

MBDA UK Limited

Directors' Report and Consolidated Financial Statements for the year ended 31 December 2020

Registered Number 3144919

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MBDA UK Limited
Directors' Report and Consolidated Financial Statements
For the year ended 31 December 2020

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Strategic report

MBDA UK Limited (the "Company") financial statements have been prepared on a consolidated basis for 2019 and 2020 following previous exemptions under s405 of Companies Act 2006 for materiality now exceeded. The financial statements have been consolidated with the Company's subsidiaries, MBDA Inc., Horizon Land Limited and UKAMS Limited, (The "UK Group").

As part of the MBDA Group (as such term is defined below), 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 2020 was £929.5m, (2019: £878.4m) broadly generated 50% from UK MoD contracts and 50% from export contracts and this revenue generated profit after tax of £36.5m (2019: £42.1m). Order intake in the year was healthy and generated a book to bill ratio of around 1. As at 31 December 2020 the UK Group was in a healthy financial position, with a significant profitable order book and cash and cash equivalents of £485.8m.

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 Company excluding directors increased from 3,757 (Dec 2019) to 3,987 (Dec 2020). A breakdown of the employees is as follows:

| | Male | | Female | |
|--------------------------------|-------|-------|--------|------|
| | 2020 | 2019 | 2020 | 2019 |
| Directors of the Company | 6 | 6 | 0 | 0 |
| Senior Managers of the Company | 324 | 334 | 51 | 43 |
| Other employees | 2,846 | 2,681 | 766 | 699 |

The number of MBDA Inc. employees excluding directors increased from 43 (Dec 2019) to 47 (Dec 2020). A breakdown of the employees is as follows:

| | Male | | Female | |
|--------------------------------|------|------|--------|------|
| | 2020 | 2019 | 2020 | 2019 |
| Directors of the company | 2 | 2 | 0 | 0 |
| Senior Managers of the company | 6 | 7 | 1 | 1 |
| Other employees | 29 | 25 | 11 | 10 |

The UK entities within the UK Group work closely with 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 and reduce costs.

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.

There continues to be some uncertainty over BREXIT however to date there has been limited impact on the UK entities including some minor delays in the movement of goods cross border and additional administration.

COVID-19 emerged as a potentially significant risk to the business during 2020, however the UK Group has been able to maintain almost full capability at its UK sites, has not seen any significant adverse effects in its supply chain and has adapted well to the change to remote working where this is possible.

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 other domestic customers from around the 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 ability to continue to operate during the ongoing pandemic and our strong 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 markets. The UK Group continues to monitor potential risks before they arise and will work with Government to resolve issues.

The UK Group uses forward exchange contracts to hedge the majority of currency exposures that exist.

Unforeseen technical and programmatic issues can arise in development and production programs 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 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 details the respective responsibilities, organisations and principles of each MBDA Group company. The Principles of Operations 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/or contribute to an in-depth review of the Company's strategy, both in terms of past performance and the future, by the generation of a Integrated Strategic Business Plan ("ISBP"), as part of an overall MBDA Group ISBP review. Once ratified internally by the Company's Directors and other relevant stakeholders, 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/or others within the MBDA Group authorised by the Directors engages with key stakeholders, including its shareholders, employees, customers and suppliers and confirms the focus of the business over this period is aligned with their expectations and is realistic. Consideration is always given to the consequences of the Company's long-term decisions and reputation. Further detail on the main methods the company uses to engage with its employees, customer and suppliers, stakeholders and shareholders 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 consequence. The Company has deployed a new 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 from its various functions on all aspects of its operations.

Employees

To ensure the interest of the UK Group's employees are advanced, the MBDA Group has an employee engagement strategy in place to ensure regular effective two-way communications between management and all employees. This includes a regular Employee Opinion Survey. Due to reprioritisation of resource during the COVID-19 pandemic, the last survey was conducted in November 2018. The Survey enables employees to express views over a range of themes. The responses highlight 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. 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.

Suppliers

Relevant 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 will give due consideration to the potential for developing strategic partnerships with the supply chain. In the selection of goods and services account must be taken of ethics, cost, quality, performance, delivery and suitability. All suppliers go through a two stage vetting process. A risk registration process (fit for business) is followed/undertaken 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 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.

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 CSR report is below:

<https://www.mbda-systems.com/wp-content/uploads/2020/08/MBDA-CSR-Report-2019-online.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. The link to the Code of Ethics is below:

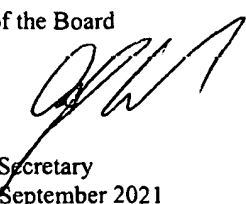
https://www.mbda-systems.com/wp-content/uploads/2020/03/MBDA-Code-of-Ethics-2020-report_UK.pdf

Training sessions are organised by the Business Ethics Directorate for managers and most 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.

Fair Dealings as 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 "Shareholders Agreement"). The Shareholders Agreement includes various mechanisms, such as reserved matters, reporting requirements, 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: 15th September 2021

Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the "UK Group" for the year ended 31 December 2020.

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.

Dividend

The directors made no dividend payment in 2020 and do not recommend payment of a final dividend (2019: £132m).

