

MBDA UK Limited

Directors' Report and Financial Statements

For the year ended 31 December 2009

Registered Number 3144919

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MBDA UK Limited
Directors' Report and Financial Statements
For the year ended 31 December 2009

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Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2009

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 its 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

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 £30.5m in the year, an increase over 2008 which recorded a profit of £6.5m. Orders secured in 2009 totalled £971m resulting in a closing order book of £2,571m.

Company turnover in 2009, at £721m, an increase of 32.7% on the previous year's total of £543m. This was the result of fulfilling customer requirements.

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 (2008: 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.

Directors report (continued)

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 33 days (2008: 29 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
G Snider

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 regard 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 (2008: no contributions made). The Company made £88,168 (2008: £35,037) in charitable donations during the year.

Directors report (continued)

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

The Company has net liabilities at the year end. The company has been profitable and cash generative for the past two years but the net asset position has deteriorated due to the increase in the deficit of its defined benefit pension scheme (note 18), which increased by £68.8m in 2008 and £121m in 2009.

The defined benefit scheme is a multi-employer scheme and the Company's contributions to it have been set by its trustees for the next 16 years. These contributions have been accounted for in the Company's cash flow forecasts. The Company's forecasts as part of its 5 year business plan show that it will have sufficient liquid resource to meet its liabilities as they fall due.

After making detailed enquiries and taking into account the factors discussed above, the Board is confident that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly continues to prepare the financial statement on a going concern basis.

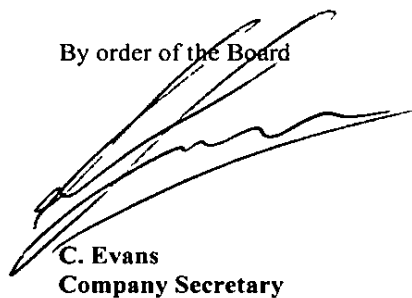
Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

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 registered number 3144919 and its registered office is as shown below.

By order of the Board



C. Evans
Company Secretary

Date: 11th June 2010

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 International Financial Reporting Standards as adopted by the EU and applicable law (UK Generally Accepted Accounting Practice)

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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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 2009 set out on pages 7 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

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 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

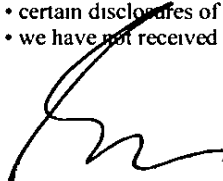
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Stephen Cooper (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

11th June 2010

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Income Statement

for the year ended 31 December 2009

	Note	31 December 2009 £ m	31 December 2008 £ m
Contract revenue		721.1	543.3
Raw materials & consumables used		(327.5)	(198.2)
Changes in inventories & work in progress		(29.6)	(104.6)
Staff costs	3	(145.7)	(137.6)
Depreciation & amortisation		(17.4)	(14.2)
Other external charges		(169.5)	(94.6)
Operating profit / (loss)	2	31.4	(5.9)
Finance (cost) / income	5	(4.7)	12.5
Profit before taxation		26.7	6.6
Taxation	6	3.8	(0.1)
Profit after taxation		30.5	6.5

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

The notes on pages 12 to 31 form part of the financial statements

Condensed statement of comprehensive income
for the year ended 31 December 2009

	Note	31 December 2009 £ m	31 December 2008 £ m
Profit for year		30.5	6.5
Effective portion of changes in fair value of cash flow hedges		(3.3)	1.3
Net change in fair value of cash flow hedges transferred to income statement		-	(0.4)
Actuarial (losses)/gains BAE Systems pension plan (net of deferred tax)		(95.3)	(75.5)
Income / (expense) recognised directly in equity		(98.6)	(74.6)
Total recognised income and expense		(68.1)	(68.1)

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Balance Sheet as at 31 December 2009

