

MBDA UK Limited

Directors' Report and Financial Statements For the year ended 31 December 2017

Registered Number 3144919



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Strategic report

As part of the MBDA Group, the Company's vision is to be the European champion and a global player in the field of missiles and missile systems. Company turnover in 2017, at £1,054.6m was an increase from the previous year's total of £926.2m.

The principal resources that the Company uses to achieve its vision are its people, relationships with its suppliers and customers, intellectual property and infrastructure.

The number of employees excluding directors increased from 3,199 (Dec 2016) to 3,309 (Dec 2017). A breakdown of the employees as at 31 December 2017.

	Male		Female	
	2017	2016	2017	2016
Directors of the company	6	6	0	0
Senior Managers of the company	299	289	30	24
Other employees	2,402	2,331	578	555

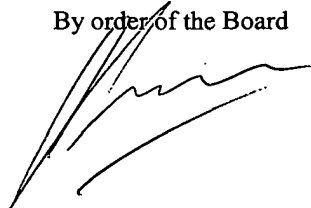
The Company works closely with UK MOD under a strategic partnering agreement which is designed to underpin sovereign UK capability in complex weapons. The Company operates in a highly competitive environment subject to export controls and other restrictions.

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

The principal risk and uncertainty facing the Company is the market it operates in, as well as the risk of exchange rate movements that will affect the Company's competitiveness. The Company uses forward exchange contracts to hedge the majority of currency exposures that exist. 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 recorded a profit after tax of £86.1m in the year, compared to £89.1m in 2016.

By order of the Board



C. Evans
Company Secretary

Date: 28/9/18

PO Box 19
Six Hills Way
Stevenage
Hertfordshire
SG1 2DA

Directors' report

The directors present their annual report and the audited financial statements of MBDA UK Limited (the "Company") for the year ended 31 December 2017.

Principal activities

The principal business of the Company is the design, development, production and supply of missile and missile systems and related support equipment to the Ministry of Defence (MOD) and export customers.

Dividend

The directors made no dividend payment (2016: £48.0m).

Directors and directors' interests

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

D I Armstrong (Resigned 31st December 2017)
C Allam (Appointed 8th January 2018)
P Di Bartolomeo
P H C Bols
A Bouvier
K M Garden
I D West

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

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 contributions

The Company made no political contributions during the year (2016: £nil).

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, Company policy is to remove exchange rate risk by the placing of foreign currency exchange deals. The Company accounts for forward currency deals under hedge accounting as permitted by IAS 39.

Going concern

After making detailed enquiries, the Board of directors is confident that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly continues to prepare the financial statements on a going concern basis.

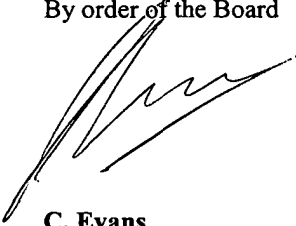
Auditor

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

In the case of each of the persons who were directors of the Company at the date of approval of this Directors' Report they confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Company is domiciled and incorporated in the UK with registered number 3144919 and its registered office is as shown below.

By order of the Board



C. Evans
Company Secretary

Date: 28/9/18

PO Box 19
Six Hills Way
Stevenage
Hertfordshire
SG1 2DA

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

The directors are responsible for preparing the Strategic Report, 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 European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MBDA UK LIMITED

Opinion

We have audited the financial statements of MBDA UK Limited ("the company") for the year ended 31 December 2017 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Mike Barradell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Date: 28th September 2018

Income statement

for the year ended 31 December

	Note	2017 £ m	2016 £ m
Contract revenue		1,054.6	926.2
Raw materials & consumables used		(563.7)	(383.4)
Changes in inventories & work in progress		104.2	7.3
Staff costs	3	(227.4)	(208.5)
Depreciation & amortisation		(19.8)	(16.9)
Other external charges		(231.9)	(203.7)
Operating profit	2	116.0	121.0
Net finance cost	5	(10.0)	(10.2)
Profit before taxation		106.0	110.8
Taxation	6	(19.9)	(21.7)
Profit after taxation		86.1	89.1

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

The notes on pages 13 to 33 form part of the financial statements.