Directors and directors' interests

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

C Allam
P Di Bartolomeo (Resigned 1st September 2020)
P H C Bols
I D West
E E A Béranger
J Allibone
L Mariani (Appointed 20th November 2020)

No directors, or members of their immediate family, had any interests in shares or debentures, or options to purchase shares or debentures, of the Company at any point during the year.

Employees

Employment policies include a commitment to equal opportunity and are designed to attract and retain the best employees regardless of sex, marital status, age, nationality, or disability, subject only to considerations of national security. The 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, 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 guidance 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 armed force's 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 for further guidance included in the strategic report and the corporate social responsibility code.

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 contributing 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

The following figures make up the baseline reporting for the Company as 2020 is the first year that reporting this information is required.

Scope 1 consumption and emissions relate to direct combustion of natural gas, and fuels utilised for transportation operations such as company vehicles.

Scope 2 consumption and emissions refer to indirect emissions relating to the consumption of purchased electricity in day to day business operations.

Totals

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

| <u>Utility & Scope</u> | <u>2020 UK Consumption</u> (kWh) |
|-------------------------------------|-------------------------------------|
| Grid-Supplied Electricity (Scope 2) | 23,851,859 |
| Gaseous & Other Fuels (Scope 1) | 4,718,852 |
| Total | 28,570,711 |

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

| <u>Utility & Scope</u> | <u>2020 UK Consumption</u> (tCO ₂ e) |
|-------------------------------------|--|
| Grid-Supplied Electricity (Scope 2) | 5,561 |
| Gaseous & Other Fuels (Scope 1) | 973 |
| Total | 6,534 |

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

| <u>Intensity Metric</u> | <u>2020 UK Intensity Metric</u> |
|--------------------------|---------------------------------|
| tCO ₂ e / FTE | 1.64 |

Energy Efficiency Improvements

The Company is committed to year on year improvements in their operational energy efficiency. As such, a register of energy efficiency measures available to the Company has been compiled, with a view to implementing these measures in the next 5 years.

The Company has carried out the following energy efficiency improvements in 2020:

- Improved Gas monitoring of Stevenage Buildings
- Replacement of Air conditioning systems at Stevenage Buildings
- Upgrading of Building Management System and improved system monitoring

Measures prioritised for implementation in 2021 and beyond:

- Solar PV expansion of capacity
- Development of Intelligent buildings
- Installation of metering for efficiency measurements

Reporting Methodology

Scope 1 and 2 consumptions and CO₂e emission data has been calculated in line with the 2019 UK Government environmental reporting guidance, including appropriate Emission Factor Databases. All consumption data for the Company was complete for the reporting year, and as such no estimations were required. Intensity metrics have been calculated utilising the 2020 reportable figures for FTE, and tCO₂e for both individual sources and total emissions were then divided by this figure to determine the tCO₂e per metric.

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

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, which describes the principal committees, the main reviews and key policies of the MBDA Group;
- Business Management, which addresses the overall process the MBDA Group uses to manage its business and the main controls: Delegated Authorities, Finance 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; and
- 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.

The Executive Committee which, as well as the CEO, 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; and
- 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 the UK Managing Director and Executive Group Director Engineering, the Deputy Managing director, the CEO, the MBDA Executive Group Director Finance, the MBDA Executive Group Director Sales & Business Development & Managing Director MBDA Italia, and the UK Finance Director. Matters requiring MBDA UK board of directors' notice, consideration and/or decision/approval are notified to the members of the board and matters requiring formal board decision/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 (2019: £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.

MBDA UK Limited
Directors' Report and Consolidated Financial Statements
For the year ended 31 December 2020

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 page 26 provides further detail on the Director's assessment of going concern.

Auditor

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

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

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

By order of the Board



G.J. Lock
Company Secretary

Date: 15th September 2021

PO Box 19
Six Hills Way
Stevenage
Hertfordshire
SG1 2DA

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

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the UK (IFRSs as adopted by the UK) and applicable law.

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

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Opinion

We have audited the financial statements of MBDA UK Limited ("the company") for the year ended 31 December 2020 which comprise the Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Company and Consolidated Statements of Financial Position, Company and Consolidated Statements of Changes in Equity, Company and Consolidated Statements of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31st December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the UK (IFRSs as adopted by the UK);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the UK and as applied in accordance with the provisions of the Companies Act 2006; and
- 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were significant cost overruns on major contracts and the potential impact of delays in cross-border delivery of finished products..