	Note	31 December 2009 £ m	31 December 2008 £ m
Assets			
Intangible assets	7	101.3	102.4
Property, plant & equipment	8	146.4	143.8
Investments	9	274.2	279.6
Deferred tax assets	14	95.2	62.7
Total non-current assets		617.1	588.5
Inventories	10	32.1	77.3
Trade and other receivables	11	147.4	59.7
Financial assets		-	1.9
Tax receivable		-	0.9
Cash and cash equivalents		342.2	153.9
Total current assets		521.7	293.7
Total assets		1138.8	882.2
Liabilities			
Payments received on account		(464.7)	(352.0)
Trade and other payables	12	(216.5)	(144.9)
Tax payable		(3.3)	(0.5)
Accruals and deferred income		(136.9)	(126.8)
Total current liabilities		(821.4)	(624.2)
Employee benefits	18	(310.3)	(189.3)
Provisions	13	(9.1)	(1.4)
Deferred tax liability	14	(13.1)	(14.3)
Total non-current liabilities		(332.5)	(205.0)
Net (liabilities) / assets		(15.1)	53.0
Equity			
Called up share capital	15	5.3	5.3
Share premium account		62.1	62.1
Profit and loss account		(82.5)	(14.4)
Total equity		(15.1)	53.0

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



Director

A. HILTON

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Statement of movement in reserves

	Share Capital £m	Share premium account £ m	Profit and loss account £ m
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	<u>5.3</u>	<u>62.1</u>	<u>(14.4)</u>
At 1 January 2009	5.3	62.1	(14.4)
Fair value reserve	-	-	(3.3)
Actuarial gains & losses re defined benefit obligations	-	-	(95.3)
Retained profit for the year	-	-	30.5
At 31 December 2009	<u>5.3</u>	<u>62.1</u>	<u>(82.5)</u>

No dividends were proposed in the year (2008: 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

Cash flow statement for the year ended 31st December 2009

	31 December 2009 £ m	31 December 2008 £ m
Cash flows from operating activities		
Profit for year	30.5	6.5
Adjustment for		
Depreciation & amortisation	17.4	14.0
Interest (received)/paid	5.7	(2.9)
Dividends received	(1.0)	(9.6)
Loss on disposal of property, plant & equipment	0.1	0.9
Movement in net inventories	45.2	3.0
Movement in progress payment received	112.7	33.8
Movement in trade and operating receivables	(91.0)	57.8
Pension movement	(20.0)	(8.0)
Movement in other creditors	83.6	(14.0)
Provisions	7.7	(0.2)
Taxation	6.9	(11.8)
Net cash from operating activities	197.8	69.5
Cash flows from investing activities		
Interest received/(paid)	3.1	2.9
Dividends received	1.0	9.6
Capital expenditure	(19.0)	(18.1)
Other investment movements	5.4	
Net cash from investing activities	(9.5)	(5.6)
Net increase/(decrease) in cash and cash equivalents	188.3	63.9
Cash and cash equivalents at 1st January	153.9	90.0
Cash and cash equivalents at 31st December	342.2	153.9

Notes - (forming part of the financial statements)

1 Accounting policies

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

Standards, amendments and interpretations effective in 2009

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate The IASB issued amendments to IFRS 1 and IAS 27 to specify the accounting in separate financial statements of a newly formed entity that becomes the new parent entity of another entity in a

group. In addition, the amendments permit a first-time adopter of IFRSs, at the date of transition, to measure the cost of its investments in a subsidiary, jointly controlled entity or associate at a deemed cost in its separate financial statements rather than determine cost under IFRSs. This does not have any impact on the Company accounts.

Amendment to IFRS 2 Share-based Payment Vesting Conditions and Cancellations

The IASB issued amendments to amend the definition of vesting conditions in IFRS 2 to clarify that vesting conditions are limited to service conditions and performance conditions. This does not have any impact on the Company accounts.

Amendments to IFRS 7 – Improving Disclosures about Financial Instruments The IASB issued amendments to enhance disclosures about fair value measurements of financial instruments and over liquidity risk. This has been applied in the Company accounts.

IFRS 8 Operating Segments Segment Reporting and sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. This does not have any impact on the Company accounts.

IAS 1 (Revised 2007) Presentation of Financial Statements The IASB issued a revised standard that requires information to be presented in a complete set of financial statements by addressing presentation and display issues. This has been applied in the Company accounts.

IAS 23 (Revised 2007) Borrowing Costs The IASB issued a revised standard that prohibits the immediate expensing of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. This does not have any impact on the Company accounts.