Statement of comprehensive income
for the year ended 31 December

	Note	2017 £ m	2016 £ m
Profit for year		86.1	89.1
Items that will not be reclassified to the income statement :			
Remeasurement of defined benefit liability	18	177.1	(136.5)
Tax on items that will not be reclassified to the income statement	14	(29.7)	20.3
Items that may be reclassified to the income statement :			
Hedging Reserves	21	(8.1)	(36.2)
Tax on items that may be reclassified to the income statement	14	1.2	7.2
Other comprehensive income/(loss) for the year		140.5	(145.2)
Total comprehensive income/(loss) for the year		226.6	(56.1)

Statement of financial position
as at 31 December

	Note	2017 £ m	2016 £ m
Assets			
Intangible assets	7	106.3	106.1
Property, plant & equipment	8	151.0	144.3
Long Term Loan	22	9.6	10.5
Investments	9	211.5	211.5
Derivative financial asset	20	22.0	31.7
Deferred tax assets	14	72.3	102.6
Total non-current assets		<u>572.7</u>	<u>606.7</u>
Inventories	10	197.6	148.9
Trade & other receivables	11	232.7	429.4
Cash and cash equivalents	20	415.3	29.3
Total current assets		<u>845.6</u>	<u>607.6</u>
Total assets		<u>1,418.3</u>	<u>1,214.3</u>
Liabilities			
Payments received on account		(408.9)	(393.9)
Trade & other payables	12	(164.9)	(146.0)
Accruals		(260.7)	(142.5)
Total current liabilities		<u>(834.5)</u>	<u>(682.4)</u>
Employee benefits	18	(336.0)	(505.9)
Provisions	13	(1.2)	(2.5)
Derivative financial liability	20	(64.9)	(66.4)
Deferred tax liability	14	(4.2)	(6.2)
Total non-current liabilities		<u>(406.3)</u>	<u>(581.0)</u>
Net Assets/(liabilities)		<u>177.5</u>	<u>(49.1)</u>
Equity			
Called up share capital	15	5.3	5.3
Reserves	21	(214.6)	(355.1)
Retained earnings		386.8	300.7
Total equity		<u>177.5</u>	<u>(49.1)</u>

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

ID West
 Director
 Date: 28/9/18

Taw West

Statement of financial position
as at 31 December

	Note	2017 £ m	2016 £ m
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ID West
 Director
 Date:

Statement of Changes in Equity

	Share capital	Retained earnings	Reserves	Total equity
	£m	£ m	£ m	£ m
At 1 January 2016	5.3	259.6	(209.9)	55.0
Effective portion of changes in fair value of cash flow hedges (net of deferred tax)	-	-	(29.0)	(29.0)
Actuarial gains / (losses) on defined benefit obligations (net of deferred tax)	-	-	(116.2)	(116.2)
Dividends	-	(48.0)	-	(48.0)
Retained profit for the year	-	89.1	-	89.1
At 31 December 2016	<u>5.3</u>	<u>300.7</u>	<u>(355.1)</u>	<u>(49.1)</u>
 At 1 January 2017	 5.3	 300.7	 (355.1)	 (49.1)
Effective portion of changes in fair value of cash flow hedges (net of deferred tax)	-	-	(6.8)	(6.8)
Actuarial gains / (losses) on defined benefit obligations (net of deferred tax)	-	-	147.3	147.3
Retained profit for the year	-	86.1	-	86.1
At 31 December 2017	<u>5.3</u>	<u>386.8</u>	<u>(214.6)</u>	<u>(177.5)</u>

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.

Statement of cash flows
 for the year ended 31 December

	2017 £ m	2016 £ m
Cash flows from operating activities		
Profit for year	86.1	89.1
Taxation	19.9	(21.7)
Adjustment for:		
Depreciation & amortisation	19.8	16.9
Interest (received) / paid	(0.6)	(0.6)
Dividends received	(2.6)	(3.0)
Loss on capital disposal	0.3	-
Movement in net inventories	(48.7)	14.4
Movement in progress payment received	15.0	14.5
Movement in trade & operating receivables	206.5	(181.7)
Pension movement	13.8	13.8
Movement in other creditors	75.1	31.0
Trade Payables	17.6	(40.0)
Provisions	(1.3)	(1.1)
Taxation Paid	8.2	(1.0)
Net cash from operating activities	409.1	(69.4)
Cash flows from investing activities		
Interest received / (paid)	0.4	0.6
Dividends received	2.6	3.0
Capital expenditure	(27.0)	(36.8)
Repayment of long-term loan	0.9	0.9
Net cash from investing activities	(23.1)	(32.3)
Cash flows from financing activities		
Dividends	-	(48.0)
Net Cash from financing Activities	-	(48.0)
 Net increase / (decrease) in cash & cash equivalents	 386.0	 (149.7)
 Cash & cash equivalents at 1 January	 29.3	 179.0
 Cash & cash equivalents at 31 December	 415.3	 29.3