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible, downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We considered whether the going concern disclosure in note 1 of the financial statements gives a full and accurate description of the Directors' assessment of going concern,

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud;

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and internal audit and inspection of policy documentation as to the Group's/Company's high-level policies and procedures to prevent and detect fraud including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes and management meeting minutes.
- Considering remuneration incentive schemes and performance targets.
- Using analytical procedures to identify any usual or unexpected relationships.
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as contract accounting judgements and pension assumptions.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to unusual accounts
- Assessing significant accounting estimates for bias, including those relevant to contract accounting judgements and related revenue recognition
- Testing a sample of revenue transactions where revenue is recognised on a point in time basis to supporting documentation to assess whether revenue had been recorded in the correct period.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations;

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, and employment law, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and 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 they 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

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

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

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

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



Bethan Telford (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
21 September 2021

Consolidated statement of profit or loss

for the year ended 31 December

| | Note | 2020 £ m | 2019 £ m |
|---|------|-------------|-------------|
| Contract revenue | 2 | 929.5 | 878.4 |
| Raw materials & consumables used | | (409.5) | (462.3) |
| Changes in inventories & work in progress | | 57.2 | 197.8 |
| Staff costs | 4,5 | (283.8) | (269.0) |
| Depreciation & amortisation | | (33.1) | (28.6) |
| Other external charges | | (211.3) | (261.9) |
| Operating profit | 3 | 49.0 | 54.4 |
| Net finance cost | 6 | (3.0) | (2.3) |
| Profit before taxation | | 46.0 | 52.1 |
| Taxation | 7 | (9.5) | (10.0) |
| Profit after taxation | | 36.5 | 42.1 |

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

The accompanying notes on pages 26 to 60 form part of the consolidated financial statements.

Company statement of profit or loss

for the year ended 31 December

| | Note | 2020 £ m | 2019 £ m |
|---|-------------|---------------------|---------------------|
| Contract revenue | 2 | 897.5 | 847.6 |
| Raw materials & consumables used | | (381.9) | (431.8) |
| Changes in inventories & work in progress | | 58.4 | 195.0 |
| Staff costs | 4,5 | (279.4) | (264.7) |
| Depreciation & amortisation | | (32.9) | (28.2) |
| Other external charges | | (216.3) | (266.5) |
| Operating profit | 3 | 45.4 | 51.4 |
| Net finance cost | 6 | (2.8) | (1.9) |
| Profit before taxation | | 42.6 | 49.5 |
| Taxation | 7 | (8.4) | (9.6) |
| Profit after taxation | | 34.2 | 39.9 |

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

The accompanying notes on pages 26 to 60 form part of the consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December

| | Note | 2020 £ m | 2019 £ m |
|---|-------|-------------|-------------|
| Profit for year | | 36.5 | 42.1 |
| <hr/> | | | |
| Items that will not be reclassified to the statement of profit or loss : | | | |
| Remeasurement of defined benefit liability | 22 | (141.5) | (47.2) |
| Tax on items that will not be reclassified to the statement of profit or loss | 17 | 33.9 | 8.1 |
| Items that may be reclassified to the statement of profit or loss : | | | |
| Hedging Reserves | 25 | 3.6 | 45.6 |
| Tax on items that may be reclassified to the statement of profit or loss | 17,25 | (0.5) | (8.7) |
| Exchange differences on translation of foreign operations | | 0.5 | - |
| <hr/> | | | |
| Other comprehensive (loss) for the year | | (104.0) | (2.2) |
| <hr/> | | | |
| Total comprehensive (loss) / income for the year | | (67.5) | 40.0 |
| <hr/> | | | |

The accompanying notes on pages 26 to 60 form part of the consolidated financial statements.

MBDA UK Limited
 Directors' Report and Consolidated Financial Statements
 For the year ended 31 December 2020

Consolidated statement of financial position

As at 31 December

| | Note | 2020 | 2019 |
|--------------------------------------|--------|------------------|------------------|
| | | £ m | £ m |
| Assets | | | |
| Intangible assets | 8 | 106.3 | 108.4 |
| Investment property | 9 | 12.8 | 13.0 |
| Property, plant & equipment | 10 | 177.9 | 173.0 |
| Right of use assets | 11 | 37.7 | 24.4 |
| Investments | 12 | 210.0 | 210.0 |
| Derivative financial asset | 24 | 39.4 | 71.6 |
| Deferred tax assets | 17 | 102.4 | 85.1 |
| Total non-current assets | | 686.5 | 685.5 |
| Inventories | 13 | 1,203.7 | 1,135.2 |
| Contract assets | 2 | 18.9 | 30.3 |
| Trade & other receivables | 2, 14 | 290.0 | 344.0 |
| Cash and cash equivalents | 24 | 485.8 | 230.1 |
| Total current assets | | 1,998.4 | 1,739.6 |
| Total assets | | 2,684.9 | 2,425.1 |
| Liabilities | | | |
| Contract liabilities | 2 | (1,653.7) | (1,349.0) |
| Trade & other payables | 15, 19 | (238.5) | (245.8) |
| Accruals | | (220.0) | (216.8) |
| Total current liabilities | | (2,112.2) | (1,811.6) |
| Employee benefits | 22 | (389.4) | (356.2) |
| Provisions | 16 | (6.7) | (5.8) |
| Trade & other payables | 15, 19 | (33.6) | - |
| Derivative financial liability | 24 | (50.0) | (84.9) |
| Deferred tax liability | 17 | (7.5) | (13.6) |
| Total non-current liabilities | | (487.2) | (460.5) |
| Net Assets | | 85.5 | 153.0 |
| Equity | | | |
| Called up share capital | 18 | 5.3 | 5.3 |
| Reserves | 25 | (327.6) | (223.6) |
| Retained earnings | | 407.8 | 371.3 |
| Total equity | | 85.5 | 153.0 |

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

Ian West

I D West, Director
 Date: 15th September 2021
 Registered number: 3144919

The accompanying notes on pages 26 to 60 form part of these financial statements.