Amendments to IAS 32 Financial Instruments Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation The IASB issued amendments to introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity, the amendments require certain instruments that normally would be classified as liabilities to be classified as equity if and only if they meet certain conditions. This does not have any impact on the Company accounts.

In 2008, the IASB issued its omnibus of amendments to standards, with a primary aim to remove inconsistencies and to clarify wording. These have been applied to the Company accounts as necessary.

Basis of preparation

The Company is exempt by virtue of section s228 of the Companies Act 2006 from the requirement to prepare group financial statements. 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 IFRS as adopted by the EU and under the historical cost accounting rules, modified to include 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 previously 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
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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 Company's 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 recognised 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. For 2009, MBDA has received sufficient information to account for its participation in these schemes on a defined benefit obligation basis.

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. This is considered a reasonable and consistent allocation method intended to reflect a reasonable approximation of MBDA's share of the deficit. Any movement in the level of the deficit due to changes in the level of contributions is taken to equity.

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

Taxation (continued)

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 2009 £ m	31 December 2008 £ m
Operating profit / (loss) is stated after charging		
Auditors' remuneration		
Audit	0.2	0.3
Depreciation of property, plant & equipment	14.4	11.4
Loss on disposal of property, plant & equipment	0.1	0.9
Intangible amortisation	3.0	2.6
Research and development expenditure in the year	12.8	9.1
Lease costs – land and buildings	3.2	3.1
Exchange (gain) / losses	(0.5)	0.2
	<hr/>	<hr/>

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 2009	31 December 2008
Direct employees	1,892	1,783
Indirect employees	671	638
	<u>2,563</u>	<u>2,421</u>

The aggregate payroll costs of these persons were as follows

	31 December 2009 £ m	31 December 2008 £ m
Wages and salaries	108.8	108.0
Social security costs	10.1	9.4
Other pension costs	26.8	20.2
	<u>145.7</u>	<u>137.6</u>

4. Directors' emoluments

	31 December 2009 £ m	31 December 2008 £ m
Wages and salaries	0.9	0.9
Company contribution to pension plan	0.2	0.2
	<u>1.1</u>	<u>1.1</u>

The aggregate emoluments of the highest paid director during the year were £375.3k (2008: £351.6k). 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 £49,600 per annum (2008: £40,100 per annum). 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	
	2009	2008
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 / (cost)

	31 December 2009 £ m	31 December 2008 £ m
Interest receivable on bank deposits	-	2.9
Dividends received from subsidiary companies	1.0	9.6
Interest paid	(5.7)	-
	<u>(4.7)</u>	<u>12.5</u>

6. Taxation recognised in the income statement

	31 December 2009 £ m	31 December 2008 £ m
Current tax		
Current tax charge for period	2.1	1.3
Double tax relief	(0.1)	(1.3)
Over provided in prior years	<u>(10.5)</u>	<u>0.0</u>
	(8.5)	
Deferred tax (Note 14)		
Origination and reversal of temporary differences	5.5	0.1
Over provided in prior years	<u>(0.8)</u>	<u>-</u>
	<u>(3.8)</u>	<u>0.1</u>

Reconciliation of effective tax rate

	31 December 2009 £ m	31 December 2008 £ m
Profit before tax	<u>26.7</u>	<u>6.6</u>
Tax charge on profit at UK rate of 28% (2008: 28.5%)	<u>7.5</u>	<u>1.9</u>
Other Expense / income not tax effected	-	(0.1)
Research and development	-	(0.8)
Depreciation (ineligible)	0.1	0.1
Difference in taxation of Irish source income	(0.1)	(1.0)
Over provided in prior years	<u>(11.3)</u>	<u>-</u>
	<u>(3.8)</u>	<u>0.1</u>

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

7. Intangible assets

	Goodwill £ m	Computer Software £ m	Total £ m
Cost			
At 1 January 2008	98.3	31.5	129.8
Acquisitions	-	1.9	1.9
Disposals	-	(2.1)	(2.1)
At 31 December 2008	98.3	31.3	129.6
Acquisitions	-	1.9	1.9
Disposals	-	(0.1)	(0.1)
At 31 December 2009	98.3	33.1	131.4
Amortisation and impairment			
At 1 January 2008	-	26.7	26.7
Amortisation	-	2.6	2.6
Disposal	-	(2.1)	(2.1)
At 31 December 2008	-	27.2	27.2
Amortisation	-	3.0	3.0
Disposal	-	(0.1)	(0.1)
At 31 December 2009	-	30.1	30.1
Net Book Value			
At 31 December 2008	98.3	4.1	102.4
At 31 December 2009	98.3	3.0	101.3

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 (2008: none). Value in use was determined by discounting the future cash flows generated 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% (2008: 10%). The terminal value is justified due to the long term nature of our business.