Notes (forming part of the financial statements)

1. Accounting policies

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

Standards, amendments and interpretations

- IFRS 15 – Revenue from Contracts with customers (mandatory for periods beginning on or after 1 January 2018)
- IFRS 9 – Financial instruments (mandatory for periods beginning on or after 1 January 2018)
- IFRS 16 – Leases (mandatory for periods beginning on or after 1 January 2019)

None of these have been adopted early in preparing these financial statements. The company is assessing the potential impact on its financial statements resulting from implementation of these standards.

Basis of preparation

The Company is exempt by virtue of section 402, with reference to section 405 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.

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.

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	-	up to 50 years
Plant & 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 (Revised) Employee Benefits.

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 other comprehensive income. Past service cost is recognised immediately to the extent that the benefits are already vested.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations as reduced by the fair value of scheme assets.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

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

Taxation

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.

Adoption of IFRS 15

From 1 January 2018, MBDA UK will adopt IFRS15, Revenue from Contracts with Customers.

IFRS 15 outlines principles for the measurement and recognition of revenue from contracts with customers, with the core principle being that revenue should be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods and services to the customer. In order to achieve this objective, the standard sets out a five-step model:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognise revenue when or as the entity satisfies a performance obligation.

The standard also covers the accounting for the incremental costs of obtaining a contract and the costs to fulfil a contract, together with presentation and disclosure requirements.

IFRS 15 replaces existing revenue recognition guidance for goods, services and construction contracts currently included in IAS11 Construction Contracts and IAS18 Revenue.

Under the transition rules IFRS 15 will be applied retrospectively to the prior period in accordance with IAS8 Accounting policies, changes in accounting estimates and errors, subject to the following expedients:

- contracts completed prior to 1 January 2018 and that begin and end within the same annual reporting period will not be restated;
- for contracts that have variable consideration and which have completed prior to 1 January 2018, the revenues recognised will reflect the actual outcome, rather than being estimated and trued up; and
- the disclosures required for comparative periods in respect of amount of revenue allocated to the remaining performance obligations and an explanation of when that amount is expected to be recognised will not be made.

Below is set out the expected revenue recognition policy under IFRS15 together with the estimated impact of adopting the standard.

Contracts to develop and manufacture

- A number of the Company's contracts include both development and subsequent manufacture of missiles and missile systems.
- Under IFRS 15, such contracts are considered to contain multiple discrete performance obligations for which the allocation of the transaction price is expected to result in differing margins applied to each performance obligation. Under current accounting standards, such contracts are considered as a whole and a similar margin is recognised across the life of the contract.
- Performance obligations relating to development-type activities are generally expected to be recognised over time. Under current accounting policies, recognition of revenue is determined on the basis of achieved milestones with costs incurred held as Work-in-Progress on the balance sheet. Going forwards, costs will be recognised directly in the income statement with the related revenue.
- The disaggregation of such contracts to discrete performance obligations delivered over multiple years is anticipated to result in the largest impact of implementation of the new standard.
- Any changes to the enforceable rights and obligations with customers and / or an update to the transaction price will not be recognised as revenue until there is evidence of customer agreement in line with the Group's policies. Any variable amounts will only be recognised where it is highly probable that a significant reversal will not occur. These requirements under IFRS 15 broadly align to the current principles applied by the Company and therefore limited impact is expected.

Contracts to manufacture only

- The majority of the Company's contracts relate to production activities only, with limited or no development obligations.
- Each delivery is considered to represent a performance obligation with revenue to be recognised at a point in time at which the customer accepts delivery and risks and rewards of ownership transfer.
- Under current accounting standards, revenue is recognised on a milestone basis broadly reflecting the delivery to the customer and accordingly limited impact is expected on implementation of the new standard.

Service and support contracts

- The remainder of the Company's contracts relate primarily to service and support contracts, which can take two primary forms: warranty-type contracts guaranteeing a specified useful life of the assets, or maintenance contracts specifying activities to be undertaken at defined points in the assets' lifecycle.
- Warranty-type contracts are considered to be satisfied over time, with revenue recognised on a straight line basis over the period of the contract. Associated costs will be recognised as incurred resulting in margins which may differ over each accounting period.