Company statement of financial position

As at 31 December

| | Note | 2020 | 2019 |
|--------------------------------------|-------|------------------|------------------|
| | | £ m | £ m |
| Assets | | | |
| Intangible assets | 8 | 106.3 | 108.4 |
| Property, plant & equipment | 10 | 177.8 | 173.0 |
| Right of use assets | 11 | 37.7 | 24.4 |
| Long term loans | 26 | 6.6 | 7.7 |
| Investments | 12 | 211.5 | 211.5 |
| Derivative financial asset | 24 | 39.4 | 71.6 |
| Deferred tax assets | 17 | 102.4 | 85.1 |
| Total non-current assets | | 681.7 | 681.7 |
| Inventories | 13 | 1,196.2 | 1,126.5 |
| Contract assets | 2 | 18.9 | 30.3 |
| Trade & other receivables | 14 | 288.6 | 340.7 |
| Cash and cash equivalents | 24 | 483.6 | 233.0 |
| Total current assets | | 1,987.3 | 1,730.5 |
| Total assets | | 2,669.0 | 2,412.2 |
| Liabilities | | | |
| Contract liabilities | | (1,653.5) | (1,348.8) |
| Trade & other payables | 15,19 | (237.6) | (245.1) |
| Accruals | | (217.8) | (214.6) |
| Total current liabilities | | (2,108.9) | (1,808.5) |
| Employee benefits | 22 | (389.4) | (356.2) |
| Provisions | 16 | (6.7) | (5.8) |
| Trade & other payables | 15,19 | (33.6) | - |
| Derivative financial liability | 24 | (50.0) | (84.9) |
| Deferred tax liability | 17 | (7.5) | (13.6) |
| Total non-current liabilities | | (487.2) | (460.5) |
| Net Assets | | 72.9 | 143.2 |
| Equity | | | |
| Called up share capital | 18 | 5.3 | 5.3 |
| Reserves | 25 | (327.9) | (223.4) |
| Retained earnings | | 395.5 | 361.3 |
| Total equity | | 72.9 | 143.2 |

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

Tam West

ID West, Director
Date: 15th September 2021
Registered number: 3144919

The accompanying notes on pages 26 to 60 form part of these financial statements.

Consolidated statement of changes in equity

| | Share capital | Retained earnings | Reserves | Translation reserves | Total equity |
|--|------------------|----------------------|----------------|-------------------------|-----------------|
| | £m | £ m | £ m | £m | £ m |
| At 1 January 2019 | 5.3 | 462.0 | (221.2) | (0.1) | 246.0 |
| Impact of change in accounting policy | - | (1.0) | - | - | (1.0) |
| Effective portion of changes in fair value of cash flow hedges (net of deferred tax) | - | - | 37.0 | - | 37.0 |
| Actuarial gains / (losses) on defined benefit obligations (net of deferred tax) | - | - | (39.2) | - | (39.2) |
| Dividend paid | - | (132.0) | - | - | (132.0) |
| Retained Profit for the year | - | 42.2 | - | - | 42.2 |
| As at 31 December 2019 | <u>5.3</u> | <u>371.2</u> | <u>(223.4)</u> | <u>(0.1)</u> | <u>153.0</u> |
| At 1 January 2020 | 5.3 | 371.2 | (223.4) | (0.1) | 153.0 |
| Effective portion of changes in fair value of cash flow hedges (net of deferred tax) | - | - | 3.1 | - | 3.1 |
| Actuarial gains / (losses) on defined benefit obligations (net of deferred tax) | - | - | (107.6) | - | (107.6) |
| Exchange differences on translation of foreign operations | - | - | - | 0.5 | 0.5 |
| Retained profit for the year | - | 36.5 | - | - | 36.5 |
| At 31 December 2020 | <u>5.3</u> | <u>407.7</u> | <u>(327.9)</u> | <u>0.4</u> | <u>85.5</u> |

The accompanying notes on pages 26 to 60 form part of these financial statements.

Company statement of changes in equity

| | Share capital £m | Retained earnings £ m | Reserves £ m | Total equity £ m |
|--|------------------------|-----------------------------|-----------------|------------------------|
| At 1 January 2019 | 5.3 | 454.4 | (221.2) | 238.5 |
| Impact of change in accounting policy | - | (1.0) | - | (1.0) |
| Effective portion of changes in fair value of cash flow hedges (net of deferred tax) | - | - | 36.9 | 36.9 |
| Actuarial gains / (losses) on defined benefit obligations (net of deferred tax) | - | - | (39.1) | (39.1) |
| Dividend paid | - | (132.0) | - | (132.0) |
| Retained profit for the year | - | 39.9 | - | 39.9 |
| At 31 December 2019 | <u>5.3</u> | <u>361.3</u> | <u>(223.4)</u> | <u>143.2</u> |
| At 1 January 2020 | 5.3 | 361.3 | (223.4) | 143.2 |
| Effective portion of changes in fair value of cash flow hedges (net of deferred tax) | - | - | 3.1 | 3.1 |
| Actuarial gains / (losses) on defined benefit obligations (net of deferred tax) | - | - | (107.6) | (107.6) |
| Retained profit for the year | - | 34.2 | - | 34.2 |
| At 31 December 2020 | <u>5.3</u> | <u>395.5</u> | <u>(327.9)</u> | <u>72.9</u> |

The accompanying notes on pages 26 to 60 form part of these financial statements.