The goodwill arose from the formation of Matra BAe Dynamics and UKAMS Ltd and on the purchase of AMS Dynamics Ltd.

8. Property, plant & equipment

	Land and buildings £ m	Plant and machinery £ m	Fixture, fittings, tools and equipment £ m	Assets in the course of construction £ m	Total £ m
Cost					
Balance at 1 January 2008	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
Acquisitions	0.3	8.9	7.9	-	17.1
Disposals	(0.1)	(0.2)	(0.5)	-	(0.8)
Transfers between items	(0.3)	(14.9)	-	15.2	-
Balance at 31 December 2009	81.6	84.1	82.1	15.2	263.0
Depreciation and impairment					
Balance at 1 January 2008	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
Depreciation charge for the year	1.4	4.2	8.8	-	14.4
Disposals	(0.1)	(0.1)	(0.5)	-	(0.7)
Transfers between items	-	-	-	-	-
Balance at 31 December 2009	13.5	56.0	47.1	-	116.6
Net book value					
At 31 December 2008	69.5	38.4	35.9	-	143.8
At 31 December 2009	68.1	28.1	35.0	15.2	146.4

Land and buildings contains land with a cost of £21,411,759 that does not attract any depreciation (2008 £21,411,759)

At December 2009 included in cost were assets with a net book value of zero. Land and buildings £23.1m, Plant and machinery £39.2m, Fixture, fittings, tools and equipment £5.5m

No items of property, plant & equipment are held under finance leases (2008: none)

There have been no impairments of property, plant and equipment in the year (2008: none)

9 Investments

		31 December 2009 £ m	31 December 2008 £ m
Net Book Value			
At 1 st January		279.6	279.6
Disposals		(5.4)	-
At 31 st December		<u>274.2</u>	<u>279.6</u>
Company Name	% Shareholding	Company Activity	Country of Incorporation
UKAMS Ltd	100	Agent for MBDA UK Limited	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	6.1	Investment	Kuwait

The Company disposed of its investment in Marconi Overseas Limited

The company held 210,000 sterling cumulative preferred shares in MBDA Treasury Company Limited

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

10. Inventories

	31 December 2009 £ m	31 December 2008 £ m
Raw materials and consumables	12.8	14.5
Work in progress	7.8	53.7
Finished goods and goods for resale	11.5	9.1
	<u>32.1</u>	<u>77.3</u>

Included within work in progress is a provision for £4.2m (2008: £3.2m)

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

	31 December 2009 £ m	31 December 2008 £ m
Net cost less foreseeable losses	433.4	461.9
Less payments on account received and receivable not matched with turnover	(425.6)	(408.2)
	<u>7.8</u>	<u>53.7</u>

	31 December 2009 £ m	31 December 2008 £ m
11. Trade and other receivables		
Trade receivables – amounts recoverable on contracts	21.9	49.9
Amounts owed by group undertakings	113.9	4.5
Other receivables	8.6	4.2
Prepayments and accrued income	3.0	1.1
	<u>147.4</u>	<u>59.7</u>

12. Trade and other payables

	31 December 2009 £ m	31 December 2008 £ m
Amounts due within one year		
Trade payables	23.0	18.3
Amounts owed to group undertakings	137.9	103.9
Other creditors	55.6	22.7
	<u>216.5</u>	<u>144.9</u>

13. Provisions

	Contract	Other	Total
At 1 st January 2008	1.2	0.4	1.6
Created	-	-	-
Utilised and released	(0.2)	-	(0.2)
At 31 st December 2008	<u>1.0</u>	<u>0.4</u>	<u>1.4</u>
Created	8.7	-	8.7
Utilised and released	(1.0)	-	(1.0)
At 31 st December 2009	<u>8.7</u>	<u>0.4</u>	<u>9.1</u>

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.