- Maintenance contracts will most likely include a number of individual performance obligations recognised at a point in time with associated costs recognised in line with each performance obligation.
- Given the lower value associated with such contracts compared to the Company's main development and manufacture type contracts, the estimated impact on implementation is not expected to be material.

Contract costs

- Contract costs are charged to the income statement as incurred, including the necessary accrual for costs which have not yet been invoiced, unless the expense relates to a specific time frame covering future periods.
- Contract costs can only be capitalised when the expenditure meets all of the following three criteria and are not within the scope of another accounting standard, such as inventories, intangible assets, or property, plant and equipment:
 - The costs relate directly to a contract. These include: direct labour, being the salaries and wages of employees providing the promised services to the customer; direct materials such as supplies used in providing the promised services to a customer; and other costs that are incurred only because an entity entered into the contract, such as payments to subcontractors.
 - The costs generate or enhance the resources used in satisfying performance obligations in the future.
 - The costs are expected to be recovered, i.e. the contract is expected to be profitable after amortising the capitalised costs.

The Company will continue to work to design, implement and refine procedures to apply the new requirements of IFRS15 and to finalise accounting policy choices. As a result of this ongoing work, it is possible that there may be some changes to the impact above prior to the 31 December 2018 results being issued. However, at this time these are not expected to be significant

2. Operating profit / (loss)

	2017	2016
	£ m	£ m
Operating profit / (loss) is stated after charging		
Auditor's Remuneration	0.2	0.2
Depreciation of property, plant & equipment	16.0	14.1
Loss on disposal of property, plant & equipment	0.3	-
Intangible amortisation	3.8	2.8
Research and development expenditure in the year	15.4	13.2
Exchange (gain) / loss	0.4	0.2

3. Staff numbers and costs

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

	Number of Employees	
	2017	2016
Employees	3,234	3,089

	2017 £ m	2016 £ m
--	-------------	-------------

The aggregate payroll costs of these persons were as follows:

Wages and salaries	177.3	160.9
Social security costs	16.1	14.4
Other pension costs	34.0	33.2
	<u>227.4</u>	<u>208.5</u>

4. Directors' emoluments

	2017 £ m	2016 £ m
Wages and salaries	1.4	1.4
Company contribution to pension plan	0.1	0.1
	<u>1.5</u>	<u>1.5</u>

The aggregate emoluments of the highest paid director during the year were £524.8k (2016:£548.8k). He is not a member of a defined benefit pension scheme.

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

	Number of Directors	
	2017	2016
Defined benefit pension schemes (Note 18)	3	3

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

5. Finance income / (cost)

	2017 £ m	2016 £ m
Dividends received from subsidiary companies	2.6	3.0
Interest payable	(13.0)	(13.8)
Interest received	0.4	0.6
	<u>(10.0)</u>	<u>(10.2)</u>

6. Taxation recognised in the income statement

	2017 £ m	2016 £ m
Current tax		
Current tax charge for period	21.4	21.0
Adjustment for prior years	(1.1)	-
	<u>20.3</u>	<u>21.0</u>
Deferred tax (Note 14)		
Origination and reversal of temporary differences	(0.6)	0.5
Recognition of previously unrecognised tax losses	0.2	0.2
	<u>19.9</u>	<u>21.7</u>

Reconciliation of effective tax rate

	2017 £ m	2016 £ m
Profit before tax	106.0	110.8
Tax charge on profit at UK rate of 19.25% (2016: 20%)	<u>20.4</u>	<u>22.2</u>
Non-deductible expenses	0.1	0.3
Non-taxable income	(0.5)	(0.6)
Depreciation (ineligible)	0.4	0.4
Research and development credit	-	(1.3)
Rate change difference	0.8	0.5
Recognition of previously unrecognised tax (profit)/losses	(1.3)	0.2
	<u>19.9</u>	<u>21.7</u>

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2017 has been calculated based on these lower rates

