

MBDA UK Limited

Annual Report and Consolidated Financial Statements for the year ended 31 December 2022

Registered Number 3144919

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MBDA UK Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2022

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MBDA UK Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2022

Directors' and other information

Directors

C Allam
J Allibone
E E A Béranger
P H C Bols
I D West

Secretary

G J Lock

Registered office

P O Box 19
Six Hills Way
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Hertfordshire
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Auditor

Ernst & Young LLP
400 Capability Green
Luton
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Company registration number

3144919

Strategic Report

MBDA UK Limited (the “Company”) financial statements have been prepared on a consolidated basis. The financial statements have been consolidated with the Company’s subsidiaries, MBDA Inc., Horizon Land Limited and UKAMS Limited, (the “UK Group”).

Principle Activities & Business Review

As part of the MBDA Group (term is defined on page 5), the UK Group’s vision is to be the European champion and a global player in the field of missiles and missile systems. The UK Group Revenue in 2022 was £1,038.8m (2021: £1,126.0m) broadly generated 50% from UK MoD contracts and 50% from export contracts and this revenue generated profit after tax of £50.1m (2021: £48.2m). As at 31 December 2022 the UK Group was in a healthy financial position, with a substantial profitable order book and cash, cash equivalents and Treasury Pooling of £251.7m.

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

The number of employees of the UK Group excluding directors increased from 4,226 (Dec 2021) to 4,494 (Dec 2022). A breakdown of the employees is as follows:

	Male		Female	
	2022	2021	2022	2021
Directors of the Company	6	6	0	0
Senior Managers	390	361	75	61
Other employees	3,127	2,988	902	816

The Company has sets itself the target of achieving a gender balance of 30% female employees by 2030 and is taking active steps to recruit and retain an increasing number of female employees.

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

The UK Group maintains a substantial and continuing commitment to research and development. Such work covers technology, capability and processes; it is aimed at updating existing, and developing new, technologies in order to maintain a competitive edge, improve efficiency, safety and sustainability, and reduce costs.

Key Performance Indicators

	2022	2021
Revenue	£1,039m	£1,126m
Profit Before Taxation	£58.2m	£60.9m
Cash and Treasuring Pooling	£251.7m	£517.9m
Year End Headcount	4,494	4,226

Future Developments

Building upon the success of the current strategic partnering agreement with UK MOD, the UK Group is currently negotiating a new long term agreement to replace the current agreement when it expires at the end of 2023. This new agreement will ensure that the UK Group remains the UK MOD's preferred supplier of missiles and missile systems.

In the export markets the UK Group is seeing a significant increase in level of customer enquiries. In April 2023 the Company signed a ~£1.9bn contract with Poland for the supply of ground based air defence missiles and associated systems. As a result of this increased demand the UK Group will continue to invest in order to increase production capacity.

Principle Risks & Uncertainties

Risks are identified based on the likelihood of occurrence and the potential impact on the UK Group. The principal risks and uncertainties facing the UK Group are identified below, together with an indication of how those risks are mitigated.

The UK Group is dependent on defence spending and any reduction could adversely affect the UK Group. Defence spending depends on a complex mix of political considerations and budgetary constraints which mean it may be subject to fluctuations. Increasingly development projects are undertaken on a collaborative basis with the domestic customers of other MBDA entities within the MBDA Group. There is a risk to our ability to take part in such collaborative development if our domestic customers are unable to align their future needs or where domestic economic pressures reduce defence budgets. We continue to work closely with both domestic and European bodies to strengthen our relationships. Our strong domestic and European relationships should reduce our risk exposure.

As a defence contractor we have to obtain export licenses to enable us to trade outside of our domestic market. Any changes to the approved markets in which we operate can impact our ability to deliver to customers outside of our domestic market. The UK Group continues to monitor potential risks before they arise and will work with both the UK Government and overseas governments to resolve any issues that may arise.

Credit risk on export contracts is generally mitigated through a variety of means including securing payment via Letters of Credit or UK Government backed financing schemes. Where direct transfer is accepted as a payment means, the credit risk is generally mitigated via insurance

The UK Group uses forward exchange contracts to hedge the vast majority of its currency exposures. The UK Group secures some of its customer contracts and procures goods and services in currencies other than sterling. The UK Group will always look to ensure that it only receives non sterling receipts to the extent that these will be subsequently passed to its supply chain. To the extent that this is not possible and to the extent that there are timing differences between the receipt of non sterling currencies and their subsequent disbursement to the supply chain currency hedging is put in place such that the foreign exchange rate associated with each contract is fixed in advance, hence removing the potential impact on contract from fluctuations in foreign exchange rates.

Working with the appropriate Governmental agencies, the UK Group continues to invest heavily in tools, systems and processes design to ensure that our protections from cyber threats remain certifiably fit for purpose. This approach is equally applied to both the day to day operations of the business and the products that are produced.

The UK Group is very aware of its need to secure a reliable, long term supply of the components used in its products in order to ensure the smooth running of its operations. This topic is managed on a constant, proactive basis throughout our supply chain using a number of approaches. To date the UK Group has not suffered any significant disruption due to the non availability of such components.

Unforeseen technical and programmatic issues can arise in the course of prosecuting our development and production contracts which can erode profitability and lead to delays. We aim to mitigate such risk by deploying strong project management and project governance disciplines.

COMPANIES ACT SECTION 172(1) STATEMENT

By way of background, it is worth highlighting that the UK Group is a part of the MBDA Group, an international group of companies, the holding company of which is the Company's immediate parent MBDA SAS, a French corporation (the "MBDA Group"), ultimately owned by BAE Systems PLC (37.5%), Airbus SE (37.5%) and Leonardo SpA (25%).

As required by Section 172 of the UK Companies Act 2006, the Directors of the UK entities within the UK Group must act in the way they consider, in good faith, will most likely promote the success of the business for the benefit of its shareholders as a whole. In doing this, each Director must have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the UK Group's employees;
- need to foster the UK Group's business relationships with suppliers, customers and others;
- impact of the UK Group's operations on the community and environment;
- UK Group's reputation for high standards of business conduct; and
- need to act fairly between members of the UK Group.

Overview of how the Directors perform their duties

As part of their induction, each director of the Company (the "Directors") is briefed on their duties. The Directors are also guided as to these duties by the Company's Legal department and the Company Secretary. While the Directors are collectively responsible for the long-term success of the business, as is common in most large businesses, the Directors fulfil their duties partly through a delegated authority framework that delegates some day-to-day decision-making to employees of the Company (the "Delegated Authorities"). The Company mandates strict adherence to the Delegated Authorities, which provides governance on accountability for decision-making across the business. The Delegated Authorities framework empowers a network of talented and responsible individuals to support the Directors in their aims, and assists with ensuring that there is an effective two-way channel of communication and engagement relating to the operation of the Company.

The Directors further fulfil their duties by acting in accordance with the MBDA Group's Principles of Operation, which lays out the main roles and responsibilities of the two main operational Governance committees of the MBDA Group; the Executive Committee and the Management Committee. Currently, four of the six Directors of the Company are members of the MBDA Group Executive Committee. The Principles of Operation also detail the respective responsibilities, organisations and principles of each MBDA Group company. The Principles of Operation are regularly reviewed and amended to reflect any changes to perceived risks or the environment in which the Company operates.

Long-term Company success

Each year, the Company's Directors participate in and contribute to an in-depth review of the Company's strategy, both in terms of past performance and the future, by the generation of an Integrated Strategic Business Plan ("ISBP"), as part of an overall MBDA Group ISBP review. The ISBP is built on a foundation of knowledge and feedback gained through internal and external engagement with key stakeholders, including employees, customers, suppliers, industry working groups and Government organisations. Once ratified internally by the Company's Directors, the Company's ISBP is submitted for inclusion into the wider MBDA Group ISBP. Once confirmed, the Company's ISBP forms the basis of the Company's budget, resource and investment plans, and outlines the future strategic areas of focus for the Company. In underwriting the ISBP, the Company, through the Directors and others within the MBDA Group authorised by the Directors engages with key stakeholders, including its shareholders, employees, customers and suppliers to ensure that the focus of the business over this period is aligned with their expectations and is realistic, based on a wide pool of views about the likely future impact of decisions. Consideration is always given to the economic and social consequences of the Company's long-term decisions and reputation. Further detail on the main methods the company uses to engage with its stakeholders is provided below.

Risk management is a fundamental part of how the Company operates. It is embedded into daily operations at all levels of the business, including aspects related to health and safety, security, environmental impact, product safety, contractual obligations, stakeholder relationships and financial consequences. The Company uses a risk management tool to collate and manage all identified risks. These risks, along with the associated mitigation activity, are reviewed regularly by management. In addition to the management of risks, the Company also seeks out operational assurance self-assessment by way of a quarterly review by senior representatives from each function across the Company on all aspects of the Company's operations, meetings to discuss key risks, progress and proposed mitigations, as well as highlighting successes during that period. The outcome of these reviews is used to inform the decision-making process of the Company.

Employees

To ensure the interests of the UK Group's employees are advanced and that employees are fully engaged in the strategic direction and operation of the Company, the MBDA Group has an employee engagement strategy in place to ensure regular effective two-way communications between management and all employees. This includes an annual "state of the nation" briefing to the UK Group by members of the MBDA Executive Committee, frequent "Team Briefs" from the Chief Executive and UK Directors, alongside more informal use of the internal social media channels. Additionally, there has been a regular Employee Opinion Survey (EOS) undertaken. The EOS enabled employees to anonymously express views over a range of themes such as ways of working, ethics, recognition and development. The responses of the last EOS have been fully analysed and both MBDA Group and Directorate Actions plans produced. The last EOS was undertaken in 2021 but moving forward it has been decided that smaller, more frequent "pulse" surveys will replace the previous bi-annual EOS.

Regular feedback is provided to employees on both the results of these surveys and the resultant proposed action plans which are developed in collaboration between management and employees based on area-specific reports. A summary of all action plans and their implementation is presented to the Executive Committee. These surveys have highlighted the strength of the relationship between the Company and its employees and the sense of support, fairness and respect people feel when working for the Company. As an evolution to the traditional Group-wide approach, a greater focus is now being placed on Pulse Surveys, allowing more timely, targeted surveys to specific populations across the Organisation. This will enable particular themes to be explored as and when necessary and will complement the Group Wide approach.

This business implemented new ways of working following the COVID-19 pandemic. "Dynamic Working" enables flexibility for the mutual benefit of our people and our business and has proven to be successful in terms of attracting and retaining talent as well as motivating the employee community.

Workshops took place during the year with employees from across the business to co-design a refresh of the UK Equality, Diversity and Inclusion (ED&I) strategy. These inputs fed into the development of ED&I commitments and ambitions for MBDA Group, which focus on providing an inclusive culture and environment for all, gender equality and disability positivity. MBDA UK published its Ethnicity Pay Gap Report for the first time, and established the Inclusion Forum: a formal space for the business to engage with representatives from our ED&I networks and trade unions on how to create a more inclusive and accessible workplace experience, seeking to take a balanced approach where diverse voices are heard and different perspectives are taken into account.

The Company has well developed relationships, structures and processes through which it engages regularly with Trade Union representatives and officials to inform, consult and negotiate on relevant matters as necessary.

Customers

Customer-facing Directors and employees regularly engage with customers to provide a two-way flow of information, sharing requirements and progress against milestones to promote mutual benefit and understanding of key priorities. These engagements take place in multiple formats, either one-to-one or with wider customer and business stakeholders as appropriate. Key information gathered as an output of these engagements is shared with Directors as appropriate and other employees as required to reach all appropriate individuals within the Company. The engagement activity assists the Company remaining culturally focussed on meeting customer priorities and engaging collaboratively to ensure that a strong relationship is built for the future success of the Company.

Suppliers

Company Directors meet regularly with representatives from the Company's procurement function in order to understand the relationship between the Company and its supply chain, the performance status of the Company's suppliers and key risks within the supply chain. Furthermore, they give due consideration to the potential for developing strategic partnerships with the supply chain. Ethics, cost, quality, performance, delivery and suitability are all taken into account in the selection of goods and services. All suppliers go through a two stage vetting process. We deliver a Supply Chain Risk Management model that is based around seven key risk areas, creating a risk profile for each supplier at the earliest possible opportunity. This approach is aimed at improving the early identification, prevention and mitigation of supply chain risk in order to ensure a sustainable and high performing supply chain throughout the full lifecycle of our products. It achieves this by enhancing the levels of screening, risk understanding, mitigation and reporting across the MBDA Group. A risk registration process (fit for business) is followed before any business discussions can commence followed by supplier accreditation (fit for purpose).

The Company also aims to act responsibly and fairly in its engagement with suppliers. All suppliers are paid in accordance with their agreed terms.

