

# **Matra BAe Dynamics (UK) Limited**

## **Directors' Report and Financial Statements**

For the year ended 31 December 1998

Registered Number: 3144919



## **Directors' Report**

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

## **Principal activities**

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

## **Business review**

Orders of £147m were received in the year and of particular significance within this was the first export contract for the Asraam short range Air to Air missile. Other notable orders were received from export customers for Sea Skua and Rapier. Turnover for the year increased by 19% to £357.9m when compared to the previous 12 months, with the increase being primarily due to deliveries of Alarm and Rapier missiles to export customers and Sea Wolf and Rapier to MoD.

Considerable effort has been directed in the year towards securing future orders. A number of major prospects will arise over the next two years including the MoD requirements for BVRAAM, Rapier, PAAMS and Sea Wolf and export opportunities for Storm Shadow, Rapier and Asraam.

On 26 April 1999, British Aerospace Defence Systems Ltd transferred ownership of 50 ordinary shares held in UKAMS Ltd to Matra BAe Dynamics (UK) Ltd. This transfer brought the Company's holding in UKAMS Ltd up to 100% of the issued ordinary share capital.

## **Research and development**

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

## **Year 2000**

The company has implemented an examination across the business to identify areas where it is not compliant. The necessary actions will be determined and prioritised before being implemented. The operation of our business also depends on the computer systems of our suppliers. We have sought assurances from third parties and we have planned contingency actions in key risk areas. We have spent around £1.4m in 1998 associated with this activity and this was expensed to profit and loss during the year.

## **Proposed dividend**

The directors do not recommend the payment of a dividend.

### **Policy and practice on payment of creditors**

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

The number of days billing outstanding at the year end was 67 days.

### **Directors and Directors' Interests**

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

Noel Forgeard	Resigned	27.02.98
Roger William Hawksworth	Resigned	03.11.98
David Henry Hewitson	Resigned	15.04.99
Fabrice Roger Daniel Bregier	Appointed	06.01.98
Roger Keith Curtis	Appointed	30.03.98
Alan Douglas Garwood	Appointed	01.10.98

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.

Subsequent to the year end the following movements have taken place:

Guy Rhodri Griffiths	Appointed	15.04.99
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### **Employees**

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

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

### **Political and charitable contributions**

The company made no political contributions during the year. Donations to UK charities amounted to £nil (1997 £500).

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**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, have indicated their willingness to continue in office and a resolution proposing their re-appointment will be put to the Annual General Meeting.

By order of the Board



**C.E.L. Bailey**  
Company Secretary

**Date:** 25.02.00

**PO Box 19**  
**Six Hills Way**  
**Stevenage**  
**Hertfordshire**  
**SG1 2DA**

**Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

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

**Report of the auditors to the members of Matra BAe Dynamics (UK) Ltd**

We have audited the financial statements on pages 7 to 20.

***Respective responsibilities of directors and auditors***

As described on page 5 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

***Basis of opinion***

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

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

***Opinion***

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London  
Date: 28 February, 2000

**Profit and Loss account**  
*for the year ended 31 December 1998*

	Note	31 December 1998 £000	31 December 1997 £000
Turnover	2	357,941	303,442
Operating Costs	3	<u>(362,581)</u>	<u>(320,076)</u>
Operating loss		(4,640)	(16,634)
(Loss)/Profit on sale of fixed assets		(3)	575
Other interest receivable and similar income		761	3,891
Interest payable and similar charges	8	<u>(1,872)</u>	<u>(929)</u>
<b>Loss on ordinary activities before taxation</b>	4	(5,754)	(13,097)
Tax on loss on ordinary activities		<u>-</u>	<u>-</u>
<b>Loss for the financial year</b>		(5,754)	(13,097)
Dividends		<u>-</u>	<u>-</u>
<b>Retained loss for theyear</b>	17	<u><u>(5,754)</u></u>	<u><u>(13,097)</u></u>

Other than the loss for the year there were no other recognised gains and losses for the year ended 31 December 1998 (1997 £nil).

All results arise from continuing operations.

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

The notes on pages 9 to 20 form part of the financial statements.