7. Intangible assets

	Goodwill	Computer Software	Total
	£ m	£ m	£ m
Cost			
At 1 January 2016	98.3	36.5	134.8
Acquisitions	-	3.8	3.8
Disposals	-	(0.7)	(0.7)
Transfer between items	-	3.6	3.6
At 31 December 2016	98.3	43.2	141.5
Acquisitions	-	4.0	4.0
Disposals	-	(2.0)	(2.0)
Transfer between items	-	-	-
At 31 December 2017	98.3	45.2	143.5
Amortisation & impairment			
At 1 January 2016	-	33.3	33.3
Amortisation	-	2.8	2.8
Disposal	-	(0.7)	(0.7)
At 31 December 2016	-	35.4	35.4
Amortisation	-	3.8	3.8
Disposal	-	(2.0)	(2.0)
At 31 December 2017	-	37.2	37.2
Net book value			
At 31 December 2016	98.3	7.8	106.1
At 31 December 2017	98.3	8.0	106.3

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

Amortisation and impairment charges are recognised in the Income Statement, 'Depreciation and Amortisation'. Goodwill is tested annually for impairment based on the 5 year business plan. 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 6.3% (2016: 10%). The terminal value is justified due to the long term nature of the business.

There was nil impairment of computer software in the year (2016: £nil).

At December 2017, included in cost were intangible assets with a net book value of zero: Software £31.3m (2016:£31.4m)

8. Property, plant & equipment

	Land & buildings £ m	Plant & machinery £ m	Fixture, fittings, tools & equipment £ m	Assets in the course of construction £ m	Total £ m
Cost					
Balance at 1 January 2016	85.1	115.6	90.4	21.4	312.5
Acquisitions	0.3	4.1	9.9	18.9	33.2
Disposals	-	(0.2)	(1.5)	-	(1.7)
Transfers between items	17.8	0.1	12.6	(34.3)	(3.8)
Balance at 31 December 2016	103.2	119.6	111.4	6.0	340.2
Acquisitions	0.9	5.3	13.5	3.5	23.2
Disposals	(3.0)	(3.6)	(8.0)	-	(14.6)
Balance at 31 December 2017	101.1	121.3	116.9	9.5	348.8
Depreciation & impairment					
Balance at 1 January 2016	23.6	98.1	61.8	-	183.5
Depreciation charge for the year	1.8	3.8	8.5	-	14.1
Disposals	-	(0.2)	(1.5)	-	(1.7)
Balance at 31 December 2016	25.4	101.7	68.8	-	195.9
Depreciation charge for the year	1.8	3.8	10.4	-	16.0
Disposals	(3.0)	(3.3)	(7.8)	-	(14.1)
Transfers between items	-	-	-	-	-
Balance at 31 December 2017	24.2	102.2	71.4	-	197.8
Net book value					
At 31 December 2016	77.8	17.9	42.6	6.0	144.3
At 31 December 2017	76.9	19.1	45.5	9.5	151.0

Land and buildings contains land with a cost of £24.6m that does not attract any depreciation (2016: £24.6m).

There was £0.2m of plant & equipment held under finance leases (2016: £0.2m).

9. Investments

Net Book Value	2017 £ m	2016 £ m
At 1 January	211.5	211.5
At 31 st December	211.5	211.5

Company Name	% Shareholding	Company Activity	Country of Incorporation	Registered Address
UKAMS Limited	100	Agent for MBDA UK Limited	UK	PO Box 19 Six Hills Way STEVENAGE Herts SG1 2DA
Horizon Land Limited	100	Landowner	UK	PO Box 19 Six Hills Way STEVENAGE Herts SG1 2DA
MBDA Inc.	100	Supply, install and commission military equipment	USA	1300 Wilson Boulevard, Suite 550 Arlington, Virginia 22209 United States of America
Horizon Technology Park Management Company Limited	97	Management of real estate	UK	PO Box 19 Six Hills Way STEVENAGE Herts SG1 2DA
MBDA General Purpose Limited	100	Manufacturing	UK	PO Box 19 Six Hills Way STEVENAGE Herts SG1 2DA
Logistics North MC Ltd	4	Management of real estate	UK	c/o Harworth Estates Property Goup Limited Advantage House Poplar Way Catcliffe Rotherham S60 5TR

The Company holds 210,000 sterling cumulative preferred shares in MBDA Treasury Company Limited. The operations of MBDA Treasury Company Limited are based in Dublin, Republic of Ireland, and its principal activities are to manage the MBDA Group's core funding and liquidity, to manage the banking relationships of the MBDA group, and to control and monitor bank credit risk and credit capacity utilisation.