Community and environment

The MBDA Group is committed to implementing policies and procedures that benefit the environment and communities within which we operate. An important aspect of the MBDA Group's commitment to responsible corporate behaviour is its ability to exercise social responsibility through company giving and sponsorship. Over the course of the year, as part of our corporate and social responsibility aims, we sponsor and contribute to the activities of worthy charities and causes in the communities in which we operate.

In January 2022, MBDA Group's CEO launched a comprehensive corporate Environmental, Social Governance (ESG) Programme for the MBDA Group covering the pillars of environment, sustainability, diversity and inclusion. There will be a particular focus on reducing our carbon footprint, promoting access to training for employees and implementing measures to improve health, safety and well-being at work, and effective governance to ensure integrity of our practices in the countries in which we operate. This will be measured through quantitative targets and KPIs to ensure that the efforts are measurable and that sustainability initiatives can be assessed through meaningful criteria.

The MBDA Group's environmental stewardship programme strives to contribute proactively to preserve the environment through our operations and through the lifecycle of our products in order to reduce our environmental footprint. Our MBDA Corporate Responsibility Report provides further information.

Please see the section below within the Directors' Report specifying the environmental factors. The link to the Sustainability report is below:

https://www.mbda-systems.com/wp-content/uploads/2023/06/2022-MBDA_Sustainability-Report.pdf

Standards of Business Conduct

Through the MBDA Group's framework of Corporate Social Responsibility initiatives, we ensure that our business operates in an ethical, sound and responsible manner to create a trustworthy environment for our stakeholders, both inside the Company with our employees and externally with our customer partners. The Company has a well-established commitment to ethical business conduct, reflecting international best practices. MBDA Group has an established Code of Ethics that is central to all its operations and underpins the culture across the MBDA Group. The link to the Code of Ethics is below:

https://www.mbda-systems.com/wp-content/uploads/2020/03/MBDA-Code-of-Ethics-2020-report_UK.pdf

The Code of Ethics requires all employees across the MBDA Group to behave as an industry benchmark for innovation, operational excellence and ethical standards. The Code of Ethics is reviewed regularly to ensure that any changes to legislation are appropriately embedded so that the MBDA Group continues to conduct its business activities to the highest ethical standard.

Training sessions are organised by the Business Ethics Directorate for managers and exposed personnel. In addition, employees have access to additional guidelines. The Business Ethics Directorate are at any employees' disposal to answer questions relating to the Code of Ethics, and how this applies to internal and external dealings.

MBDA UK has a specific training segment on Business Ethics & Compliance. On joining MBDA UK, all employees are required to attend this mandatory session, which explains the policies, the importance of the Code of Ethics and how this underpins the culture within the MBDA Group.

Fair Dealings between the Members

The principal elements governing the relationship between the MBDA Group and the ultimate shareholders are encompassed in the agreement between the Company's parent MBDA SAS and the MBDA Group's ultimate shareholders (the "Shareholder's Agreement"). The Shareholder's Agreement includes various mechanisms, such as reserved matters, reporting requirements (including monthly financial reporting), financial approvals and board membership requirements which facilitate equal visibility of information relating to the Company and fair dealings by the Company as between the ultimate shareholders.

By order of the Board



G.J. Lock
Company Secretary
Date: 31 July 2023

Directors' Report

The Directors present their annual report and the audited consolidated financial statements of MBDA UK Limited for the year ended 31 December 2022.

Principal activities

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

Results & Dividend

The profit for the year after taxation amounts to £50.1m (2021 £48.2m). The Directors made dividend payment in 2022 of £189m (2021: Nil). The Directors do not recommend a final dividend payment.

Directors and Directors' interests

The directors who held office during the period and up to the date of signing were:

C Allam
J Allibone
E E A Béranger
P H C Bols
L Mariani (resigned 31/5/2023)
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.

Directors' insurance and indemnities

The Directors have the benefit of the indemnity provisions contained in the Company's Articles of Association ('Articles'), and the Company has maintained throughout the year Directors' and officers' liability insurance for the benefit of the Company, the Directors and its officers. The Company is permitted, pursuant to its Articles to provide and maintain qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope that comply with the requirements of the Companies Act 2006.

Employees

Employment policies include a commitment to equal opportunity and are designed to attract and retain the best employees regardless of gender and sexual identity, marital status, age, nationality, or disability, subject only to considerations of national security. The UK Group 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 or incapacitated, 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. Please refer to the Section 172(1) Statement for further details included in the Strategic report.

Corporate Social Responsibility

Corporate and Social Responsibility (CSR) is recognised as part of MBDA Group's business foundation and how we do business. MBDA Group's CSR activities reflect our ongoing commitment to innovation and sound business practices and processes, whilst designing and producing missiles and missile systems that meet the whole range of current and future needs of the three UK armed forces worldwide.

Through MBDA Group's framework of CSR initiatives, developed over the last decade, we ensure that our business operates in an ethical, sound and responsible manner. Whilst MBDA Group alone cannot tackle global issues, our responsibility is to act with integrity and to be a company that customers trust and employees want to work for and ultimately be a good citizen. MBDA Group has a well-established commitment to ethical business conduct, reflecting international and sectorial best practices. MBDA Group's strong commitment to business ethics is critical to ensure we can successfully continue conducting our business activities. Please refer to the Section 172(1) Statement in the Strategic Report for further details.

Community and Environment

We recognise our responsibility to the global community and through our business decisions we strive to reduce our carbon and environmental footprint wherever possible. In contribution to this important goal, we encourage our employees to understand our collective effort and to adopt individual environmentally friendly behaviours.

As a company, we aim to, whenever practically possible, across our locations:

- Minimise the use of natural resources
- Improve our energy efficiency
- Minimise the generation of waste whilst implementing and promoting recycling
- Consider the environmental impact relevant to our business decisions
- Minimise pollution and promote greener transport options for our employees
- Inform and encourage our employees to act in an environmentally responsible manner

Streamlined Energy and Carbon Reporting (SECR)

Consumption (kWh) and Greenhouse Gas emissions (tCO₂e) Totals

MBDA's baseline year for SECR was 2020, however following the publication of the first MBDA UK Carbon Reduction Plan and the development of the MBDA Group 'Net Carbon Neutrality 2050 Roadmap' in 2021, MBDA's SECR has been re-baselined to 2021. The following figures make up both MBDA's comparative year (2021) as well as the latest reporting year (2022).

Scope 1 consumption and emissions include stationary combustion emissions as well as fugitive emissions from refrigerants and mobile combustion emissions from company cars.

Scope 2 consumption and emissions include the consumption of purchased electricity for use on the MBDA estates and for use within electric company vehicles.

The total consumption (kWh) figures for energy reportable by the Company are as follows:

<u>Utility & Scope</u>	<u>2022 UK Consumption (kWh)</u>	<u>2021 UK Consumption (kWh)</u>
Gaseous & Other Fuels (Scope 1)	10,581,204	10,513,134
Grid-Supplied Electricity (Scope 2)	24,142,426	24,544,316
Total	34,723,630	35,057,450

The total emission (tCO₂e) figures for energy reportable by the Company are as follows:

<u>Utility & Scope</u>	<u>2022 UK Consumption (tCO₂e)</u>	<u>2021 UK Consumption (tCO₂e)</u>
Gaseous & Other Fuels (Scope 1)	1,998	2,076
Grid-Supplied Electricity (Scope 2)	1,197	5,212
Total	3,195	7,288

An intensity metric of tCO₂e per full-time equivalent (FTE) has been calculated for the annual total emissions of the Company, as shown below:

<u>Intensity Metric</u>	<u>2022 UK Intensity Metric</u>	<u>2021 UK Intensity Metric</u>
tCO ₂ e / FTE	0.72	1.74

MBDA's 2022 total consumption (kWh) has reduced slightly since the baseline year despite an increase to both the MBDA footprint and headcount. This reduction in consumption (kWh) was achieved as a result of the implementation of energy saving opportunities across the MBDA estate.

Since the baseline year MBDA's Scope 2 emissions have decreased substantially. This was due to both a reduction in scope 2 consumption and the use of a supplier specific carbon emission factor that represents the renewable energy that MBDA purchases. In 2022, 59% of MBDA's energy was supplied from renewable energy sources.

2022 Reporting Methodology

For reporting purposes, the Company in this context refers to the MBDA UK Parent Company and its wholly owned UK Subsidiaries only. MBDA Inc. is not required to supply such data.

Scope 1 and 2 consumption and tCO₂e emission data have been calculated in line with the 2019 UK Government environmental reporting guidance, including the appropriate 2022 Emission Factors obtained from BEIS and supplier specific carbon emission factors from our electricity supplier.

Natural gas and purchased electricity consumption data was collected via a combination of meter readings and the use of utility bills. Some estimates have been used where data was unavailable.

Company car emissions have been calculated using data recorded via the MBDA UK expenses system, including vehicle type, fuel type and mileage.

The MBDA Maintenance Service Provider records MBDA's annual propane and diesel consumption, as well as fugitive emissions data. This data has been used to calculate the respective emissions data. Some estimates have been used to produce the diesel consumption.

Lastly, the intensity metric has been calculated for 2022 by utilising the reportable figures for FTE and tCO₂e for total emissions.

Carbon Reduction Initiatives

MBDA is committed to demonstrating continual improvement in not only its operational energy efficiency, but also its carbon footprint. MBDA is certified to the ISO 50001 Energy Management System and ISO 14001 Environmental Management System on its UK sites. Over the course of 2022, MBDA undertook the following improvements in order to reduce its energy consumption and carbon emissions:

- The continued procurement of electricity derived from renewable energy sources for use within the MBDA owned sites and buildings
- The completion of a UK estate wide solar photovoltaic (PV) feasibility study to support solar PV installations from 2023 onwards
- The installation of Electric Vehicle charge points on three of the MBDA sites
- Significant upgrades to energy metering and the implementation of a new energy monitoring and reporting tool
- The continued replacement of building services, such as HVAC equipment and lighting, with electric solutions and/or more energy efficient alternatives
- The delivery of a range of different staff awareness and communications tools with the aim of reducing our energy consumption and emissions. For example, our 'Travel Smarter Campaign' which aims to encourage more sustainable methods of travel

From 2023 onwards, MBDA will be looking to undertake the following activities in order to reduce its energy consumption and carbon emissions:

- The installation of additional onsite solar PV in order to provide further self-generation capacity
- The installation of new electrical infrastructure on the MBDA Bristol site that will enable MBDA to purchase the electricity used on the site via MBDA's renewable electricity contract
- The design and development of new buildings to Building Research Establishment Environmental Assessment Method (BREEAM) standards where appropriate, as well as the inclusion of additional energy efficiency and carbon reduction measures within building design
- Continued engagement with our employees through various communication channels, as well as the development of a sustainability training module to help educate all employees on sustainable good practice
- The on-boarding of a new Maintenance Service Provider which includes the provision of additional energy management resource to help identify and implement a greater number of energy and carbon reduction measures
- The definition of a long term EV charging strategy to expand on our existing EV charger capacity

Engagement with suppliers, customers and others in a business relationship with the Company

Please refer to the Section 172 Statement for details as to how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of the regard, including the principal decisions taken by the Company during the financial year.

Statement of Corporate Governance

The UK Group does not apply an externally produced corporate governance code, as the Company is part of an international group of companies, who have for many years been operating on the basis of an integrated group corporate governance framework.

1. MBDA Group Operational Framework

The MBDA Group corporate governance framework is intended to offer the flexibility to allow each member company to take into account any applicable local/national legal or regulatory requirements, as well as the needs of the business and stakeholder responsibilities. The principles of the corporate governance framework are set out in the "MBDA Operational Framework".

The MBDA Operational Framework has been developed so that all MBDA Group managers and employees have access to the rules that define the way the business is to be managed and the governance processes to be followed and it emphasises, amongst other matters, the importance of:

- managers taking responsibility for its promotion and for ensuring that its provisions are respected
- development of a culture that encourages disclosure of issues and concerns, so that where corrective actions may be necessary, timely actions can be agreed

The Operational Framework includes sections on:

- Organisation, mainly based upon Principles of Operations and Organisation, which sets out the roles and responsibilities of the key business directorates within the MBDA Group
- Management mechanisms, based upon fundamental control environment, which describes the principal committees, the main reviews and key policies of the MBDA Group which deliver
- Internal control framework, which underpins the MBDA Group culture and supports the integrity of all management information
- Business Management, which addresses the overall process the MBDA Group uses to manage its business and the main controls: Delegated Authorities, Financial control and Internal audit

- Ethics standards, as stated in the MBDA Group Code of Ethics, which is based on four principles: Compliance with Laws and Regulations; Commitment to Integrity; Seeking Guidance; and Reporting Concerns. The MBDA Group Code of Ethics is further organized around four key themes: Business Relationships; Our People; Protecting Assets and Information; and A Socially Responsible Company
Remuneration, to review and approve the remuneration policy affecting MBDA executives

2. MBDA Group Board Governance

At the top of the MBDA Group management structure sits the President Board. The role of the President Board is to manage the entire MBDA Group. The President Board has eight directors with proportional representation from nominees of the MBDA Group's ultimate parent companies - BAE Systems PLC, Airbus SE and Leonardo S.p.A.