Consolidated statement of cash flows
 for the year ended 31 December

| | 2020 | 2019 |
|---|---------------|----------------|
| | £ m | £ m |
| Cash flows from operating activities | | |
| Profit/ (loss) for the for year before tax | 46.0 | 52.1 |
| Adjustment for: | | |
| Depreciation & amortisation | 33.1 | 28.6 |
| Interest (received) / paid | (0.1) | (1.9) |
| Dividends received | (3.3) | (4.6) |
| Net pension interest | 5.7 | 8.0 |
| Loss on capital disposal | - | 0.1 |
| Movement in Contract assets | 11.3 | (24.6) |
| Movement in Contract liabilities | 304.7 | 312.2 |
| Movement in inventory | (68.4) | (197.8) |
| Movement in receivables | 64.6 | (145.9) |
| Movement in employee benefits | (113.9) | (21.8) |
| Movement in payables | 22.7 | 91.1 |
| Movement in accruals | 3.3 | (27.7) |
| Movement in deferred tax | 10.5 | 0.4 |
| Movement in provisions | 0.8 | 5.1 |
| Taxation paid | (9.5) | (9.7) |
| Net cash from operating activities | 307.5 | 63.6 |
| Cash flows from investing activities | | |
| Interest received | 0.5 | 1.9 |
| Dividends received | 3.3 | 4.6 |
| Capital expenditure | (49.0) | (44.3) |
| Net cash from investing activities | (45.2) | (37.8) |
| Cash flows from financing activities | | |
| Interest paid | (0.4) | - |
| Payments of lease liabilities | (6.2) | (5.9) |
| Dividend paid | - | (132.0) |
| Net cash from financing activities | (6.6) | (137.9) |
| Net increase/(decrease) in cash & cash equivalents | 255.7 | (112.1) |
| Cash & cash equivalents at 1 January | 230.1 | 342.3 |
| Cash & cash equivalents at 31 December | 485.8 | 230.1 |

The accompanying notes on pages 26 to 60 form part of these financial statements.

Company statement of cash flows
 for the year ended 31 December

| | 2020 | 2019 |
|---|---------------|----------------|
| | £ m | £ m |
| Cash flows from operating activities | | |
| Profit/ (loss) for the for year before tax | 42.6 | 49.5 |
| Adjustment for: | | |
| Depreciation & amortisation | 32.9 | 28.3 |
| Interest (received) / paid | (0.3) | (2.2) |
| Dividends received | (3.3) | (4.6) |
| Net pension interest | 5.7 | 8.0 |
| Loss on capital disposal | - | 0.1 |
| Movement in Contract assets | 11.3 | (24.6) |
| Movement in Contract liabilities | 304.7 | 312.2 |
| Movement in inventory | (69.7) | (195.0) |
| Movement in receivables | 62.8 | (149.3) |
| Movement in employee benefits | (113.9) | (21.8) |
| Movement in payables | 22.6 | 91.4 |
| Movement in accruals | 3.3 | (28.0) |
| Movement in deferred tax | 9.9 | 0.4 |
| Movement in provisions | 0.8 | 5.1 |
| Taxation | (8.4) | (9.6) |
| Net cash from operating activities | 301.0 | 59.9 |
| Cash flows from investing activities | | |
| Interest received | 0.5 | 2.2 |
| Dividends received | 3.3 | 4.6 |
| Capital expenditure | (48.9) | (44.3) |
| Long-term loan payment received | 1.1 | 1.0 |
| Net cash from investing activities | (44.0) | (36.5) |
| Cash flows from financing activities | | |
| Interest paid | (0.2) | - |
| Payments of lease liabilities | (6.2) | (5.9) |
| Dividends paid | - | (132.0) |
| Net Cash from financing activities | (6.4) | (137.9) |
| Net increase/(decrease) in cash & cash equivalents | 250.6 | (114.5) |
| Cash & cash equivalents at 1 January | 233.0 | 347.6 |
| Cash & cash equivalents at 31 December | 483.6 | 233.0 |

The accompanying notes on pages 26 to 60 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 which are considered material in relation to the UK Group's financial statements.

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

The UK Group position shows net current liabilities of £113.8m as at 31 December 2020, the UK Group generated a profit for the year ended 31 December 2020 of £36.5m and had net operating cash inflows of £307.5m. As at 31 December 2020 the UK Group's cash balance stood at £485.8m.

The Company position shows net current liabilities of £121.6m as at 31 December 2020, the Company generated a profit for the year ended 31 December 2020 of £34.2m and had net operating cash inflows of £301.2m. As at 31 December 2020 the Company's cash balance stood at £483.7m.

