5)	(0.4)	-	(1.9)
Total	79.2	(10.9)	(2.4)	65.9	(16.3)	(4.7)	(6.7)	(27.7)

Deposits

Deposits are carried at historic value as below:

	Interest rate	2008 £m equivalent	2007 £m equivalent
£	LIBOR	153.7	55.9
USD	LIBOR	-	1.1
EUR	EURIBOR	-	28.1
Other	LIBOR	0.9	4.9
		154.6	90.0

Deposits in £, US$ and € are made with MBDA Treasury Co. Other deposits are made directly by MBDA UK Ltd. All deposits are repayable on demand.

The amounts above are included within cash and cash equivalents on the balance sheet.

22. Post balance sheet events

Subsequent to the balance sheet date no events have occurred that would have a material effect on the financial statements and that have not been reflected in the financial statements.

23. Key accounting judgements and estimates.

The major activities of the Company are conducted under long term contract arrangements and are accounted for in accordance with IAS 11 Construction Contracts.

Revenue is recognised on such contracts based on the achievement of performance milestones. No profit is recognised on contracts until the outcome of the contract can be reliably estimated. Profit is calculated by reference to reliable estimates of contract revenue and forecast costs after making suitable allowance for technical and other risks related to performance milestones yet to be achieved. Material changes in one or more of these estimates whilst not anticipated, would affect the profitability of individual contracts.

24. Parent undertaking and ultimate parent companies

The largest and smallest group in which the results of the company are consolidated is that headed by MBDA SAS (incorporated in France) 4 Rue de Presbourg, 75116, Paris, France. The statutory accounts are available at this address.

MBDA SAS is owned by BAE Systems plc (incorporated in England, 37.5% shareholding), EADS NV (incorporated in The Netherlands, 37.5% shareholding), and Finmeccanica SpA (incorporated in Italy, 25% shareholding).