One of the directors of the President Board is the Chief Executive Officer (CEO). The CEO is the designated permanent representative of the President Board and conducts the overall management of the MBDA Group. The CEO is the only member of the President Board permitted to carry out executive functions in the MBDA Group.

The President Board meets at least every three months and its principal focus is on MBDA Group strategy, the ISBP, the approval of bids and contracts above certain levels and mergers and acquisitions.

3. MBDA Group Committees

The MBDA Group has set up a number of committees, to assist the CEO.

The CEO, with the support of an Executive Committee, has delegation from the President Board to manage the MBDA Group.

In addition to the CEO, the Executive Committee comprises:

- the MBDA Executive Group Director Strategy & Managing Director MBDA Deutschland
- the MBDA Executive Group Director Sales & Business Development & Managing Director MBDA Italia
- the MBDA Executive Group Director Programmes & Managing Director MBDA France
- the MBDA Executive Group Director Engineering & Managing Director MBDA UK
- the MBDA Executive Group Director Technology and Performance
- the MBDA Executive Group Director Operations
- the MBDA Executive Group Director Human Resources
- the MBDA Executive Group Director Finance

In addition, a Management Committee, Remuneration Committee, Finance Committee, Strategic Advisory Committee, Treasury Committee and Audit Committee have been established pursuant to the MBDA Group shareholders agreement – being the agreement pursuant to which the MBDA Group was formed. Save for the Management Committee, the Finance Committee and the Strategic Advisory Committee, these additional committees include members who represent the ultimate shareholders.

4. The MBDA UK Board of Directors

The Company's current board of directors comprises six directors, being (i) the UK Managing Director and Executive Group Director Engineering, (ii) the Deputy Managing director, (iii) the CEO, (iv) the MBDA Executive Group Director Finance, (v) the MBDA Executive Group Director Sales & Business Development & Managing Director MBDA Italia, and (vi) the UK Finance Director.

Matters requiring the MBDA UK Board of Directors' notice, consideration and decision or approval are notified to the members of the board and matters requiring formal board decision or approval are recorded in the board minutes. The Company Secretary provides legal advice and prepares the agenda, board papers and administrative matters relating to the functioning of the board.

The day-to-day management of the Company is principally through the UK Managing Directors office, which comprises both direct reports and support through the MBDA Group directorate structure.

The UK Managing Director is further supported by the heads of the main operational and administrative directorates of the Company. This senior group of managers meets at least once a month and its principal functions are to ensure that the obligations taken on by the Company are properly managed, and provide support in providing coherence and focus on national topics across the MBDA Group.

There is an annual quality management review ("QMR") held, focusing on the internal functioning of the UK Managing Directors Office quality actions, internal indicators and internal controls and processes. The QMR is prepared by the Chief of Staff to the Managing Director and chaired by the UK Managing Director.

5. Strategy and Business Processes

An MBDA Group Integrated Strategic Business Plan ("ISBP") encompassing the whole of the MBDA Group's future activity is prepared and updated annually. The ISBP incorporates the inputs from the Company and the other companies in the MBDA Group, and is ultimately approved by the President Board.

The ISBP aims at defining and sharing, within the MBDA Group and with the shareholders, a long-term strategic common vision. The ISBP provides a picture of MBDA Group's strategy, key issues and actions for implementation as well as future financial performance.

The various components of the ISBP are reviewed periodically throughout its preparation. The Executive Committee reviews the order intake scenarios. Functional strategies (e.g. Procurement, Technology, etc.) are reviewed within the Strategic Advisory Committee. Financial data is reviewed within the Finance Committee. The Executive Committee reviews the overall plan before it is presented to the President Board, with the CEO's endorsement, for approval. Once the ISBP is approved, a detailed operating budget for the following year is prepared which forms the basis of reporting and control of the MBDA Group's activity for that year.

In addition to the various interactions with the shareholders referenced above, the UK Managing Director of the Company provides a Company Operational Assurance Statement to the CEO for consolidation into the overall MBDA Group Operational Assurance Statement reported to shareholders each January and July.

Political contributions

The UK Group made no political contributions during the year (2021: £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, UK Group policy is to remove exchange rate risk by the placing of foreign currency exchange deals.

Prior Year Adjustments

The 2021 comparatives have been restated to reflect two adjustments.

A restatement in respect of intercompany cash pooling which in 2021 was incorrectly presented as cash and cash equivalents but did not meet the definition under IAS 7. The restatement reclassifies £483.3m from cash and cash equivalents to intercompany cash pooling presented separately on the face of the balance sheet. There was no impact of this adjustment on profit or reserves. An additional note has been added (note 25) providing further details of this arrangement and where relevant the financial statements and related notes have been restated.

A restatement resulting from land and buildings subject to a 150 year lease between the Company and its subsidiary, Horizon Land Limited that was not accounted for under IFRS 16. The gross cost in 2021 was £22.6m split between land (£16.0m) and buildings (£6.6m), with the buildings element being previously depreciated over 40 years under IAS 16. The above transaction should have been treated as an Operating Lease under IAS 17 from 2001 – 2019, and from 2019 as a Right of Use Asset under IFRS 16. The restatement reduces property, plant and equipment by £19.0m, increases right of use assets

MBDA UK Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2022

by £19.4m and increases retained earnings by £0.4m. The impact on the prior year statement of profit or loss is not material. This restatement is limited to the Company only, and does not impact the consolidated financial position and where relevant the financial statements and related notes have been restated.

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. The basis of preparation set out on Note 1 to the financial statements provides further detail on the Director's assessment of going concern.

Auditor

Following a change of auditor, Ernst & Young LLP have been appointed as auditor of the Group and Company for 2022, taking over from KPMG LLP. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young 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



G.J. Lock
Company Secretary

Date: 31 July 2023

PO Box 19
Six Hills Way
Stevenage
Hertfordshire
SG1 2DA

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group and parent company financial statements in accordance with UK-adopted international accounting standards ("IFRSs"). 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 group and the company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group and company financial position and financial performance;
- in respect of the group financial statements, state whether UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether UK-adopted international 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 and/ or the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Company and the Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, and Statement of Corporate Governance that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

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

Opinion

We have audited the financial statements of MBDA UK Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise the Consolidated statement of profit or loss, the Company statement of profit or loss, the Consolidated statement of comprehensive income, the Company statement of comprehensive income, the Consolidated statement of financial position, the Company statement of financial position, the Consolidated statement of changes in equity, the Company statement of changes in equity, the Consolidated statement of cash flows, the Company statement of cash flows and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2022 and of the group's and parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the financial statements 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- obtaining the Directors' going concern assessment, including the cash flow forecasts for the going concern assessment period to 31 December 2024 ('the assessment period') and understanding management's process for the going concern assessment.
- reviewing the supporting cash flow forecasts, including challenging the assumptions made with respect to future order intake and profitability of the order book against our understanding of contracts.
- considering the appropriateness of the methods used to calculate the cash forecasts and determined through inspection and testing of the calculations that the methods utilised were appropriate to be able to make an assessment for the Group and Company.
- assessing the appropriateness of the reasonably possible risks considered by the Directors as most likely to adversely affect the Group's and Company's available financial resources over the going concern assessment period, including the non-payment by customers and the failure to secure new profitable orders. We also assessed the risks we considered likely to adversely affect the available

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MBDA UK Limited (continued)

financial resources which included significant cost overruns on long-term contracts and the impact of the current macro-economic pressures resulting in cost inflation in labour and supply chain. This assessment is underpinned by our testing of key contracts and the expected costs at completion which span the going concern assessment period. We also considered sensitivities on the potential impact of delays of contracted cash inflows and the impact on liquidity.

- challenging the Directors' assumption of unrestricted access to their pooled funds through examining the terms of the treasury pooling and shareholder funding agreement with the MBDA Group's shareholders.
- considering mitigating factors that are within the control of the Company and evaluating the Company's ability to control the discretionary distributions to shareholders if required.
- assessing the going concern disclosures included in the Directors' Report and Basis of Preparation note in the financial statements, to ensure they were appropriate and in conformity with the reporting standards.

Our key observations were:

- The group and company have net current liabilities of £205.3m and £197.4m respectively. This is largely reflecting the deferred income arising from upfront receipts from customers.
- The group and company are profitable and cash generative. In addition to liquidity from these sources, the group and company have access to the cash pooling deposits of £216.6m and £235.1m respectively.
- The business operates long term contracts which provide good visibility of revenues and cash flows over the going concern assessment period and the order intake continues to increase.
- As a result, we concluded that there is adequate liquidity over the going concern assessment period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period to 31 December 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MBDA UK Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MBDA UK Limited (continued)

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that related to the reporting framework (UK adopted international accounting standards and the Companies Act 2006) and the relevant direct and indirect tax compliance regulations in the United Kingdom.
- We understood how the Company is complying with those frameworks by making enquiries of management and those responsible for legal matters and compliance. We corroborated these enquiries through our review of policies and board meeting minutes. We observed the oversight of those charged with governance and management's entity level controls to understand the Company's culture, including the emphasis on fraud prevention.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur through inquiry of management and those charged with governance to understand their assessment of the susceptibility of the accounts to fraud. We considered the procedures and controls that the Company has established to address the risks identified, or that otherwise prevent, deter or detect fraud and gain an understanding as to how those procedures and controls are implemented and monitored. We determined there to be a risk of management override and fraud risk over revenue recognition related to long term contract accounting. To address the fraud risk we considered the contract accounting judgements and estimates inherent in determining the total costs on completion and the impact on revenue recognition. Our procedures to address the risk of management override of controls included use of data analytics to sample from the entire population of journal entries, identifying transactions that did not meet our expectation based on specific criteria, to investigate, gain an understanding and agree to source documentation.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved enquiries of senior management and legal counsel, review of board minutes and challenging the judgements made by management through corroborating the basis for those judgements, considering contradictory evidence and reading financial statement disclosures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Lauren Houghton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton, UK
Date: 31 July 2023

MBDA UK Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2022

Consolidated statement of profit or loss

for the year ended 31 December

	Note	2022 £ m	2021 £ m
Contract revenue	2	1,038.8	1,126.0
Raw materials & consumables used		(495.8)	(417.7)
Changes in inventories & work in progress		98.5	(80.0)
Staff costs	4,5	(335.6)	(312.3)
Depreciation & amortisation		(36.6)	(33.9)
Other external charges		(215.5)	(219.1)
Operating profit	3	53.8	63.0
Net finance cost	6	4.4	(2.1)
Profit before taxation		58.2	60.9
Taxation	7	(8.1)	(12.7)
Profit after taxation		50.1	48.2

All of the Group's activities are in respect of continuing operations.

The accompanying notes on pages 31 to 67 form part of the consolidated financial statements.

MBDA UK Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2022

Company statement of profit or loss

for the year ended 31 December

	Note	2022 £ m	2021 £ m
Contract revenue	2	1,014.1	1,099.3
Raw materials & consumables used		(471.0)	(392.7)
Changes in inventories & work in progress		96.9	(79.7)
Staff costs	4,5	(331.4)	(308.5)
Depreciation & amortisation		(36.3)	(33.7)
Other external charges		(220.0)	(223.6)
Operating profit	3	52.3	61.1
Net finance cost	6	4.6	(1.9)
Profit before taxation		56.9	59.2
Taxation	7	(7.8)	(12.3)
Profit after taxation		49.1	46.9

All of the Company's activities are in respect of continuing operations.

The accompanying notes on pages 31 to 67 form part of the consolidated financial statements.

MBDA UK Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2022

Consolidated statement of comprehensive income
for the year ended 31 December

	Note	2022 £ m	2021 £ m
Profit for year		50.1	48.2
<hr/>			
Items that will not be reclassified to the statement of profit or loss:			
Remeasurement of defined benefit liability	22	356.4	178.8
Withholding tax on defined pension surplus		(55.9)	-
Tax on items that will not be reclassified to the statement of profit or loss	17	(46.7)	(24.5)
Items that may be reclassified to the statement of profit or loss:			
Hedging Reserves	26	(7.5)	22.2
Tax on items that may be reclassified to the statement of profit or loss	17,26	2.3	(5.7)
Exchange differences on translation of foreign operations		1.3	0.5
<hr/>			
Other comprehensive income for the year		249.9	171.3
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Total comprehensive income for the year		300.0	219.5
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The accompanying notes on pages 31 to 67 form part of the consolidated financial statements.