14. Deferred tax

An analysis of the deferred tax balance is shown below

	1 January 2009	Recognised in income	Recognised in equity	31 December 2009
Accelerated capital allowances	(14.3)	1.1	-	(13.2)
On Pension provision	52.4	4.3	37.1	93.8
Taxable losses	10.2	(10.2)	-	-
IAS 39 fair value adjustment	(0.5)	-	1.3	0.8
Other	0.6	0.1	-	0.7
Net tax asset / (liability)	<u>48.4</u>	<u>(4.7)</u>	<u>38.4</u>	<u>82.1</u>

	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)	<u>42.3</u>	<u>(0.1)</u>	<u>6.2</u>	<u>48.4</u>

15. Called up share capital

	31 December 2009 £	31 December 2008 £
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
	<u>5,345,292</u>	<u>5,345,292</u>

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

16. 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.

17. Commitments

a. There are no unrecognised contractual commitments at the year end (2008: none)

b. Total commitment of future minimum lease payments

	31 December 2009 £ m	31 December 2008 £ m
Due in		
1 year	2.8	2.8
2 to 5 years	0.8	3.2
After 5 years	<u>-</u>	<u>0.3</u>
Total	3.6	6.3

All operating leases relate to land and buildings. An expense of £3.2m (2008: £3.1m) is recognised in the income statement.

18. Employee benefits

	2009		2008	
	£ m		£ m	
Recognised liability for defined benefit obligation	1032.1		779.1	
Liability for long service award	0.4		0.4	
Fair value of plan assets	(722.2)		(590.2)	
Total	(310.3)		(189.3)	
Assets of defined benefits pensions plans	2009		2008	
	£ m		£ m	
Equities	489.2	64%	365.9	62%
Bonds	168.6	27%	165.3	28%
Property	54.8	8%	47.2	8%
Other	9.6	1%	11.8	2%
	722.2	100%	590.2	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. This is considered a reasonable and consistent allocation method intended to reflect a reasonable approximation of MBDA's share of the deficit. Any movement in the level of the deficit due to changes in the level of contributions is taken to equity.

There are no share-based payments as defined in IFRS 2.

Defined benefit pension plan amounts for the current and previous 2 years.

	2009	2008	2007
	£m	£m	£m
Defined benefit obligations	(1,032.1)	(779.1)	(815.3)
Plan assets at bid value	722.2	590.2	695.2
Total deficit before tax	(309.9)	(188.9)	(120.1)
Actuarial gain/(loss) on plan liabilities	(225.7)	65.2	125.0
Actuarial gain/(loss) on plan assets (at bid value)	93.3	(152.1)	(67.3)

Financial assumptions used for MBDA pension schemes

	2009	2008
		range
Inflation Rate	3.5%	1.8% - 2.9%
Discount rate	5.7%	3.4% - 6.3%
Increase for salaries	4.5%	3.0% - 3.9%
Increase for pension in payment	2.3% - 3.7%	1.8% - 3.4%
Increase for deferred pension	3.5%	2.9%

Expected rate of return on any plan assets

	2009	2008
Equities	8.25%	8.25%
Bonds	4.8%	4.3% / 6.3%
Property	6.0%	6.0%
Other	1.0%	2.0%

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Movement in present value of obligations	2009	2008
Defined benefit obligation 1 January	(779 1)	(816 6)
Current service cost	(11 7)	(12 6)
Past service cost	(1 3)	(1 4)
Interest on obligation	(52 3)	(47 3)
Actuarial (losses)/ gains recognised in equity	(225 7)	65 2
Benefits paid	41 0	36 3
Members contributions	(3 0)	(2 7)
Defined benefit obligation 31 December	(1032 1)	(779 1)
Movement in present value of plan assets	2009	2008
Fair value of plan assets at 31 January	590 2	695 2
Contributions paid into plan	33 0	32 1
Expected return on plan assets	43 7	48 6
Actuarial (losses)/ gains recognised in equity	93 3	(152 1)
Benefits paid	(41 0)	(36 3)
Member contributions	3 0	2 7
Fair value of plan assets at 31 December	722 2	590 2