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

10. Inventories

	2017	2016
	£ m	£ m
Raw materials & consumables	93.8	75.9
Work in progress	97.5	65.9
Finished goods & goods for resale	6.3	7.1
	<u>197.6</u>	<u>148.9</u>

Included within work in progress is an inventory provision of £0.8m (2016: £0.9m).

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

	2017	2016
	£ m	£ m
Net cost less foreseeable losses	619.9	532.9
Less payments on account received and receivable not matched with turnover	(522.4)	(467.0)
	<u>97.5</u>	<u>65.9</u>

	2017	2016
	£ m	£ m
11. Trade and other receivables		
Current receivables		
Trade receivables – amounts recoverable on contracts	83.0	304.3
Amounts owed by group undertakings	29.8	12.5
Other receivables	32.9	16.3
Prepayments & accrued income	87.0	96.3
	<u>232.7</u>	<u>429.4</u>

12. Trade and other payables

	2017 £ m	2016 £ m
Due within one year		
Trade payables	61.0	52.3
Amounts owed to group undertakings	65.1	52.5
Other creditors	38.8	41.2
	<u>164.9</u>	<u>146.0</u>

13. Provisions

	Contract £m
At 1 January 2016	3.6
Created	-
Utilised and released	(1.1)
At 31 December 2016	<u>2.5</u>
At 1 January 2017	2.5
Utilised and released	(1.3)
At 31 December 2017	<u>1.2</u>

In respect of ongoing contracts, in assessing profitability, provisions are 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 2016 £m	Recognised in income £m	Recognised in equity £m	31 December 2016 £m
Deferred Tax Asset				
Accelerated capital allowances	1.6	(0.4)	-	1.2
Employee benefits	68.1	(0.3)	20.3	88.1
IAS 39 fair value adjustment	1.3	-	12.0	13.3
Other	0.1	(0.1)	-	-
Net tax asset	<u>71.1</u>	<u>(0.8)</u>	<u>32.3</u>	<u>102.6</u>
Deferred Tax Liability				
IAS 39 fair value adjustment	(1.6)	-	(4.6)	(6.2)
Net tax liability	<u>(1.6)</u>	<u>-</u>	<u>(4.6)</u>	<u>(6.2)</u>
	1 January 2017 £m	Recognised in income £m	Recognised in equity £m	31 December 2017 £m
Deferred Tax Asset				
Accelerated capital allowances	1.2	0.4	-	1.6
Employee benefits	88.1	-	(29.7)	58.4
IAS 39 fair value adjustment	13.3	-	(1.0)	12.3
Net tax asset	<u>102.6</u>	<u>0.4</u>	<u>(30.7)</u>	<u>72.3</u>
Deferred Tax Liability				
IAS 39 fair value adjustment	(6.2)	-	2.0	(4.2)
Net tax liability	<u>(6.2)</u>	<u>-</u>	<u>2.0</u>	<u>(4.2)</u>

15. Called up share capital

	2017 £	2016 £
Authorised, Allotted, Called Up and Fully Paid		
On issue at 1 January – 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
On issue at 31 December – 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

Ordinary shares carry one vote per share. Preferred ordinary shares do not attract any voting rights. No dividend per ordinary share has been paid in the year. (2016: £8.99).

16. Operating Leases

Total commitment of future minimum lease payments

	2017 £ m	2016 £ m
Due in		
1 year	2.6	2.6
2-5 years	6.1	7.3
After 5 years	2.8	-
Total	<u>11.5</u>	<u>9.9</u>

All operating leases relate to land and buildings. An expense of £3.7m (2016: £3.6m) is recognised in the income statement.

17. Commitments

There are no unrecognised contractual commitments at the year-end (2016: £nil).

Commitment for capital expenditure at 31 December 2017 was £15.7m (2016: £8.1m).

18. Employee benefits

	2017 £ m	2016 £ m
Recognised liability for defined benefit obligation	(2,064.5)	(2,142.3)
Liability for long service award	(0.7)	(0.8)
Fair value of plan assets	1,729.2	1,637.2
Total	<u>(336.0)</u>	<u>(505.9)</u>

Assets of defined benefits pensions plans

	2017 £ m		2016 £ m	
Equities	601.8	34.8%	522.3	31.9%
Bonds	760.8	44.0%	726.9	44.4%
Property	126.2	7.3%	111.3	6.8%
Other	240.4	13.9%	276.7	16.9%
	<u>1,729.2</u>	<u>100%</u>	<u>1,637.2</u>	<u>100%</u>

The Company is a member of several multi-employer defined benefit pension schemes operated by BAE Systems Plc. The Company'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 the Company'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.