MBDA UK Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2022

Company statement of comprehensive income
for the year ended 31 December

	Note	2022 £ m	2021 £ m
Profit for year		49.1	46.9
<hr/>			
Items that will not be reclassified to the statement of profit or loss:			
Remeasurement of defined benefit liability	22	356.4	178.8
Tax on items that will not be reclassified to the statement of profit or loss	17	(46.7)	(24.5)
Withholding tax on defined benefit pension surplus		(55.9)	-
Items that may be reclassified to the statement of profit or loss:			
Hedging Reserves	26	(7.5)	22.2
Tax on items that may be reclassified to the statement of profit or loss	17,26	2.3	(5.7)
<hr/>			
Other comprehensive income for the year		248.6	170.8
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Total comprehensive income for the year		297.7	217.7
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The accompanying notes on pages 31 to 67 form part of the consolidated financial statements.

MBDA UK Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2022

Consolidated statement of financial position
As at 31 December

	Note	2022	2021 - Restated
		£ m	£ m
Assets			
Intangible assets	8	106.0	106.0
Investment property	9	11.3	12.6
Property, plant & equipment	10	191.7	168.6
Right of use assets	11	52.6	59.8
Investments	12	210.0	210.0
Derivative financial asset	24	44.9	80.1
Deferred tax assets	17	15.5	60.0
Employee benefits	22	96.0	-
Other non-current assets	28	17.0	-
Total non-current assets		745.0	697.1
Inventories	13	1,211.8	1,118.5
Contract assets	2	12.7	16.8
Trade & other receivables	2, 14	280.3	140.7
Corporation tax receivables	14	28.5	22.9
Treasury Pooling	25	216.6	481.8
Cash and cash equivalents	24	35.1	36.1
Total current assets		1,785.0	1,816.8
Total assets		2,530.0	2,513.9
Liabilities			
Contract liabilities	2	(1,577.3)	(1,451.8)
Trade & other payables	15	(134.9)	(166.1)
Accruals		(278.1)	(259.7)
Total current liabilities		(1,990.3)	(1,877.6)
Employee benefits	22	-	(198.1)
Provisions	16	(50.8)	(23.5)
Trade & other payables	15	(32.6)	(37.4)
Derivative financial liability	24	(39.5)	(64.6)
Deferred tax liability	17	(1.3)	(3.6)
Total non-current liabilities		(124.2)	(327.2)
Net Assets		415.5	309.1
Equity			
Called up share capital	18	5.3	5.3
Reserves	26	(62.4)	(154.5)
Retained earnings		472.6	458.3
Total equity		415.5	309.1

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

Director: I D West

Date: 31st July 2023

Registered number: 3144919

The accompanying notes on pages 31 to 67 form part of these financial statements.

I D West

MBDA UK Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2022

Company statement of financial position
As at 31 December

	Note	2022	2021 - Restated
		£ m	£ m
Assets			
Intangible assets	8	105.9	106.0
Property, plant & equipment	10	185.0	168.3
Right of use assets	11	54.4	59.8
Long term loans	27	9.4	5.5
Investments	12	211.5	211.5
Derivative financial asset	24	44.9	80.1
Deferred tax assets	17	15.5	60.0
Employee benefits	22	96.0	-
Total non-current assets		722.6	691.2
Inventories	13	1,202.2	1,110.2
Contract assets	2	12.7	16.8
Trade & other receivables	14	277.7	136.2
Corporation tax receivables	14	28.5	22.9
Treasury Pooling	25	235.1	483.3
Cash and cash equivalents	24	33.8	35.6
Total current assets		1,790.0	1,804.9
Total assets		2,512.6	2,496.1
Liabilities			
Contract liabilities	2	(1,577.3)	(1,451.0)
Trade & other payables	15	(134.0)	(165.1)
Accruals		(276.1)	(258.0)
Total current liabilities		(1,987.4)	(1,874.1)
Employee benefits	22	-	(198.1)
Provisions	16	(50.8)	(23.5)
Trade & other payables	15	(34.6)	(37.4)
Derivative financial liability	24	(39.5)	(64.6)
Deferred tax liability	17	(1.3)	(3.6)
Total non-current liabilities		(126.2)	(327.2)
Net Assets		399.0	294.8
Equity			
Called up share capital	18	5.3	5.3
Reserves	26	(62.4)	(153.4)
Retained earnings		456.1	442.9
Total equity		399.0	294.8

Tau West

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

Director: ID West

Date: 31st July 2023

Registered number: 3144919

The accompanying notes on pages 31 to 67 form part of these financial statements.

MBDA UK Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2022

Consolidated statement of changes in equity

	Share Capital	Retained Earnings	Reserves	Total equity
	£m	£ m	£ m	£ m
At 1 January 2021	5.3	407.7	(327.5)	85.5
Effective portion of changes in fair value of cash flow hedges (net of deferred tax)	-	-	16.5	16.5
Actuarial gains / (losses) on defined benefit obligations (net of deferred tax)	-	-	158.0	158.0
Exchange differences on translation of foreign operations	-	2.0	(1.5)	0.5
IFRS 16 & IAS 17 restatement	-	0.4	-	0.4
Dividend paid	-	-	-	-
Retained Profit for the year	-	48.2	-	48.2
As at 31 December 2021	<u>5.3</u>	<u>458.3</u>	<u>(154.5)</u>	<u>309.1</u>
At 1 January 2022	<u>5.3</u>	<u>458.3</u>	<u>(154.5)</u>	<u>309.1</u>
Effective portion of changes in fair value of cash flow hedges (net of deferred tax)	-	-	(5.2)	(5.2)
Actuarial gains / (losses) on defined benefit obligations (net of deferred tax)	-	-	309.7	309.7
Withholding tax on pension surplus	-	-	(55.9)	(55.9)
Exchange differences on translation of foreign operations	-	0.1	1.3	1.4
Reclassification of actuarial gains / (losses) on defined benefit obligations (net of deferred tax) (Note 26)	-	95.6	(95.6)	-
Reclassification of reserves relating to historic capital reduction (Note 26)	-	62.0	(62.0)	-
Correction of actuarial pension accounting	-	(4.5)	-	(4.5)
Dividends paid	-	(189.0)	-	(189.0)
Retained profit for the year	-	50.1	-	50.1
At 31 December 2022	<u>5.3</u>	<u>472.6</u>	<u>(62.4)</u>	<u>415.5</u>

In the course of correcting the split of pension actuarial movements between retained profits and reserves it became apparent that over a number of years immaterial errors had occurred with regard to the accounting for such movements. The required correction has been posted wholly as a 2022 movement as it was not material for a prior year restatement.

In the 2021 statutory accounts "Translation reserve" were shown separately on the face of the Consolidated statement of changes in equity. This "Translation reserve" has now been included within "Reserves", but is shown separately within the analysis of "Reserves" shown within note 26.

The accompanying notes on pages 31 to 67 form part of these financial statements.

MBDA UK Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2022

Company statement of changes in equity

	Share Capital	Retained Earnings	Reserves	Total equity
	£m	£ m	£ m	£ m
At 1 January 2021	5.3	395.5	(327.9)	72.9
Effective portion of changes in fair value of cash flow hedges (net of deferred tax)	-	-	16.5	16.5
Actuarial gains / (losses) on defined benefit obligations (net of deferred tax)	-	-	158.0	158.0
IFRS 16 & IAS 17 restatement	-	0.5	-	0.5
Retained profit for the year	-	46.9	-	46.9
At 31 December 2021	<u>5.3</u>	<u>442.9</u>	<u>(153.4)</u>	<u>294.8</u>
 At 1 January 2022	 5.3	 442.9	 (153.4)	 294.8
Effective portion of changes in fair value of cash flow hedges (net of deferred tax)	-	-	(5.2)	(5.2)
Actuarial gains / (losses) on defined benefit obligations (net of deferred tax)	-	-	309.7	309.7
Withholding tax on pension surplus	-	-	(55.9)	(55.9)
Reclassification of actuarial gains / (losses) on defined benefit obligations (net of deferred tax) (Note 26)	-	95.6	(95.6)	-
Reclassification of reserves relating to historic capital reduction (Note 26)	-	62.0	(62.0)	-
Correction of actuarial pension accounting	-	(4.5)	-	(4.5)
Dividends paid	-	(189.0)	-	(189.0)
Retained profit for the year	-	49.1	-	49.1
At 31 December 2022	<u>5.3</u>	<u>456.1</u>	<u>(62.4)</u>	<u>399.0</u>

In the course of correcting the split of pension actuarial movements between retained profits and reserves it became apparent that over a number of years immaterial errors had occurred with regard to the accounting for such movements. The required correction has been posted wholly as a 2022 movement as it was not material for a prior year restatement.

The accompanying notes on pages 31 to 67 form part of these financial statements.

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Consolidated statement of cash flows
for the year ended 31 December

	2022	2021 - Restated
	£ m	£ m
Cash flows from operating activities		
Profit for the year before tax	58.2	60.9
Adjustment for:		
Depreciation & amortisation	36.6	33.9
Interest received	(4.2)	(0.5)
Dividends received	(4.6)	(3.7)
Net pension interest	3.3	5.2
Loss on capital disposal	0.2	0.1
Movement in Contract assets	4.1	2.1
Movement in Contract liabilities	125.5	(201.9)
Movement in net inventories	(93.3)	85.1
Other non-current assets	(17.0)	-
Movement in receivables	(117.3)	76.7
Movement in payables	(47.4)	(36.3)
Movement in accruals	18.2	39.7
Movement in employee benefits	(0.1)	(13.7)
Movement in deferred tax	(1.6)	-
Movement in provisions	27.3	16.8
Treasury Cash Pooling (Note 25)	265.1	(91.5)
Taxation received / (paid)	(15.0)	15.6
Net cash from operating activities	238.0	(11.5)
Cash flows from investing activities		
Interest received	4.2	0.5
Dividend received	4.6	3.7
Capital expenditure	(51.2)	(45.9)
Net cash from investing activities	(42.4)	(41.7)
Cash flows from financing activities		
Interest paid	-	-
Payment of lease liabilities	(7.6)	(6.2)
Dividends paid	(189.0)	-
Net cash from financing activities	(196.6)	(6.2)
Net (decrease)/increase in cash & cash equivalents	(1.0)	59.4
Cash & cash equivalents at 1 January	36.1	95.5
Cash & cash equivalents at 31 December	35.1	36.1

The accompanying notes on pages 31 to 67 form part of these financial statements.

MBDA UK Limited
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For the year ended 31 December 2022

Company statement of cash flows
for the year ended 31 December

	2022	2021- Restated
	£ m	£ m
Cash flows from operating activities		
Profit for the for year before tax	56.9	59.2
Adjustment for:		
Depreciation & amortisation	36.3	33.7
Interest (received) / paid	(4.4)	(0.6)
Dividends received	(4.6)	(3.7)
Net pension interest	3.3	5.2
Loss on capital disposal	0.2	0.1
Movement in Contract assets	4.1	2.1
Movement in Contract liabilities	126.3	(202.5)
Movement in inventory	(92.0)	86.0
Movement in receivables	(121.0)	79.5
Movement in employee benefits	(0.1)	(14.0)
Movement in payables	(51.6)	(36.1)
Movement in accruals	18.1	40.1
Movement in deferred tax	(3.8)	-
Movement in provisions	27.3	16.9
Treasury Cash Pooling (Note 25)	248.1	(91.6)
Taxation (paid)/received	(7.8)	15.8
Net cash from operating activities	235.3	(9.9)
Cash flows from investing activities		
Interest received	4.4	0.6
Dividends received	4.6	3.7
Capital expenditure	(47.7)	(45.7)
Net cash from investing activities	(38.7)	(41.4)
Cash flows from financing activities		
Dividends Paid	(189.0)	-
Long-term loan payment (paid)/received	(3.9)	1.1
Payments of lease liabilities	(5.5)	(6.2)
Net Cash from financing activities	(198.4)	(5.1)
Net (decrease)/increase in cash & cash equivalents	(1.8)	(56.4)
Cash & cash equivalents at 1 January	35.6	92.0
Cash & cash equivalents at 31 December	33.8	35.6

The accompanying notes on pages 31 to 67 form part of these financial statements.

Notes (forming part of the financial statements)

1. Accounting policies

The Company is incorporated, domiciled and registered in England in the UK. The registered number is 3144919 and the registered address is PO Box 19, Six Hills Way, Stevenage, Herts SG1 2DA.

Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRS") and applicable law, and under the historical cost accounting rules.

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

Going Concern

The financial statements have been prepared on a going concern basis, which the Directors consider appropriate for the following reasons.

The UK Group position shows net current liabilities of £205.3m as at 31 December 2022, the UK Group generated a profit for the year ended 31 December 2022 of £50.1m and had net operating cash inflows of £238.0m. As at 31 December 2022 the UK Group's cash balance stood at £35.1m and the UK Group had access to pooled funds of £216.6m deposited in the Group Treasury cash pooling arrangement.