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**Balance Sheet as at 31 December 1998**

	Note	31 December 1998		31 December 1997	
		£000	£000	£000	£000
<b>Fixed Assets</b>					
Intangible Assets	9		109,837		108,815
Tangible Assets	10		35,472		33,859
Investments	11		200		-
			<u>145,509</u>		<u>142,674</u>
<b>Current Assets</b>					
Stocks	12	42,842		32,759	
Debtors (falling due within one year)	13	69,317		40,057	
Cash at bank and in hand		4,334		33,854	
		<u>116,493</u>		<u>106,670</u>	
<b>Creditors: amounts falling due within one year</b>	14	<u>(212,632)</u>		<u>(196,215)</u>	
Net current liabilities			(96,139)		(89,545)
<b>Total assets less current liabilities</b>			<u>49,370</u>		<u>53,129</u>
<b>Provisions for liabilities and charges</b>	15		(14,221)		(12,226)
<b>Net assets</b>			<u>35,149</u>		<u>40,903</u>
<b>Capital and reserves</b>					
Called up share capital	16		4		4
Share premium account	17		13,996		13,996
Other reserves	17		27,481		33,259
Profit and loss account	17		(6,332)		(6,356)
<b>Shareholder's funds</b>	18		<u>35,149</u>		<u>40,903</u>
(including non-equity interests)					

These financial statements were approved by the Board of directors on 25 February 2000 and were signed on its behalf by:



R K Curtis  
Director



Notes - (forming part of the financial statements)

**1. Accounting policies**

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

***Basis of preparation***

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

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

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

***Fixed assets and depreciation***

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

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

***Foreign Currencies***

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

***Government grants***

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

***Research and development expenditure***

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

*Notes (continued)*

***Stocks***

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

***Long term contracts***

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

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

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

***Taxation***

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

***Turnover***

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

***Goodwill***

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

***Pensions***

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

## 2. Segmental analysis

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

	31 December 1998 £000	31 December 1997 £000
U.K.	201,019	210,571
Rest of Europe	75,580	37,575
Middle East	78,191	5,328
Asia and Pacific	2,851	30,133
Other	300	19,835
	<u>357,941</u>	<u>303,442</u>

## 3. Operating costs

	31 December 1998 £000	31 December 1997 £000
Raw materials and other bought in stock	180,123	212,398
Changes in stocks of finished goods and work in progress	18,701	(68,907)
Staff costs (Note 6)	84,328	100,012
Depreciation and other amounts written off tangible and intangible fixed Assets	11,356	13,248
Exceptional amounts written off current assets (Note 5)	9,510	-
Net provisions created		
In provisions for liabilities and charges	2,061	1,910
In stocks and elsewhere	2,000	1,752
Other external charges	72,783	60,281
Other operating income	(18,281)	(618)
	<u>362,581</u>	<u>320,076</u>

**4. Loss on ordinary activities before taxation**

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
<b>Loss on ordinary activities before taxation is stated</b>		
<i>after charging</i>		
Auditors' remuneration:		
Audit	180	403
Non-Audit	-	15
Depreciation and other amounts written off tangible fixed assets:		
Owned	3,975	5,098
Leased	1,603	1,409
Goodwill amortised	5,778	6,741
Research and development expenditure in the year	7,206	10,747
<i>after crediting</i>		
Exchange gains	59	208

**5. Operating Exceptional Items**

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
Rationalisation	<u>(9,510)</u>	<u>-</u>

**6. Staff numbers and costs**

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	<b>Number of Employees</b>	
	<b>31 December 1998</b>	<b>31 December 1997</b>
Direct Employees	1,758	1,781
Indirect Employees	934	1,036
Sub-Contractors	160	130
	<u>2,852</u>	<u>2,947</u>

The aggregate payroll costs of these persons were as follows:

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
Wages and salaries	71,064	85,377
Social security costs	6,277	6,607
Other pension costs	6,987	8,028
	<u>84,328</u>	<u>100,012</u>

**7. Directors' Emoluments**

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
Directors' Emoluments	580	494
Amounts paid to third parties in respect of directors' services	-	119
	<u>580</u>	<u>613</u>