The Directors have prepared cash flow forecasts for the next 12 months taking account of reasonably possible downsides, to assess the ability of the UK Group and Company to continue in operation and meet its liabilities as they fall due. The Company has a significant, profitable order book that will generate positive cash flow in the future. Of significance is the fact that to date no contracts have been cancelled and the Company is considered to be an essential business by the government. As such any further wave of the COVID-19 virus is unlikely to have a material impact on our ability to continue operating.

Consequently, the Directors are confident that the UK Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements 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 company, including with regard to the impact of COVID-19, and have not identified any matters which 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.

Revenue recognition

Contract profit is calculated by reference to reliable estimates of contract revenue and forecast costs after making suitable allowance for technical and other risks related to performance milestones yet to be achieved. Material changes in one or more of these estimates, whilst not anticipated, would affect the profitability of individual contracts. Further details on revenue recognition policies are provided below

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

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 overtime, as the UK Group performance does not generally create an asset with an alternative use and has enforceable right to payment for the performance completed to date.

Revenue is generally recognised over time. Progress is measured on the cost-to-cost output method.

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

Expenditure on research activities is recognised in the 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 |
|-------------------|---|--------------------|

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.

An independent valuer is typically appointed annually to conduct a valuation of the investment properties. The last full review for the Summerfield site was carried out in April 2019 and an update prepared in February 2021.

Due to the restrictions imposed by the COVID-19 pandemic on non-essential travel, no valuation had been formalised on the Stevenage site since January 2020. A site visit took place in April 2021 and the draft report together with publicly available market analysis was used as the basis for the assessment by management of the fair value. The directors are confident that both properties have a Fair Value in excess of the carrying amount at the balance sheet date.

The draft report prepared confirms that it is not subject to any material uncertainty and that the impact of COVID-19 on the UK economy was not a factor.

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, a 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 moving average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

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 impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

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 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.

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.

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 | 2020 £m | 2019 £m |
|------------------------------|--------------|--------------|
| Europe | 677.4 | 585.9 |
| Rest of world | 252.1 | 292.5 |
| Revenue | 929.5 | 878.4 |

| Timing of Revenue Recognition | 2020 £m | 2019 £m |
|-------------------------------|--------------|--------------|
| OT (Over Time) | 452.9 | 459.5 |
| PiT (Point in Time) | 476.6 | 418.9 |
| Revenue | 929.5 | 878.4 |

2. Company Contract Revenue

Disaggregation of revenue from contracts with customers:

| Primary Geographical Markets | 2020 £m | 2019 £m |
|------------------------------|--------------|--------------|
| Europe | 677.4 | 585.9 |
| Rest of world | 220.1 | 261.7 |
| Revenue | 897.5 | 847.6 |

| Timing of Revenue Recognition | 2020 £m | 2019 £m |
|-------------------------------|--------------|--------------|
| OT (Over Time) | 420.9 | 428.1 |
| PiT (Point in Time) | 476.6 | 419.5 |
| Revenue | 897.5 | 847.6 |

Consolidated Contract Balances

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

| | 2020 £m | 2019 £m |
|--|------------|------------|
| Receivables, which are included within 'trade and other receivables' | 198.2 | 248.8 |
| Contract assets | 18.9 | 30.3 |
| Contract liabilities | (1,653.7) | (1,349.0) |

The contract assets primarily relate to the UK Group's right for 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 2020. 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 2020, the total transaction price allocated to unsatisfied and partially satisfied performance obligations was approximately £4.69bn. The UK Group expects approximately 29% (£1.36bn) of this balance will be recognised as revenue during the next financial year, with the remainder largely recognised over the following 4 years.

3. Consolidated Operating profit

| | 2020 £ m | 2019 £ m |
|--|-------------|-------------|
| Operating profit is stated after charging: | | |
| Auditor's remuneration | 0.7 | 0.3 |
| Depreciation of property, plant & equipment | 22.5 | 17.8 |
| Depreciation of investment property | 0.2 | 0.2 |
| Depreciation of right of use assets | 5.2 | 5.0 |
| Loss on disposal of property, plant & equipment | - | 0.1 |
| Intangible amortisation | 5.3 | 5.6 |
| Research and development expenditure in the year | 17.0 | 20.9 |
| Lease interest | 0.7 | 0.7 |
| Exchange (gain) / loss | (1.3) | 0.3 |

3. Company Operating profit

| | 2020 £ m | 2019 £ m |
|--|-------------|-------------|
| Operating profit is stated after charging: | | |
| Auditor's remuneration | 0.7 | 0.3 |
| Depreciation of property, plant & equipment | 22.4 | 17.8 |
| Depreciation of right of use assets | 5.2 | 5.0 |
| Loss on disposal of property, plant & equipment | - | 0.1 |
| Intangible amortisation | 5.3 | 5.4 |
| Research and development expenditure in the year | 17.0 | 20.9 |
| Lease interest | 0.7 | 0.7 |
| Exchange (gain) / loss | (1.3) | 0.3 |