The Company position shows net current liabilities of £197.4m as at 31 December 2022, the Company generated a profit for the year ended 31 December 2022 of £49.1m and had net operating cash inflows of £235.3m. As at 31 December 2022, the Company's cash balance stood at £33.8m and the Company had access to pooled funds of £235.1m deposited in the Group Treasury cash pooling arrangement.

The UK Group and Company is funded by its operating profits and has unrestricted access to cash and deposits in the Group Treasury cash pooling arrangements held by MBDA Treasury Company Limited. The pooling arrangement is supported through a funding agreement with MBDA Group's shareholders.

The Directors have prepared cash flow forecasts until the end of 2024 taking account of both the significant, profitable order backlog and the orders expected to be secured in the short term. These forecasts show that the Company will be significantly cash generative for the period under review. As part of the cash forecasting exercise the Directors also considered reasonably possible risks to these forecasts. These risks predominantly related to the non-payment of invoices by customers and the failure to secure new orders as envisaged. Historically the Company has a strong record of recovering receivables in full and to terms, this position has continued since the year and there is no reason to believe it will not remain the case. With regard to the ability to secure new orders, since the year end the volume of orders secured has been strong and demand continues to grow. Additionally the Company has the ability to vary discretionary shareholder distributions should the liquidity position were to require this. The Group's financial strength means it is well positioned to withstand unexpected challenges in contract delivery.

Consequently, the Directors are confident that the UK Group and Company will continue to have access to sufficient funds to continue to meet its liabilities as they fall due to the period ending 31 December 2024 and therefore have prepared the financial statements on a going concern basis. In forming their conclusion, the Directors have made appropriate inquiries of the parent and treasury company, they have not identified any matters that impact its conclusions regarding the ability of the company to continue as a going concern.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the UK Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the UK Group are eliminated on consolidation.

Key accounting judgements and estimates

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of MBDA's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to estimates are recognised prospectively. The main accounting judgements and estimates relate to revenue recognition and employee benefits.

Prior Year Adjustments

The 2021 comparatives have been restated to reflect two adjustments.

A restatement in respect of intercompany cash pooling which in 2021 was incorrectly presented as cash and cash equivalents but did not meet the definition under IAS 7. The restatement reclassifies £483.3m from cash and cash equivalents to intercompany cash pooling presented separately on the face of the balance sheet. There was no impact of this adjustment on profit or reserves. An additional note has been added (note 25) providing further details of this arrangement and where relevant the financial statements and related notes have been restated.

A restatement resulting from land and buildings subject to a 150 year lease between the Company and its subsidiary, Horizon Land Limited that was not accounted for under IFRS 16. The gross cost in 2021 was £22.6m split between land (£16.0m) and buildings (£6.6m), with the buildings element being previously depreciated over 40 years under IAS 16. The above transaction should have been treated as an Operating Lease under IAS 17 from 2001 – 2019, and from 2019 as a Right of Use Asset under IFRS 16. The restatement reduces property, plant and equipment by £19.0m, increases right of use assets by £19.4m and increases retained earnings by £0.4m. The impact on the prior year statement of profit or loss is not material. This restatement is limited to the Company only, and does not impact the consolidated financial position and where relevant the financial statements and related notes have been restated.

Revenue Recognition and Contract Margin

Revenue recognition on overtime contracts is recognised upon percentage completion based upon contract Estimate at Completion (EAC).

Contract margin is calculated by reference to the contract EAC which includes 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 EACs would affect the profitability of individual contracts.

Employee benefits

The valuation of the defined benefit pension obligation is dependent on a number of judgemental assumptions and estimates. These include the discount rate used to calculate the current value of future payments to pensioners, the inflation rate incorporated in the estimate of future payments and the mortality rate of pension scheme members. Estimation and judgement is involved in setting these assumptions. Given the size of the obligation, a small change in these assumptions and estimates could result in a material change in the defined benefit obligation.

Estimation is also required for the valuation of unquoted plan assets. As no market-observable inputs are available, estimation is required in determining the fair value of the assets including the valuation methodology applied.

Significant accounting policies

Revenue recognition

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Group to customers in exchange for consideration. The Group accounts for revenue recognition under IFRS 15 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.

Performance obligations and revenue recognition policies

Revenue is recognised based on the consideration specified in a contract with a customer. The UK Group recognises revenue when it transfers control of a good or services to a customer.

The nature and timing of the satisfaction of performance obligations in contracts with customers and the related revenue recognition policies are set out below.

Development activities

Development activities refer to customer funded development of new missiles and missile systems. Customers generally obtain control of development over time, as the UK Group performance does not generally create an asset with an alternative use and has enforceable right to payment from the customer for the performance completed to date.

Revenue is generally recognised over time. Progress is measured on the basis of cost incurred in the period.

Production goods

Production goods refer to the manufacture of new missiles and missile systems. Customers generally obtain control of production goods when the customer has legal title to the goods.

Revenue is generally recognised at a point in time that control is transferred to the customer, which is usually when the customer has legal title to goods. Legal title depends on the customer's contracts' terms and conditions. Legal title generally passes to the customer either upon delivery of the goods, or upon customer acceptance.

Support goods and services

Customers generally obtain control of support goods when the customer has legal title to the goods. Customers generally obtain control of services as they are provided.

For support goods, revenue is generally recognised at a point in time, when the customer has legal title to the goods. For support services, revenue is generally recognised over time, as the customer receives the service.

Finance income

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

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of profit or loss 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 statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position 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 statement of financial position 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.

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 1 January 2005, goodwill is included at 1 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 statement of profit or loss as incurred.

Development costs are capitalised when the activity is commercially and technically feasible and the UK Group has sufficient resources to complete the development and from which the group expects to generate economic benefits. 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 statement of profit or loss as incurred.

Amortisation is charged to the statement of profit or loss 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 statement of financial position 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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Investment Property

Land and buildings owned by the UK Group leased to a non-UK Group entity are classified as investment property.

Buildings

Buildings are valued at cost less accumulated depreciation and impairment losses.

Land

Land is valued at cost less impairment losses

The UK Group uses the cost model to measure the value of the properties in its books.

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An independent property adviser is periodically appointed to undertake a valuation of the investment property. The last full review for the Summerfield site was carried out in March 2022.

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 statement of profit or loss over the estimated useful economic life as follows:

Freehold land	-	Not depreciated
Buildings	-	25 to 50 years
Plant & machinery	-	5 to 10 years*
Office equipment	-	5 to 10 years*
Computing equipment	-	3 to 5 years

*By exception this may be reduced if a shorter economic life is anticipated at purchase date

IFRS 16 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone-price.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently depreciated using the straight line method from the commencement date to the date of the end of the lease term.

The lease liability is initially measured at present value of the outstanding lease payments, discounted using the interest rate implicit in the lease or the Group's incremental borrowing rate.

Short-term leases and leases of low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The right-of-use assets are presented in "Land and buildings", "Plant and equipment" and "Fixtures, Fittings, Tools and Equipment". Lease liabilities are presented in "Trade and other payables".

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 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.

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Monies deposited with the MBDA Group treasury company are not treated as cash or cash equivalents as they do not meet the criteria for being classified as such under the definitions set out in IAS 7. Such monies are shown as Treasury Pooling on the face of the balance sheet.

Impairment

The carrying amounts of the UK Group's non-financial assets, inventories and deferred tax assets are reviewed at each statement of financial position date to determine whether there is any indication of an impairment being required. If any such indication exists, the asset's recoverable amount is assessed estimated and compared to its current carrying value. If the recoverable amount is lower than the current carrying value then the carrying value is impaired down to the assessed recoverable amount and an impairment loss is recognised in the profit and loss account.

Foreign currencies

Transactions in foreign currencies are translated to GBP at the foreign exchange rate 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 at the balance sheet date are translated to GBP at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to GBP at foreign exchange rates ruling at the dates the values were determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to GBP at the foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to GBP at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in equity.

Derivative financial instruments and hedging

The UK Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities. In accordance with its treasury policy, the UK Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged. The fair values are determined based on current market exchange rates at the balance sheet date.

Hedging

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity in the hedging reserve. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately. Any gain or loss arising from changes in the time value of the derivative financial instrument is excluded from the measurement of hedge effectiveness and is recognised in the income statement immediately.

No derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability.

Employee benefits

The calculation of employee benefits is made in accordance with IAS 19 (Revised) Employee Benefits.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of profit or 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 statement of profit or loss 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 statement of financial position represent the present value of the defined benefit obligations as reduced by the fair value of scheme assets. As at December 2022 the present value of these assets exceeded the present value of the associated obligations. The rules of the pension fund state that any surplus should be returned to the Company in the event of the pension fund being closed down. As a result, this surplus, net of withholding tax has been recognised as an asset within the financial statements.

Provisions

A provision is recognised in the statement of financial position when the UK Group 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.

2. Consolidated Contract Revenue

Disaggregation of revenue from contracts with customers:

Primary Geographical Markets	2022	2021
	£m	£m
Europe (including UK)	828.7	939.2
Rest of world	210.1	186.8
Revenue	1,038.8	1,126.0

Timing of Revenue Recognition	2022	2021
	£m	£m
OT (Over Time)	541.5	429.6
PiT (Point in Time)	497.3	696.4
Revenue	1,038.8	1,126.0

2. Company Contract Revenue

Disaggregation of revenue from contracts with customers:

Primary Geographical Markets	2022	2021
	£m	£m
Europe (including UK)	828.7	939.2
Rest of world	185.4	160.1
Revenue	1,014.1	1,099.3

Timing of Revenue Recognition	2022	2021
	£m	£m
OT (Over Time)	516.7	402.9
PiT (Point in Time)	497.4	696.4
Revenue	1,014.1	1,099.3

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Consolidated Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	2022 £m	2021 £m
Receivables, which are included within 'trade and other receivables'	175.3	65.7
Contract assets	12.7	16.8
Contract liabilities	(1,577.3)	(1,451.8)

The contract assets primarily relate to the UK Group's right to consideration for work completed but not invoiced at the reporting date. There was no impairment charge on contract assets during the year ended 31 December 2022 (2021: £nil). The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the UK Group issues an invoice to the customer. The contract liabilities primarily relate to the advance consideration received from customers for obligations which are not yet performed.

Transaction price allocated to the remaining performance obligations.

As at 31 December 2022, the total transaction price allocated to unsatisfied and partially satisfied performance obligations was approximately £5bn. (2021 ~£4bn) The UK Group expects approximately 25% of this balance will be recognised as revenue during the next financial year, with the remainder largely recognised over the following 4 years.

The Company has entered into a commitment with the domestic customer to provide discounts against future performance obligations totalling £64m over the next four years. Management's expectation is that discounts would be applied to future contracts, however if new contracts do not materialise, the discount would be applied to existing contracts. This is considered unlikely by management, and therefore the transaction price allocated to current remaining performance obligations has not been modified.

3. Consolidated Operating profit

	2022	2021
	£ m	£ m
Operating profit is stated after charging:		
Auditor's remuneration	0.6	0.7
Depreciation of property, plant & equipment	25.1	22.7
Depreciation of investment property	0.2	0.2
Depreciation of right of use assets	5.4	5.6
Loss on disposal of property, plant & equipment	0.2	0.1
Intangible amortisation	6.0	5.3
Research and development expenditure in the year	24.5	22.6
Lease interest	1.1	1.1
Exchange (gain) / loss	(1.1)	-

3. Company Operating profit

	2022	2021
	£ m	£ m
Operating profit is stated after charging:		
Auditor's remuneration	0.5	0.6
Depreciation of property, plant & equipment	24.9	22.6
Depreciation of right of use assets	5.4	5.6
Loss on disposal of property, plant & equipment	0.2	0.1
Intangible amortisation	5.9	5.3
Research and development expenditure in the year	24.5	22.6
Lease interest	1.1	1.1
Exchange (gain) / loss	(1.1)	-

4. Consolidated Staff numbers and costs

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

	Number of Employees	
	2022	2021
Greater Engineering	3,378	3,209
Business Support	<u>944</u>	<u>919</u>
	4,322	4,128

	2022	2021
	£ m	£ m

The aggregate payroll costs of these persons (excluding directors) were as follows:

Wages and salaries	264.9	245.3
Social security costs	26.3	23.0
Other pension costs	42.4	42.2
	<u>333.6</u>	<u>310.5</u>

4. Company Staff numbers and costs

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

	Number of Employees	
	2022	2021
Employees	4,278	4,081

	2022	2021
	£ m	£ m

The aggregate payroll costs of these persons (excluding directors) were as follows:

Wages and salaries	261.3	241.9
Social security costs	26.0	22.8
Other pension costs	42.1	42.0
	<u>329.4</u>	<u>306.7</u>

5. Directors' emoluments

	2022	2021
	£ m	£ m
Wages and salaries	1.9	1.6
Company contribution to pension plan	0.1	0.1
	<u>2.0</u>	<u>1.8</u>

The above amounts do not include an allocation of emoluments in respect of two of the Directors whose position on the board is part of the wider role in the Group since this amount will be immaterial.