Defined benefit pension plan amounts for the current and previous 4 years.	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Defined benefit obligations	(2,064.5)	(2,142.3)	(1,716.7)	(1,702.2)	(1,429.4)
Plan assets at bid value	1,729.2	1,637.2	1,347.3	1,254.0	1,118.1
Total deficit before tax	(335.3)	(505.1)	(369.4)	(448.2)	(311.3)
Actuarial gain / (loss) on plan liabilities	84.8	(402.0)	12.4	(238.8)	(8.6)
Actuarial gain / (loss) on plan assets (at bid value)	92.3	265.4	67.8	85.8	27.0

Financial assumptions used for MBDA UK Ltd. pension schemes	2017	2016
Inflation rate	3.1%	3.2%
Discount rate	2.6%-2.7%	2.7%
Increase for salaries	3.1%	3.2%
Pension increase	2.1%-3.1%	2.2% - 3.2%

Movement in present value of obligations	2017 £m	2016 £m
Defined benefit obligation 1 January	(2,142.3)	(1,716.7)
Current service cost	(31.3)	(24.3)
Past service cost	(0.1)	(0.1)
Interest on obligation	(57.9)	(69.6)
Actuarial (losses)/gains recognised in equity	84.8	(402.0)
Benefits paid	83.0	71.2
Members contributions	(0.7)	(0.8)
Defined benefit obligation at 31 December	(2,064.5)	(2,142.3)

Movement in present value of plan assets	2017 £m	2016 £m
Fair value of plan assets at 1 January	1,637.2	1,347.3
Contributions paid into plan	37.4	39.1
Expected return on plan assets	44.6	55.8
Actuarial gains recognised in equity	92.3	265.4
Benefits paid	(83.0)	(71.2)
Member contributions	0.7	0.8
Fair value of plan assets at 31 December	1,729.2	1,637.2

For more details regarding the relevant schemes, please refer to Note 21 Retirement Benefits in the BAE Annual Report 2017

19. Related party disclosures

The Company undertook the following transactions with group companies, all transactions are on an arm's length basis:

MBDA France S.A.S.	2017	2016
	£ m	£ m
Sales	23.5	6.2
Purchases	(111.9)	(139.8)
Owed to	(47.1)	(21.4)
Receivable from	23.8	2.4
MBDA Italia S.p.A.	2017	2016
	£ m	£ m
Sales	1.3	0.2
Purchases	(52.7)	(49.5)
Owed to	(1.3)	(16.7)
Receivable from	-	0.3
MBDA Deutschland GmbH	2017	2016
	£ m	£ m
Sales	1.1	0.8
Purchases	-	(0.1)
Owed to	-	(0.1)
Receivable from	-	0.1
MBDA Services S.A.S.	2017	2016
	£ m	£ m
Recharged services	22.1	20.3
Purchases	(25.3)	(23.9)
Owed to	(6.8)	(7.7)
Receivable from	6.7	5.2
Bayern Chemie GmbH	2017	2016
	£ m	£ m
Purchases	(46.3)	(43.5)
Owed to	-	-
Roxel UK Rocket Motors Ltd	2017	2016
	£ m	£ m
Purchases	(41.3)	(20.3)
Owed to	(2.9)	(3.6)
TDW GmbH.	2017	2016
	£ m	£ m
Purchases	(7.8)	(8.2)
Owed to	(5.2)	(4.0)

MEL	2017	2016
	£ m	£ m
Purchases	(0.6)	-
Owed to	(0.1)	(0.3)

MBDA UAE	2017	2016
	£ m	£ m
Sales	0.5	-
Receivable from	1.2	3.8

The Company received a dividend from MBDA Treasury Company Limited of £2.6m (2016: £3.0m). The Company is owed £9.6m (2016:£10.5m) by Horizon Land Ltd. (refer to Note 22)

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

BAE Systems Plc	2017	2016
	£ m	£ m
Sales	399.0	423.1
Purchases	(59.7)	(36.7)
Owed to	(8.8)	(2.2)
Receivable from	108.1	240.9

Leonardo Finmeccanica SpA	2017	2016
	£ m	£ m
Sales	-	-
Purchases	(29.1)	(22.1)
Owed to	(3.6)	(1.0)
Receivable from	-	-

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 the Company's policy is to remove exchange rate risk by the placing of foreign currency exchange deals. The Company accounts for forward currency deals under hedge accounting as permitted by IAS 39.