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 | |
|-----------|---------------------|-------|
| | 2020 | 2019 |
| Employees | 3,882 | 3,668 |

| | 2020 £ m | 2019 £ m |
|--|-------------|-------------|
|--|-------------|-------------|

The aggregate payroll costs of these persons were as follows:

| | | |
|-----------------------|--------------|--------------|
| Wages and salaries | 216.1 | 205.2 |
| Social security costs | 20.8 | 18.1 |
| Other pension costs | 45.3 | 44.2 |
| | <u>282.2</u> | <u>267.5</u> |

4. Company Staff numbers and costs

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

| | Number of Employees | |
|-----------|---------------------|-------|
| | 2020 | 2019 |
| Employees | 3,833 | 3,623 |

| | 2020 £ m | 2019 £ m |
|--|-------------|-------------|
|--|-------------|-------------|

The aggregate payroll costs of these persons were as follows:

| | | |
|-----------------------|--------------|--------------|
| Wages and salaries | 212.2 | 201.4 |
| Social security costs | 20.5 | 17.9 |
| Other pension costs | 45.1 | 43.9 |
| | <u>277.8</u> | <u>263.1</u> |

5. Directors' emoluments

| | 2020 £ m | 2019 £ m |
|--------------------------------------|-------------|-------------|
| Wages and salaries | 1.5 | 1.4 |
| Company contribution to pension plan | 0.1 | 0.1 |
| | <u>1.6</u> | <u>1.5</u> |

The aggregate emoluments of the highest paid director during the year were £556.1k (2019:£562.7k). 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 | |
|---|---------------------|------|
| | 2020 | 2019 |
| Defined benefit pension schemes (Note 22) | 3 | 3 |

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

6. Consolidated net finance cost

| | 2020 £ m | 2019 £ m |
|---------------------|--------------|--------------|
| Dividends received | 3.3 | 4.6 |
| Lease interest paid | (0.7) | (0.7) |
| Interest payable | (5.7) | (8.0) |
| Interest received | 0.1 | 1.8 |
| | <u>(3.0)</u> | <u>(2.3)</u> |

6. Company net finance cost

| | 2020 £ m | 2019 £ m |
|---------------------|--------------|--------------|
| Dividends received | 3.3 | 4.6 |
| Lease interest paid | (0.7) | (0.7) |
| Interest payable | (5.7) | (8.0) |
| Interest received | 0.3 | 2.2 |
| | <u>(2.8)</u> | <u>(1.9)</u> |

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

| | 2020 £ m | 2019 £ m |
|---|--------------|-------------|
| Current tax | | |
| Current tax charge for period | 0.8 | 8.0 |
| Adjustment for prior years | <u>(1.5)</u> | <u>2.2</u> |
| | (0.7) | 10.2 |
| Deferred tax (Note 17) | | |
| Origination and reversal of temporary differences | 7.4 | (0.4) |
| Effect of change in rate of tax 17% to 19% | 2.8 | - |
| Recognition of previously unrecognised tax losses | <u>-</u> | <u>0.2</u> |
| | <u>9.5</u> | <u>10.0</u> |

Reconciliation of effective tax rate

| | 2020 £ m | 2019 £ m |
|--|--------------|-------------|
| Profit before tax | <u>46.1</u> | <u>52.1</u> |
| Tax charge on profit at UK rate of 19.0% (2019: 19%) | 8.7 | 9.9 |
| Non-deductible expenses | 0.1 | (0.2) |
| Non-taxable income | (1.6) | (0.9) |
| Depreciation (ineligible) | 0.6 | 0.5 |
| Effect of tax rates in foreign jurisdictions | 0.4 | 0.2 |
| Rate change difference | 2.8 | (0.1) |
| Adjustment for Prior Years | <u>(1.5)</u> | <u>0.6</u> |
| | <u>9.5</u> | <u>10.0</u> |

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

| | 2020 £ m | 2019 £ m |
|---|---------------------------|---------------------------|
| Current tax | | |
| Current tax charge for period | (0.2) | 7.6 |
| Adjustment for prior years | (1.5) | 2.2 |
| | <u>(1.7)</u> | <u>9.8</u> |
| Deferred tax (Note 17) | | |
| Origination and reversal of temporary differences | 7.3 | (0.4) |
| Effect of change in rate of tax 17% to 19% | 2.8 | - |
| Recognition of previously unrecognised tax losses | - | 0.2 |
| | <u>8.4</u> | <u>9.6</u> |

Reconciliation of effective tax rate

| | 2020 £ m | 2019 £ m |
|--|---------------------------|---------------------------|
| Profit before tax | 42.6 | 49.4 |
| Tax charge on profit at UK rate of 19.0% (2019: 19%) | <u>8.1</u> | <u>9.4</u> |
| Non-deductible expenses | - | 0.1 |
| Non-taxable income | (1.6) | (0.9) |
| Depreciation (ineligible) | 0.6 | 0.5 |
| Rate change difference | 2.8 | (0.1) |
| Adjustments for Prior years | (1.5) | 0.6 |
| | <u>8.4</u> | <u>9.6</u> |