The aggregate emoluments of the highest paid director during the year were £690.5k (2021: £598.8k). They are not a member of a defined benefit pension scheme.

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

	Number of Directors	
	2022	2021
Defined benefit pension schemes (Note 22)	3	3

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

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6. Consolidated net finance cost

	2022 £ m	2021 £ m
Dividends received	4.6	3.7
Lease interest paid	(1.1)	(1.1)
Interest payable	(3.3)	(5.2)
Interest received	4.2	0.5
	<u>4.4</u>	<u>(2.1)</u>

6. Company net finance cost

	2022 £ m	2021 £ m
Dividends received	4.6	3.7
Lease interest paid	(1.1)	(1.1)
Interest payable	(3.3)	(5.1)
Interest received	4.4	0.6
	<u>4.6</u>	<u>(1.9)</u>

7. Consolidated Taxation recognised in the statement of profit or loss

	2022 £ m	2021 £ m
Current tax		
Current tax charge for period	7.5	2.6
Adjustment for prior years	<u>2.4</u>	<u>1.7</u>
	9.9	4.3
Deferred tax (Note 17)		
Origination and reversal of temporary differences	(0.1)	9.6
Effect of change in rate of tax	(1.6)	(1.1)
Recognition of previously unrecognised tax losses	<u>(0.1)</u>	<u>(0.1)</u>
	8.1	12.7

Reconciliation of effective tax rate

	2022 £ m	2021 £ m
Profit before tax	58.2	60.9
Tax charge on profit at UK rate of 19.0% (2021: 19%)	<u>11.1</u>	<u>11.6</u>
Non-deductible expenses	0.1	
Non-taxable income	(0.9)	(0.7)
Depreciation (ineligible)	0.4	0.4
Rate change difference	(2.0)	1.6
Adjustment for Prior Years	<u>(0.6)</u>	<u>(0.2)</u>
	8.1	12.7

7. Company Taxation recognised in the statement of profit or loss

	2022 £ m	2021 £ m
Current tax		
Current tax charge for period	7.2	2.2
Adjustment for prior years	2.5	1.7
	<u>9.7</u>	<u>3.9</u>
Deferred tax (Note 17)		
Origination and reversal of temporary differences	(0.3)	9.6
Effect of change in rate of tax	(1.6)	(1.1)
	<u>7.8</u>	<u>12.3</u>

Reconciliation of effective tax rate

	2022 £ m	2021 £ m
Profit before tax	56.9	59.3
Tax charge on profit at UK rate of 19.0% (2021: 19%)	10.8	11.3
Non-deductible expenses	0.1	-
Non-taxable income	(0.9)	(0.7)
Depreciation (ineligible)	0.4	0.4
Rate change difference	(2.0)	1.6
Adjustments for Prior years	(0.6)	(0.3)
	<u>7.8</u>	<u>12.3</u>

8. Intangible assets

Consolidated

	Goodwill £ m	Computer Software £ m	Total £ m
Cost			
At 1 January 2021	98.3	55.2	153.5
Acquisitions	-	5.0	5.0
Disposals	-	(1.2)	(1.2)
At 31 December 2021	98.3	59.0	157.3
Acquisitions	-	5.9	5.9
Disposals	-	(5.3)	(5.3)
At 31 December 2022	98.3	59.6	157.9
Amortisation & impairment			
At 1 January 2021	-	47.2	47.2
Amortisation	-	5.3	5.3
Eliminated on disposal	-	(1.2)	(1.2)
At 31 December 2021	-	51.3	51.3
Amortisation	-	6.0	6.0
Eliminated on disposal	-	(5.4)	(5.4)
At 31 December 2022	-	51.9	51.9
Net book value			
At 31 December 2021	98.3	7.7	106.0
At 31 December 2022	98.3	7.7	106.0

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

Amortisation and impairment charges are recognised in the Statement of profit or loss, 'Depreciation and Amortisation'. Goodwill is tested annually for impairment based on the ISBP. Value in use was determined by discounting the future post-tax cash flows generated from the continued use of the assets and was based on the following key assumptions: cash flows from the ISBP, as approved by the Board; terminal value based on average operating results extrapolated into perpetuity with no growth; post-tax discount rate of 6.1% (2021: 6.3%). The terminal value is justified due to the long term nature of the business. There are no reasonably possible sensitivities that could arise in the next 12 months that could result in a significant impairment charge arising.

For illustration, the following specific individual sensitivities have been considered:

- a 20% increase in the post-tax discount rate applied to the business would result in an impairment of £nil
- if the cash flow projections of the business were reduced by 25%, no impairment would arise.

8. Intangible assets (continued)

There was no impairment of computer software in the year (2021: £nil).

At 31 December 2022, included in cost were intangible assets with a net book value of £nil: Computer Software £44.4m (2021: £39.2m).

<i>Company</i>	Goodwill	Computer Software	Total
	£ m	£ m	£ m
Cost			
At 1 January 2021	98.3	55.2	153.5
Acquisitions	-	5.0	5.0
Disposals	-	(1.2)	(1.2)
At 31 December 2021	98.3	59.0	157.3
Acquisitions	-	5.8	5.8
Disposals	-	(5.3)	(5.3)
At 31 December 2022	98.3	59.5	157.8
Amortisation & impairment			
At 1 January 2021	-	47.2	47.2
Amortisation	-	5.3	5.3
On disposal	-	(1.2)	(1.2)
At 31 December 2021	-	51.3	51.3
Amortisation	-	5.9	5.9
On disposal	-	(5.3)	(5.3)
At 31 December 2022	-	51.9	51.9
Net book value			
At 31 December 2021	98.3	7.7	106.0
At 31 December 2022	98.3	7.6	105.9

9. Investment Property

Consolidated

Horizon Land Limited acquired a property occupied by Roxel (UK Rocket Motors) Limited in Summerfield, Worcestershire on 6th October 2014.

	Investment Land £ m	Investment Property £ m	Total £ m
Cost			
Balance at 31 December 2021	10.7	3.1	13.8
Transfer of land to property, plant & equipment	(1.2)	-	(1.2)
Balance at 31 December 2022	9.5	3.1	12.6
Accumulated depreciation and impairment losses			
Balance at 1 January 2021	-	1.0	1.0
Depreciation charge for the year	-	0.2	0.2
Balance at 31 December 2021	-	1.2	1.2
Balance at 1 January 2022	-	1.2	1.2
Depreciation charge for the year	-	0.1	0.1
Balance at 31 December 2022	-	1.3	1.3
Carrying Amounts			
Balance at 1 January 2021	10.7	2.1	12.8
Balance at 31 December 2021	10.7	1.9	12.6
Balance at 1 January 2022	10.7	1.9	12.6
Balance at 31 December 2022	9.5	1.8	11.3

The fair value of the investment properties is £19.2m (2021: £18.7m) and is based on, and reflects, current market value as prepared by external valuation professionals.

10. Property, plant & equipment - Restated

<i>Consolidated</i>	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 2021	109.9	110.8	156.5	11.9	389.1
Acquisitions	-	7.8	9.7	16.1	33.6
Disposals	(0.3)	(0.6)	(2.1)	(0.2)	(3.2)
Restatement 31 December 2021*	(22.6)	-	-	-	(22.6)
Balance at 31 December 2021	87.0	118.0	164.1	27.8	396.9
Balance at 1 January 2022	87.0	118.0	164.1	27.8	396.9
Acquisitions	6.0	9.5	18.2	13.7	47.4
Disposals	(0.1)	(2.5)	(7.9)	(0.3)	(10.8)
Transfer land from property investment	1.2	-	-	-	1.2
Transfers between items	19.7	-	3.6	(23.3)	-
Balance at 31 December 2022	113.8	125.0	178.0	17.9	434.7
Depreciation & impairment					
Balance at 1 January 2021	32.7	83.3	95.8	-	211.8
Depreciation charge for the year	2.0	5.2	15.5	-	22.7
Disposals	(0.3)	(0.6)	(2.0)	-	(2.9)
Restatement 31 December 2021*	(3.6)	-	-	-	(3.6)
Balance at 31 December 2021	30.8	87.9	109.3	-	228.0
Depreciation charge for the year	2.2	6.0	16.9	-	25.1
Disposals	-	(2.3)	(7.8)	-	(10.3)
Balance at 31 December 2022	33.0	91.6	118.4	-	242.8
Net book value					
At 31 December 2021	56.2	30.1	54.6	27.8	168.6
At 31 December 2022	80.8	33.4	59.6	17.9	191.7

Land and buildings contains land with a cost of £15.1m (increased by £5.3m Henlow and £1.2m transfer from Investment Property) that does not attract any depreciation (2021: restated £8.6m).

10. Property, plant & equipment (continued) - Restated

<i>Company</i>	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 2021	109.9	110.5	155.1	11.8	387.3
Acquisitions	-	7.6	9.7	15.9	33.2
Disposals	(0.3)	(0.6)	(2.1)	-	(3.0)
Restatement 31 December 2021*	(22.6)	-	-	-	(22.6)
Balance at 31 December 2021	87.0	117.5	162.7	27.7	394.9
Acquisitions	0.7	9.5	18.2	13.6	42.0
Disposals	(0.1)	(2.5)	(7.9)	-	(10.5)
Transfers between items	19.8	-	3.6	(23.4)	-
Balance at 31 December 2022	107.4	124.5	176.6	17.9	426.4
Depreciation & impairment					
Balance at 1 January 2021	32.6	83.1	94.8	-	210.5
Depreciation charge for the year	2.0	5.2	15.4	-	22.6
Disposals	(0.3)	(0.6)	(2.0)	-	(2.9)
Restatement 31 December 2021*	(3.6)	-	-	-	(3.6)
Balance at 31 December 2021	30.7	87.7	108.2	-	226.6
Depreciation charge for the year	2.2	5.9	16.8	-	24.9
Disposals	0.1	(2.5)	(7.7)	-	(10.1)
Balance at 31 December 2022	33.0	91.1	117.3	-	241.4
Net book value					
At 31 December 2021	56.4	29.9	54.5	27.7	168.3
At 31 December 2022	74.4	33.4	59.3	17.9	185.0

Land and buildings contains land with a cost of £8.6m that does not attract any depreciation (2021: restated £8.6m).

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11. Right of Use Assets - Restated

<i>Consolidated</i>	Land & buildings £ m	Plant & machinery £ m	Fixture, fittings, tools & equipment £ m	Total £ m
Cost				
Balance at 1 January 2021	40.2	1.5	6.2	47.9
Acquisitions	5.9	0.6	1.8	8.3
Disposals	(3.5)	(0.4)	(0.5)	(4.4)
Restatement 31 December 2021*	22.6			22.6
Balance at 31 December 2021	65.2	1.7	7.5	74.4
Balance at 1 January 2022	65.2	1.7	7.5	74.4
Acquisitions	-	-	-	-
Disposals	(2.2)	-	-	(2.2)
Balance at 31 December 2022	63.0	1.7	7.5	72.2
Depreciation & impairment				
Balance at 1 January 2021	(5.2)	(0.9)	(4.1)	(10.2)
Depreciation charge for the year	(3.1)	(0.4)	(2.1)	(5.6)
Eliminated on disposal	3.5	0.4	0.5	4.4
Restatement 31 December 2021*	(3.2)			(3.2)
Balance at 31 December 2021	(8.0)	(0.9)	(5.7)	(14.6)
Balance at 1 January 2022	(8.0)	(0.9)	(5.7)	(14.6)
Depreciation charge for the year	(3.1)	(0.6)	(1.7)	(5.4)
Disposal	0.4			0.4
Balance at 31 December 2022	(10.7)	(1.5)	(7.4)	(19.6)
Net Book value at 31 December 2022	52.3	0.2	0.1	52.6
Net Book value at 31 December 2021	57.2	0.8	1.8	59.8

11. Right of Use Assets - *Restated*

<i>Company</i>	Land & buildings £ m	Plant & machinery £ m	Fixture, fittings, tools & equipment £ m	Total £ m
Cost				
Balance at 1 January 2021	40.2	1.5	6.2	47.9
Acquisitions	5.9	0.6	1.8	8.3
Disposals	(3.5)	(0.4)	(0.5)	(4.4)
Restatement 31 December 2021*	22.6			22.6
Balance at 31 December 2021	65.2	1.7	7.5	74.4
Balance at 1 January 2022	65.2	1.7	7.5	74.4
Acquisitions	-	-	-	-
Disposals	-	-	-	-
Balance at 31 December 2022	65.2	1.7	7.5	74.4
Depreciation & impairment				
Balance at 1 January 2021	(5.2)	(0.9)	(4.1)	(10.2)
Depreciation charge for the year	(3.1)	(0.4)	(2.1)	(5.6)
Eliminated on disposal	3.5	0.4	0.5	4.4
Restatement 31 December 2021*	(3.2)			(3.2)
Balance at 31 December 2021	(8.0)	(0.9)	(5.7)	(14.6)
Balance at 1 January 2022	(8.0)	(0.9)	(5.7)	(14.6)
Depreciation charge for the year	(3.1)	(0.6)	(1.7)	(5.4)
Balance at 31 December 2022	(11.1)	(1.5)	(7.4)	(20.0)
Net Book value at 31 December 2022	54.1	0.2	0.1	54.4
Net Book value at 31 December 2021	57.2	0.8	1.8	59.8

12. Investments

	2022 £ m	2021 £ m
Net book value		
<i>Consolidated</i>		
At 1 January	210.0	210.0
At 31 December	210.0	210.0
<i>Company</i>		
At 1 January	211.5	211.5
At 31 December	211.5	211.5

12. Investments (continued)

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
Logistics North MC Limited	4	Management of real estate	UK	c/o Harworth Estates Property Group Limited Advantage House Poplar Way Catcliffe Rotherham S60 5TR

The Company holds 210,000 sterling cumulative preferred shares in MBDA Treasury Company Limited, a sister subsidiary in the MBDA SAS group. 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.