The aggregate emoluments of the highest paid director during the year were £253,000 (1997 £292,000). He is a member of a defined benefit scheme, which the accrued pension to which he would be entitled from normal retirement date if he were to retire at the year end was £41,387p.a. (1997 £42,076 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:

	<b>Number of Directors 1998</b>	<b>1997</b>
Defined Benefit Schemes	3	2

**8. Interest payable and similar charges**

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
On bank loans and overdrafts	1,872	929
	<u>1,872</u>	<u>929</u>

**9. Intangible fixed assets**

	<b>Goodwill £000</b>
<b>Cost</b>	
At 1 January 1998	115,556
Additions	6,800
At 31 December 1998	<u>122,356</u>
<b>Amortisation</b>	
At 1 January 1998	(6,741)
Charged in year	(5,778)
At 31 December 1998	<u>(12,519)</u>
<b>Net Book Value</b>	
At 31 December 1998	<u>109,837</u>
At 31 December 1997	<u>108,815</u>

# 10. Tangible fixed assets

	Short Leasehold Land and Buildings £000	Plant and Machinery £000	Fixtures, fittings, tools and equipment £000	Payments on account and assets in course of construction £000	Total £000
<b>Cost</b>					
At beginning of year	3,286	112,709	20,567	4,996	141,558
Additions	188	473	3,928	2,720	7,309
Disposals	-	(13,518)	(2,220)	-	(15,738)
Transfers between items	-	321	92	(413)	-
At end of year	<u>3,474</u>	<u>99,985</u>	<u>22,367</u>	<u>7,303</u>	<u>133,129</u>
<b>Depreciation</b>					
At beginning of year	152	94,562	12,985	-	107,699
Charged for year	161	2,895	2,522	-	5,578
On disposals	-	(13,466)	(2,154)	-	(15,620)
At end of year	<u>313</u>	<u>83,991</u>	<u>13,353</u>	<u>-</u>	<u>97,657</u>
<b>Net Book Value</b>					
At 31 December 1998	<u>3,161</u>	<u>15,994</u>	<u>9,014</u>	<u>7,303</u>	<u>35,472</u>
At 31 December 1997	<u>3,134</u>	<u>18,147</u>	<u>7,582</u>	<u>4,996</u>	<u>33,859</u>

Of the tangible fixed assets as at 31 December 1998, assets with a net book value of £5,011,000 are owned by a third party (1997 £4,031,000). The Company pays no lease or rental charges for these assets, but has full responsibility for the maintenance of the assets. They have therefore been capitalised within the books of the company, in accordance with UITF 7, and are being depreciated over 5 years. Depreciation charged to profit and loss was £1,603,000 (1997 £1,409,000).

# 11. Investments

	31 December 1998 £000	31 December 1997 £000
<b>Net Book Value</b>		
At 1 January 1998	-	-
Additions	200	-
At 31 December 1998	<u>200</u>	<u>-</u>

The investment acquired represents a 2/3 share of the ordinary share capital of UKAMS Ltd, a company registered in England and Wales.

**12. Stocks**

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
Raw materials and consumables	1,316	1,316
Long term contract balances	40,257	30,654
Finished goods and goods for resale	1,269	789
	<u>42,842</u>	<u>32,759</u>

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

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
Net cost less foreseeable losses	301,808	322,988
Less payments on account received and receivable not matched with turnover	(261,551)	(292,334)
	<u>40,257</u>	<u>30,654</u>

**13. Debtors**

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
Trade debtors – Amounts recoverable on contracts	62,927	31,348
Amounts owed by group undertakings	687	778
Other debtors	481	3,077
Prepayments and accrued income	5,222	4,854
	<u>69,317</u>	<u>40,057</u>

**14. Creditors: amounts falling due within one year**

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
Payments received on account	81,535	77,227
Trade creditors	66,866	64,665
Taxation and social security	12,537	5,876
Other creditors	9,773	7,471
Accrual and deferred income	41,921	40,976
	<u>212,632</u>	<u>196,215</u>