Interest risk

The Company loans cash to MBDA Treasury Company Ltd. on which interest is received based on LIBOR / EURIBOR. 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 on the balance sheet.

	2017			2016		
	Asset	Liability	Net	Asset	Liability	Net
	£m	£m		£m	£m	
USD purchase	1.0	1.6	(0.6)	4.3	-	4.3
USD sale	1.5	0.2	1.3	-	1.8	(1.8)
EUR purchase	15.6	0.9	14.7	21.7	3.9	17.8
EUR sale	1.1	61.6	(60.5)	3.3	60.3	(57.0)
SEK purchase	2.4	0.4	2.0	2.2	-	2.2
SEK sale	0.4	0.2	0.2	0.2	0.4	(0.2)
Total	22.0	64.9	(42.9)	31.7	66.4	(34.7)

The £42.9m net financial liability (2016 liability: £34.7m) gives rise to a deferred tax asset of £8.1m (2016 asset: £7.0m). The credit effect on the fair value reserve in equity is £6.8m (2016 credit: £29.0m).

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.

	2017				2016			
	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	£m	£m	£m	£m
EUR	55.5	(442.8)	4.0	(383.3)	(21.1)	(371.8)	(32.3)	(425.2)
USD	12.5	(7.3)	4.4	9.6	9.8	9.6	-	19.4
Other	3.4	18.6	-	22.0	(4.9)	20.5	0.9	16.5
Total	71.4	(431.5)	8.4	(351.7)	(16.2)	(341.7)	(31.4)	(389.3)

The following table presents the Company's assets and liabilities by the measurement basis by which they are fair valued under the IFRS 7 fair value hierarchy at 31 December 2017:

2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging	-	22.0	-	22.0
Total assets	-	22.0	-	22.0
Liabilities				
Derivatives used for hedging	-	64.9	-	64.9
Total liabilities	-	64.9	-	64.9
2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging	-	31.7	-	31.7
Total assets	-	31.7	-	31.7
Liabilities				
Derivatives used for hedging	-	66.4	-	66.4
Total liabilities	-	66.4	-	66.4

- 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 assets or liabilities that are not based on observable market data (i.e. unobservable units).

Deposits

Deposits are carried at historic value as below:

	Interest rate	2017 £m equivalent	2016 £m equivalent
GBP £	LIBOR	390.1	26.8
USD	LIBOR	0.9	1.1
EUR	EURIBOR	22.6	1.0
Other	LIBOR	1.7	0.4
		<u>415.3</u>	<u>29.3</u>

Deposits in £, US\$ and € are made with MBDA Treasury Co Ltd. Other deposits are made directly by the Company. All deposits are repayable on demand. The amounts above are included within cash and cash equivalents on the balance sheet.

Contained in cash and cash equivalents is £42.4m (2016: £46.3m) of restricted cash related to a bank account jointly managed by the Company and the UK Ministry of Defence.

21. Reserves

	2017 £ m	2016 £ m
Hedging reserves	(34.7)	(28.0)
Other reserves	42.8	43.0
Retirement benefit reserves	(222.7)	(370.1)
	<u>(214.6)</u>	<u>(355.1)</u>

22. Long term loan

	2017 £ m	2016 £ m
Loan to Horizon Land Ltd	9.6	10.5
	<u>9.6</u>	<u>10.5</u>

£9.6m relates to a long term loan to Horizon Land Limited for the purchase of land and buildings. The initial loan was for £12.2m and commenced in October 2014 and is due to be fully repaid on the 6th April 2026. The interest is calculated in advance on a quarterly basis at ICE LIBOR plus 200 base points.

23. Subsequent events

There have been no events occurring after December 31, 2017 which require adjustment to or disclosure in these financial statements.

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) 1 Avenue Réaumur – 92350 Le Plessis Robinson - France. The consolidated accounts are available at this address. MBDA SAS is owned by BAE Systems plc. Registered office 6 Carlton Gardens London SW1Y 5AD (incorporated in England, 37.5% shareholding), Airbus Group B80 Building 2, Rond-Point Dewoitine BP 90112 31703 Blagnac Cedex France (incorporated in The Netherlands, 37.5% shareholding), and Leonardo SpA Piazza Monte Grappa n. 4 00195 Rome Italy (incorporated in Italy, 25% shareholding).