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13. Inventories

	2022	2021
	£ m	£ m
<i>Consolidated</i>		
Raw materials & consumables	170.6	160.3
Work in progress	1,028.5	945.7
Finished goods & goods for resale	12.7	12.5
	<u>1,211.8</u>	<u>1,118.5</u>
	2022	2021
	£ m	£ m
<i>Company</i>		
Raw materials & consumables	168.9	158.8
Work in progress	1,020.6	938.9
Finished goods & goods for resale	12.7	12.5
	<u>1,202.2</u>	<u>1,110.2</u>

Included within work in progress is an inventory provision of £5.2m (2021: £5.6m).

14. Trade and other receivables

	2022	2021
	£ m	£ m
Due within one year		
<i>Consolidated</i>		
Trade receivables – amounts recoverable on contracts	175.3	65.7
Amounts owed by group undertakings	30.1	37.8
Other receivables	61.7	27.7
Corporation tax receivables	28.5	22.9
Prepayments & accrued income	13.2	9.5
	<u>308.8</u>	<u>163.6</u>
<i>Company</i>		
Trade receivables – amounts recoverable on contracts	172.1	60.6
Amounts owed by group undertakings	31.5	38.8
Other receivables	61.4	27.5
Corporation tax receivables	28.5	22.9
Prepayments & accrued income	12.7	9.3
	<u>306.2</u>	<u>159.1</u>

Intercompany receivables are non-interest bearing and are generally on terms of 30 to 90 days. See note 23 for related party disclosure.

15. Trade and other payables

	2022 £ m	2021 £ m
Due within one year		
Consolidated		
Trade payables	48.3	64.1
Lease liabilities (note 19)	2.5	4.2
Amounts owed to group undertakings	68.2	87.2
Other creditors	15.9	10.6
	<u>134.9</u>	<u>166.1</u>
Company		
Trade payables	48.1	63.6
Lease liabilities (note 19)	2.6	4.2
Amounts owed to group undertakings	68.0	87.2
Other creditors	15.3	10.1
	<u>134.0</u>	<u>165.1</u>
Due within more than one year		
Consolidated		
Lease liabilities	32.6	37.4
	<u>32.6</u>	<u>37.4</u>
Due within more than one year		
Company		
Lease liabilities	34.6	37.4
	<u>34.6</u>	<u>37.4</u>

Intercompany payables are non-interest bearing and are generally on terms of 30 to 90 days. See note 23 for related party disclosure.

16. Provisions

Consolidated and Company	Contract
	£m
At 1 January 2021	(6.7)
Created	(40.8)
Utilised and released	24.0
At 31 December 2021	<u>(23.5)</u>
At 1 January 2022	(23.5)
Created	(27.3)
Utilised and released	-
At 31 December 2022	<u>(50.8)</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.

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17. Deferred tax

An analysis of the deferred tax balance is shown below:

	1 January 2021	Recognised in income	Recognised in equity	31 December 2021
Consolidated				
Deferred Tax Asset	£m	£m	£m	£m
Accelerated capital allowances	6.0	(1.3)	-	4.7
Accounting policy change	0.2	-	-	0.2
Employee benefits	82.9	(3.3)	(24.5)	55.1
Losses	3.8	(3.8)	-	-
Net tax asset	<u>92.9</u>	<u>(8.4)</u>	<u>(24.5)</u>	<u>60.0</u>
Deferred Tax Liability				
IAS 39 fair value adjustment	2.0	-	(5.6)	(3.6)
Net tax liability	<u>2.0</u>	<u>-</u>	<u>(5.6)</u>	<u>(3.6)</u>
	1 January 2022	Recognised in income	Recognised in equity	31 December 2022
Deferred Tax Asset	£m	£m	£m	£m
Accelerated capital allowances	4.7	4.4	-	9.1
Accounting policy change	0.2	-	-	0.2
Employee benefits	55.1	(2.2)	(46.7)	6.2
Net tax asset	<u>60.0</u>	<u>2.2</u>	<u>(46.7)</u>	<u>15.5</u>
Deferred Tax Liability				
IAS 39 fair value adjustment	(3.6)	-	2.3	(1.3)
Net tax liability	<u>(3.6)</u>	<u>-</u>	<u>2.3</u>	<u>(1.3)</u>

The UK Group has not recognised deferred tax assets in respect of losses arising in MBDA Inc. amounting to £18.8m (2021: £16.8m).

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021.

17. Deferred tax (continued)

An analysis of the deferred tax balance is shown below:

	1 January 2021	Recognised in income	Recognised in equity	31 December 2021
Company				
Deferred Tax Asset	£m	£m	£m	£m
Accelerated capital allowances	6.0	(1.3)	-	4.7
Accounting policy change	0.2	-	-	0.2
Employee benefits	82.9	(3.3)	(24.5)	55.1
Losses	3.8	(3.8)	-	-
Net tax asset	<u>92.9</u>	<u>(8.4)</u>	<u>(24.5)</u>	<u>60.0</u>
Deferred Tax Liability				
IAS 39 fair value adjustment	2.0	-	(5.6)	(3.6)
Net tax liability	<u>2.0</u>	<u>-</u>	<u>(5.6)</u>	<u>(3.6)</u>
	1 January 2022	Recognised in income	Recognised in equity	31 December 2022
Deferred Tax Asset	£m	£m	£m	£m
Accelerated capital allowances	4.7	4.5	-	9.2
Accounting policy change	0.2	(0.1)	-	-
Employee benefits	55.1	(2.2)	(46.7)	6.3
Net tax asset	<u>60.0</u>	<u>2.2</u>	<u>(46.7)</u>	<u>15.5</u>
Deferred Tax Liability				
IAS 39 fair value adjustment	(3.6)	-	2.3	(1.3)
Net tax liability	<u>(3.6)</u>	<u>-</u>	<u>2.3</u>	<u>(1.3)</u>

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021.

18. Called up share capital

	2022 £	2021 £
Authorised, Allotted, Called Up and Fully Paid		
On issue at 1 January & 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. Dividend paid in the year £189m (2021: £Nil).

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19. Lease liabilities

Consolidated	£ m
At 1 January 2021	(38.4)
Lease liabilities created	(9.4)
Lease liabilities utilised	6.2
At 31 December 2021	(41.6)
At 1 January 2022	(41.6)
Lease liabilities created	(1.1)
Lease liabilities utilised	7.6
At 31 December 2022	(35.1)

Lease liabilities relate to land, buildings, plant and machinery, fixtures and fittings and vehicles.

Total commitment of future minimum lease payments	2022	2021
	£ m	£ m
Due in		
1 year	(2.5)	(4.2)
2-5 years	(11.6)	(11.4)
After 5 years	(21.0)	(26.0)
Total	(35.1)	(41.6)

19. Lease liabilities (continued)

Lease liabilities

Company	£ m
At 1 January 2021	(38.4)
Lease liabilities created	(9.4)
Lease liabilities utilised	6.2
At 31 December 2021	(41.6)
At 1 January 2022	(41.6)
Lease liabilities created	(1.1)
Lease liabilities utilised	5.5
At 31 December 2022	(37.2)

Lease liabilities relate to land, buildings, plant and machinery, fixtures and fittings and vehicles.

Total commitment of future minimum lease payments

	2022 £ m	2021 £ m
Due in		
1 year	(2.6)	(4.2)
2-5 years	(11.9)	(11.4)
After 5 years	(22.7)	(26.0)
Total	(37.2)	(41.6)

20. Leases as Lessor

The UK Group leases out its investment properties to Roxel (UK Rocket Motors) Limited and Meggitt Properties PLC.

During the year £1.4m (2021: £1.3m) was recognised as rental income by the UK Group. This is credited to other external charges within the statement of profit and loss.

The following table sets out a maturity analysis of lease payments to be received, showing the undiscounted lease payments to be received after the reporting date:

2022 – Operating leases under IFRS 16

	2022 £ m	2021 £ m
Less than one year	1.4	1.3
One to two years	1.4	1.3
Two to three years	1.4	1.3
Three to four years	1.4	1.3
Four to five years	1.4	1.3
More than five years	15.5	13.9

21. Commitments

There are no unrecognised contractual commitments at the year-end (2021: £nil). Commitment for capital expenditure at 31 December 2022 was £17.2m (2021: £15.8m).

22. Employee benefits

	2022 £ m	2021 £ m
<i>Consolidated and Company</i>		
Recognised liability for defined benefit obligation	(1,611.8)	(2,333.9)
Liability for long service award	(0.6)	(0.8)
Fair value of plan assets	1,708.4	2,136.6
Total	96.0	(198.1)

Assets of defined benefit pensions plans	2022 £ m		2021 £ m	
Equities	66.6	3.9%	265.8	12.4%
Pooled investment vehicles	724.4	42.4%	653.4	30.6%
Fixed interest securities	613.3	35.9%	600.5	28.1%
Index-linked securities	109.3	6.4%	371.5	17.4%
Property	143.5	8.4%	156.6	7.3%
Cash	51.3	3.0%	82.8	3.9%
Other	-	0.0%	6.0	0.3%
	1,708.4	100%	2,136.6	100%

Defined benefit pension plan amounts for the current and previous 4 years.	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Defined benefit obligations	(1,611.8)	(2,333.9)	(2,345.2)	(2,192.2)	(2,024.7)
Plan assets at bid value	1,708.4	2,136.6	1,956.6	1,836.8	1,702.7
Total surplus / (deficit) before tax	96.6	(197.3)	(388.6)	(355.4)	(322.0)
Actuarial gain / (loss) on plan liabilities	700.2	(14.5)	(167.5)	(175.3)	39.8
Actuarial gain / (loss) on plan assets (at bid value)	(343.7)	193.3	26.0	128.1	(31.3)

The Company is a member of several multi-employer defined benefit pension schemes operated by BAE Systems Plc. During 2019, a new allocation methodology for the Company's share of the deficit of the largest scheme was agreed with BAE Systems plc. This scheme represents over 80% of the total Company surplus. Previously, the allocation was determined based on the proportion of current contributions made by the Company as compared with total contributions made by all employers to the scheme. The defined benefit obligation is now calculated for a subset of members of the scheme that have been allocated on a last employer basis. The proportion of the total scheme liability these members represent is used to determine the Company's share of scheme assets.

22. Employee Benefits (continued)

All other schemes in which the Company participates continue to be allocated on a proportion of contributions basis. 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.

Financial assumptions used for the Company's pension schemes	2022	2021
Inflation rate	3.0%	3.1%
Discount rate	4.8%	1.9%
Increase for salaries	3.0%	3.1%
Pension increase	2.3%-3.1%	2.4%-3.1%

Movement in present value of obligations	2022	2021
	£m	£m
Defined benefit obligation 1 January	(2,333.9)	(2,345.2)
Current service cost	(26.3)	(25.6)
Interest on obligation	(43.1)	(32.4)
Actuarial (losses)/ gains recognised in equity	700.2	(14.5)
Benefits paid	91.7	84.2
Member contributions	(0.4)	(0.5)
Defined benefit obligation at 31 December	<u>(1,611.8)</u>	<u>(2,333.9)</u>

Movement in present value of plan assets	2022	2021
	£m	£m
Fair value of plan assets at 1 January	2,136.6	1,956.6
Contributions paid into plan	24.2	44.1
Scheme expenses	(1.2)	(0.8)
Expected return on plan assets	39.8	27.2
Actuarial (losses)/gains recognised in equity	(343.8)	193.3
Benefits paid	(91.7)	(84.2)
Withholding tax	(55.9)	-
Member contributions	0.4	0.5
Fair value of plan assets at 31 December	<u>1,708.4</u>	<u>2,136.6</u>

For more details regarding the relevant schemes, including sensitivity analysis for key assumptions, please refer to Note 25 Retirement Benefits in the BAE Systems plc Annual Report 2022.