19. Related party disclosures

The Company undertook the following transactions with group companies as follows

MBDA France	31 December 2009 £ m	31 December 2008 £ m
Sales	4.7	4.6
Purchases	(43.1)	(16.5)
Owed to	(72.7)	(39.1)
Receivable from	1.0	1.3
MBDA Italy	31 December 2009 £ m	31 December 2008 £ m
Sales	0.1	0.1
Purchases	(51.6)	(17.5)
Owed to	(1.6)	(6.3)
Receivable from	0.2	0.2
MBDA Germany	31 December 2009 £ m	31 December 2008 £ m
Sales	-	-
Purchases	-	(0.3)
Owed to	(0.2)	(0.1)
Receivable from	-	0.1
MBDA Services	31 December 2009 £ m	31 December 2008 £ m
Recharged services	18.0	20.8
Purchases	(23.0)	(23.3)
Owed to	(3.6)	-
Receivable from	3.6	2.9

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Roxel	31 December 2009 £ m	31 December 2008 £ m
Purchases	(10.5)	(11.8)
Owed to	(0.2)	-

The Company holds a credit balance with AMS Dynamics Limited £53.3m (2008 £53.3m)

The Company undertook the following transactions with its ultimate shareholders and their subsidiaries in the year

BAE Systems PLC	31 December 2009 £ m	31 December 2008 £ m
Sales	122.9	13.9
Purchases	(49.2)	(158.5)
Owed to	(4.0)	(3.5)
Receivable from	108.4	-

EAD NV	31 December 2009 £ m	31 December 2008 £ m
Sales	-	0.3
Purchases	(0.2)	-
Receivable from	0.7	-

Finmacanica SpA	31 December 2009 £ m	31 December 2008 £ m
Sales	0.6	0.4
Purchases	(15.5)	(4.8)
Owed to	(2.3)	(1.6)

20 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.

Credit risk

Due to the nature of the Company's debtors there is minimal credit risk.

Forward currency deals

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

	2009			2008	
	Asset	Liability		Asset	Liability
	£m	£m		£m	£m
USD purchase	0.2	0.3		1.8	-
USD sale	0.2	0.4		0.2	1.9
EUR purchase	4.7	2.7		10.2	-
EUR sale	-	2.7		-	7.8
SEK purchase	-	-		0.2	-
SEK sale	-	1.6		-	0.6
AUD sale	-	0.2		-	0.1
Total	<u>5.1</u>	<u>7.9</u>		<u>12.4</u>	<u>10.4</u>

The £2.8m net financial liability (2008 asset £2.0m) gives rise to a deferred tax asset of £0.8m (2008 liability £0.6m). The negative effect on the fair value reserve in equity is therefore £3.3m (2008 positive £1.4m).

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.

	2009				2008			
	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	152.7	80.1	(0.5)	232.3	75.4	(6.1)	(2.7)	66.6
USD	0.3	(3.5)	0.5	(2.7)	3.4	(4.4)	0.3	(0.7)
Other	2.5	(16.3)	-	(13.8)	0.4	(0.4)	-	-
Total	<u>155.5</u>	<u>60.3</u>	<u>-</u>	<u>215.8</u>	<u>79.2</u>	<u>(10.9)</u>	<u>(2.4)</u>	<u>65.9</u>

Effective 1 January 2009, the company adopted the amendment to IFRS 7, Financial Instruments – Disclosure, for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices included with level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3: Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs)

The following table presents the company's assets and liabilities that are measured at fair value at 31 December 2009

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging	-	5.1	-	5.1
Total assets	-	5.1	-	5.1
Liabilities				
Derivatives used for hedging	-	7.9	-	7.9
Total liabilities	-	7.9	-	7.9

Deposits

Deposits are carried at historic value as below

	Interest rate	2009 £m equivalent	2008 £m equivalent
£	LIBOR	318.1	153.7
USD	LIBOR	0.2	-
EUR	EURIBOR	23.0	-
Other	LIBOR	0.9	0.9
		<u>342.2</u>	<u>154.6</u>

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.

21. 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.

22. 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.

23. 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).