**15. Provisions for liabilities and charges**

	<b>Long Term Contract provisions £000</b>
At 1 January 1998	12,226
Created/(released)	2,061
Utilised	(66)
At 31 December 1998	<u>14,221</u>

**16. Called up share capital**

	<b>31 December 1998 £</b>	<b>31 December 1997 £</b>
<b>Authorised, Allotted, Called Up and Fully Paid</b>		
1000 Ordinary share of £1 each	1,000	1,000
3000 Preferred Ordinary Shares of £1 each	3,000	3,000
	<u>4,000</u>	<u>4,000</u>



**17. Statement of movement in reserves**

	<b>Share premium account £000</b>	<b>Other Reserves £000</b>	<b>Profit And loss Account £000</b>
At 1 January 1998	13,996	33,259	(6,356)
Retained loss for the year	-	-	(5,754)
Transfer goodwill amortised	-	(5,778)	5,778
At 31 December 1998	<u>13,996</u>	<u>27,481</u>	<u>(6,332)</u>

Note: Nominal share capital at 31 December 1998 was £4,000 (1997 : £4,000)

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

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
Preferred ordinary shares (no voting rights)	<u>3</u>	<u>3</u>
Non-equity interests	<u>3</u>	<u>3</u>

**18. Reconciliation of movements in shareholders' funds**

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
Loss for the financial year	(5,754)	(13,097)
New share capital subscribed (net of issue costs)	-	54,000
<b>Net (reduction)/addition to shareholders' funds</b>	<b>(5,754)</b>	<b>40,903</b>
Opening shareholders' funds	40,903	-
Closing shareholders' funds	<u>35,149</u>	<u>40,903</u>

Attributable to:-

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
Equity shareholders	35,146	40,900
Non-equity shareholders	3	3
	<u>35,149</u>	<u>40,903</u>

**19. Contingent liabilities**

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

**20. Commitments**

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

	<b>31 December 1998 £000</b>	<b>31 December 1997 £000</b>
Contracted	870	1,096
	<u>870</u>	<u>1,096</u>

## 21. Pension scheme

Employees of the company are members of a funded defined benefit pension scheme operated by British Aerospace plc, which provides benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees working lives with the company. The contributions are determined by a qualified actuary. The most recent valuation was at 5 April 1997. The main assumptions are:

- Investment yield      9% p.a. (including capital growth and interest and dividend income)
- Dividend growth      8% p.a. during the two years following 6<sup>th</sup> April 1995, thereafter 4.75% p.a.
- Earnings increase    6.5% p.a. plus a scale to reflect promotion etc.

The most recent actuarial valuation showed that the market value of the schemes assets was £3,319 million and that the actuarial value of those assets represented 96% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Consequently the contributions of the Company and employees will remain unchanged. Under the shareholder agreement between British Aerospace plc and Lagardère Group, the Company is required to maintain an "X account" to control any variation between the contribution rate required by the trustees of the pension scheme and an agreed base rate. The balance on this account is calculated at 5 April each year, and is either paid to, or repaid by BAe so that the Company's effective contribution rate remains constant. Any balance on this account falls due to be paid to, or repaid by BAe, immediately in 12 monthly instalments. This agreement will continue until 31 December 2007. For the year to 31 December 1998, there are no payments to be made or received by the Company under the terms of this agreement.

## 22. Related party disclosures

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

The company undertook the following transactions with its ultimate controlling shareholder, British Aerospace PLC and its subsidiaries in the period:

	31 December 1998 £000	31 December 1997 £000
Sales	81,600	9,462
Purchases	(31,600)	(21,389)
Property rental	(4,300)	(4,845)

At 31 December 1998 the Company was owed £9,144,000 by British Aerospace PLC and its subsidiaries (1997 £2,800,000 due to British Aerospace PLC and its subsidiaries).

**23. Parent undertaking and ultimate parent companies**

The largest and smallest groups in which the results of the company are consolidated is that headed by Matra BAe Dynamics SAS, incorporated in France. Matra BAe Dynamics SAS is jointly owned by British Aerospace plc, incorporated in England and Lagardère Group, incorporated in France.

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