23. Related party disclosures

The UK Group undertook the following transactions with group companies and shareholder entities, all transactions are on an arm's length basis. Sales and Purchases with related parties, as disclosed below, include amounts paid in advance for goods and services which may be due for delivery in future periods, and accordingly these figures may not align with revenue recognition for accounting purpose:

MBDA France S.A.S.	2022	2021
	£ m	£ m
Sales	108.5	273.4
Purchases	(66.7)	(61.7)
Owed to	(16.4)	(23.7)
Receivable from	13.2	31.1
MBDA Italia S.p.A.	2022	2021
	£ m	£ m
Sales	35.7	44.9
Purchases	(55.4)	(50.5)
Owed to	(32.1)	(40.1)
Receivable from	9.2	6.8
MBDA Deutschland GmbH	2022	2021
	£ m	£ m
Sales	(0.2)	0.8
Purchases	(19.7)	(17.6)
Owed to	(3.2)	(4.7)
MBDA Espana SL	2022	2021
	£ m	£ m
Purchases	-	(0.1)
MBDA Services S.A.S.	2022	2021
	£ m	£ m
Purchases	(44.0)	(29.9)
Owed to	(8.3)	(6.9)
Receivable from	8.0	6.5
Bayern Chemie GmbH	2022	2021
	£ m	£ m
Purchases	(23.4)	(38.2)
Owed to	(20.8)	(1.5)
Roxel UK Rocket Motors Limited	2022	2021
	£ m	£ m
Purchases	(32.4)	(50.1)
Owed to	(2.0)	(7.1)
Owed by	-	-

23. Related party disclosures (continued)

TDW GmbH.	2022	2021
	£ m	£ m
Purchases	(10.2)	(18.4)
Owed to	(1.6)	(1.0)
 Matra Electronique	 2022	 2021
	£ m	£ m
Purchases	(1.6)	(2.2)
Owed to	(1.1)	-
 MBDA UAE Limited	 2022	 2021
	£ m	£ m
Sales	-	1.2
Receivable from	1.2	1.1

The receivable balance due to the Company from Horizon Land Limited of £1.3m (2021:£1.0m) has been eliminated upon consolidation.

The Company received a dividend from MBDA Treasury Company Limited of £4.6m (2021: £3.7m) and was due £nil (2021: £0.2m) in interest. The Company is owed £9.4m (2021: £5.5m) by Horizon Land Limited (refer to Note 27).

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

BAE Systems Plc	2022	2021
	£ m	£ m
Sales	42.9	126.6
Purchases	(78.9)	(60.2)
Owed to	(0.3)	(0.8)
Receivable from	4.6	4.5
 Leonardo Finmeccanica SpA	 2022	 2021
	£ m	£ m
Sales	1.4	1.9
Purchases	(33.2)	(28.9)
Owed to	-	(0.3)
Receivable from	0.3	0.1

Details of transactions with key management personnel are disclosed in Note 5.

24. Financial instruments

Exchange risk

The UK Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. All material firm transactional exposures are hedged and the UK Group aims, where possible, to apply hedge accounting to these transactions.

The UK Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries. The UK Group does not hedge the translation effect of exchange rate movements on the income statements or balance sheet of foreign subsidiaries.

The UK Group treats forward currency deals under hedge accounting as permitted by IFRS 9.

Interest risk

MBDA UK Limited loans its cash to MBDA Treasury Company Limited through its Cash Pooling Facility on which interest is received and paid on Bank of England base rate plus bank margin.

MBDA UK Limited also has issued loans to Horizon Land Limited and receives interest using Bank of England base rate. The interest income the business achieves is therefore exposed to volatility in underlying interest rates.

Credit risk

Committed Cash is ring fenced and applies to a joint venture bank account held with MOD.

MBDA UK Limited is subject to credit risk arising from outstanding receivables and committed cash and cash equivalents and deposits with banks and financial institutions.

MBDA UK Limited is exposed to counterparty credit risk on cash and cash equivalent balances. This is managed on behalf of the MBDA Group by MBDA Treasury Company Limited.

MBDA UK Limited holds its cash with cash deposits with principal bankers and also with MBDA Treasury Company Limited through its Cash Pooling Facility.

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

Liquidity Risk

Liquidity risk is managed by MBDA Treasury Company Ltd's cash pooling facility.

MBDA UK Limited is subject to risk that it will not have sufficient liquid resources to fund its on-going business. MBDA UK Limited manages its liquidity requirements with the use of operating cash flows, cash balances and participation in MBDA Treasury Company Limited Cash Pooling Facility.

24. Financial instruments (continued)

Forward currency deals

Forward currency deals are carried at fair value on the statement of financial position.

Consolidated and Company

	2022			2021		
	Asset	Liability	Net	Asset	Liability	Net
	£m	£m	£m	£m	£m	£m
USD purchase	2.1	(1.6)	0.5	0.4	(0.4)	-
USD sale	0.8	(1.6)	(0.8)	0.4	(0.6)	(0.2)
EUR purchase	21.5	(12.8)	8.7	0.0	(61.4)	(61.3)
EUR sale	19.1	(22.4)	(3.3)	77.9	(0.2)	77.7
SEK purchase	-	(1.1)	(1.1)	-	(1.9)	(1.9)
SEK sale	0.9	-	0.9	1.3	-	1.3
CHF Purchase	0.5	-	0.5	0.1	(0.1)	-
CHF Sale	-	-	-	-	(0.1)	(0.1)
Total	<u>44.9</u>	<u>(39.5)</u>	<u>5.4</u>	<u>80.1</u>	<u>(64.7)</u>	<u>15.5</u>

The £5.5m net financial asset (2021 asset: £15.5m) gives rise to a deferred tax asset of £1.3m (2021 asset: £3.6m). The effect on the fair value reserve in equity is £5.1m (2021 credit: £16.5m).

There is no hedge ineffectiveness recognised in the statement of profit or loss (2021: £nil).

The fair value of the financial instrument is the price at which one party would assume the rights and 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.

	2022				2021			
	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	4.7	2.3	(1.5)	5.5	1.8	14.4	0.1	16.3
USD	(1.8)	1.5	-	(0.3)	-	(0.2)	-	(0.1)
Other	0.3	(0.1)	-	0.2	(0.6)	(0.1)	-	(0.7)
Total	<u>3.2</u>	<u>3.7</u>	<u>(1.5)</u>	<u>5.4</u>	<u>1.2</u>	<u>14.1</u>	<u>0.1</u>	<u>15.5</u>

24. Financial instruments (continued)

The following table presents the UK Group's assets and liabilities by the measurement basis by which they are fair valued under the IFRS 7 fair value hierarchy at 31 December 2022

2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging	-	44.9	-	44.9
Total assets	-	44.9	-	44.9
Liabilities				
Derivatives used for hedging	-	(39.5)	-	(39.5)
Total liabilities	-	(39.5)	-	(39.5)
2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging	-	80.1	-	80.1
Total assets	-	80.1	-	80.1
Liabilities				
Derivatives used for hedging	-	(64.6)	-	(64.6)
Total liabilities	-	(64.6)	-	(64.6)

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within 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).

Consolidated Deposits include balances recorded for Treasury Pooling

Deposits are carried at historic value as below:

	Interest rate	2022 £m equivalent	2021 £m equivalent
GBP	LIBOR	196.5	513.5
USD	LIBOR	0.3	(0.3)
EUR	EURIBOR	54.4	3.1
Other	LIBOR	0.5	1.6
		<u>251.7</u>	<u>517.9</u>

24. Financial instruments (continued)

Company Deposits include balances recorded for Treasury Pooling

Deposits are carried at historic value as below:

	Interest rate	2022 £m equivalent	2021 £m equivalent
GBP	LIBOR	213.4	513.5
USD	LIBOR	0.6	0.6
EUR	EURIBOR	54.4	3.1
Other	LIBOR	0.5	1.6
		<u>268.9</u>	<u>518.8</u>

Deposits in GBP, USD and EURO are made with MBDA Treasury Company Limited. Other deposits are made directly by the UK Group. All deposits are repayable on demand. The amounts above are included within cash and cash equivalents and treasury pooling on the statement of financial position.

Contained in cash and cash equivalents is £41.7m (2021: £33.9m) of restricted cash related to a bank account jointly managed by the Company and the UK Ministry of Defence.

25. Treasury Pooling

	2022 £ m	2021 £ m
Consolidated		
Cash Pooling	216.6	481.8
	<u>216.6</u>	<u>481.8</u>
	2022 £ m	2021 £ m
Company		
Cash Pooling	235.1	483.3
	<u>235.1</u>	<u>483.3</u>

The UK Group have full access to a group cash pooling arrangement.

Interest Rates

EURO

The Intercompany Loans shall bear interest at the rate of where MBDA Treasury is the borrower, one month EURIBOR less 0.1% per annum and where MBDA Treasury is the lender, one month EURIBOR plus 0.4% per annum.

GBP

The Intercompany Loans shall bear interest at the rate of where MBDA Treasury is the borrower, Bank of England Base rate less spread on fall back rates less 0.1% per annum, with a threshold at zero and where MBDA Treasury is the lender, Bank of England Base Rate less spread on fall back rates plus 0.4% per annum.

USD

The Intercompany Loans shall bear interest at the rate of where MBDA Treasury is the borrower, one month USD LIBOR less 0.1% per annum and where MBDA Treasury is the lender, one month USD LIBOR plus 0.4% per annum.

26. Reserves

	2022 £ m	2021 £ m
Consolidated		
Hedging reserves	3.8	8.8
Translation reserve	-	(1.1)
Other reserves	-	42.9
Retirement benefit reserves	(66.2)	(205.1)
	<u>(62.4)</u>	<u>(154.5)</u>
	2022 £ m	2021 £ m
Company		
Hedging reserves	3.8	8.8
Other reserves	-	42.9
Retirement benefit reserves	(66.2)	(205.1)
	<u>(62.4)</u>	<u>(153.4)</u>

During the course of the year the Company undertook an analysis of its reserves and retained profits in order to provide greater clarity of those reserves that were considered non distributable. As these are transfers wholly within equity and did not impact the reported profit and loss account or top half of the balance sheet the Directors concluded they were not qualitatively material to warrant a restatement to the prior period. As a result the following transfers within reserves were made:

- £62m of previously cancelled share premium as a result of a capital reduction in 2012, was transferred from other reserves to retained profit as these are considered distributable
- £95.6m of historic pension actuarial movements (net of deferred tax) were transferred from retained profits to retirement benefit reserves

Hedging Reserve

The hedging reserve comprises the effective portion of the cumulative net difference in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred.

Translation Reserve

The translation reserve relates to the translation of the financial results and position of the Group's overseas subsidiary into the Group's presentation currency.

Retirement benefit reserves

The retirement benefit reserves comprise the Company's share of cumulative actuarial gains and losses on the plan liabilities and assets (Note 22 above).

27. Long term loan

Company	2022 £ m	2021 £ m
Loan to Horizon Land Limited	9.4	5.5
	<u>9.4</u>	<u>5.5</u>

The long term loan of £9.4m (2021: £5.5m) relating to Horizon Land Limited for the purchase of land and buildings has been eliminated upon consolidation. 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 basis points.

A second loan was advanced to Horizon Land Limited for the purchase of land at Henlow. The loan was for £5,000,000 and commenced in November 2022 and is due to be fully repaid on the 25 July 2042. The interest is calculated on a quarterly basis, fixed on the date of each interest period at the Bank of England Base Rate plus 260 basis points.

28. Other non-current assets

	2022 £	2021 £
Advance payment to secure lease	17.0	-
	<u>17.0</u>	<u>-</u>

29. Subsequent events

There have been no events occurring after 31 December 2022 which require adjustment to in these financial statements. In April 2023 the company signed a £1.9b contract with Poland for the supply of ground based air defence missiles and associated systems.

30. Parent undertaking and ultimate parent companies

The Company is wholly owned within the MBDA SAS group of companies, headed by MBDA SAS 1, Avenue Reaumur - 92350 Le Plessis Robinson, Paris, France (incorporated in France). MBDA SAS is owned by BAE Systems plc. Registered office 6 Carlton Gardens London SW1Y 5AD (incorporated in England, 37.5% shareholding), Airbus SE 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).