8. Intangible assets

Consolidated

| | Goodwill | Computer Software | Total |
|--------------------------------------|----------|-------------------|-------|
| | £ m | £ m | £ m |
| Cost | | | |
| At 1 January 2019 | 98.3 | 49.5 | 147.8 |
| Acquisitions | - | 3.2 | 3.2 |
| Disposals | - | (0.4) | (0.4) |
| At 31 December 2019 | 98.3 | 52.3 | 150.6 |
| Acquisitions | - | 3.1 | 3.1 |
| At 31 December 2020 | 98.3 | 55.4 | 153.7 |
| Amortisation & impairment | | | |
| At 1 January 2019 | - | 37.0 | 37.0 |
| Amortisation | - | 5.5 | 5.5 |
| Disposal | - | (0.4) | (0.4) |
| At 31 December 2019 | - | 42.1 | 42.1 |
| Amortisation | - | 5.3 | 5.3 |
| At 31 December 2020 | - | 47.4 | 47.4 |
| Net book value | | | |
| At 31 December 2019 | 98.3 | 10.1 | 108.4 |
| At 31 December 2020 | 98.3 | 8.0 | 106.3 |

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 in to perpetuity with no growth; post-tax discount rate of 6.3% (2019: 6.4%). 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 (2019: £nil).

At 31 December 2020, included in cost were intangible assets with a net book value of £nil: Computer Software £34.5m (2019:£30.6m).

| <i>Company</i> | Goodwill | Computer Software | Total |
|--------------------------------------|-----------------|--------------------------|--------------|
| | £ m | £ m | £ m |
| Cost | | | |
| At 1 January 2019 | 98.3 | 49.3 | 147.6 |
| Acquisitions | - | 3.2 | 3.2 |
| Disposals | - | (0.4) | (0.4) |
| At 31 December 2019 | 98.3 | 52.1 | 150.4 |
| Acquisitions | - | 3.1 | 3.1 |
| At 31 December 2020 | 98.3 | 55.2 | 153.5 |
| Amortisation & impairment | | | |
| At 1 January 2019 | - | 36.9 | 36.9 |
| Amortisation | - | 5.5 | 5.5 |
| Disposal | - | (0.4) | (0.4) |
| At 31 December 2019 | - | 42.0 | 42.0 |
| Amortisation | - | 5.2 | 5.2 |
| At 31 December 2020 | - | 47.2 | 47.2 |
| Net book value | | | |
| At 31 December 2019 | 98.3 | 10.1 | 108.4 |
| At 31 December 2020 | 98.3 | 8.0 | 106.3 |

9. Investment Property

Horizon Land Limited acquired a property occupied by Roxel (UK Rocket Motors) Limited in Summerfield, Worcestershire on 6th October 2014. In addition, Horizon Land Limited owns freehold land at Stevenage which is leased at a peppercorn rent.

| | Investment Land £ m | Investment Property £ m | Total £ m |
|---|---------------------------|-------------------------------|--------------|
| Cost | | | |
| Balance at 31 December 2019 | 10.7 | 3.1 | 13.8 |
| Balance at 31 December 2020 | 10.7 | 3.1 | 13.8 |
| Accumulated depreciation and impairment losses | | | |
| Balance at 1 January 2019 | - | 0.6 | 0.6 |
| Depreciation charge for the year | - | 0.2 | 0.2 |
| Balance at 31 December 2019 | - | 0.8 | 0.8 |
| Balance at 1 January 2020 | - | 0.8 | 0.8 |
| Depreciation charge for the year | - | 0.2 | 0.2 |
| Balance at 31 December 2020 | - | 1.0 | 1.0 |
| Carrying Amounts | | | |
| Balance at 1 January 2019 | 10.7 | 2.5 | 13.2 |
| Balance at 31 December 2019 | 10.7 | 2.3 | 13.0 |
| Balance at 1 January 2020 | 10.7 | 2.3 | 13.0 |
| Balance at 31 December 2020 | 10.7 | 2.1 | 12.8 |

The fair value of the investment properties is £18.7m (2019: £16.1m) and is based on and reflects current market value as prepared by external valuation professionals.

10. Property, plant & equipment

| <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 2019 | 106.2 | 98.9 | 118.5 | 5.5 | 329.1 |
| Acquisitions | 0.2 | 7.7 | 12.5 | 19.0 | 39.4 |
| Disposals | - | (1.4) | (2.6) | - | (4.0) |
| Transfers between items | 3.5 | 0.7 | 6.6 | (10.8) | - |
| Balance at 31 December 2019 | 109.9 | 105.9 | 135.0 | 13.7 | 364.5 |
| Acquisitions | 0.1 | 7.0 | 13.1 | 6.8 | 27.0 |
| Disposals | - | (2.2) | - | - | (2.2) |
| Transfers between items | - | - | 7.8 | (7.8) | - |
| Balance at 31 December 2020 | 110.2 | 110.7 | 155.9 | 12.7 | 389.3 |
| Depreciation & impairment | | | | | |
| Balance at 1 January 2019 | 27.1 | 76.7 | 73.8 | - | 177.6 |
| Depreciation charge for the year | 2.8 | 4.7 | 10.3 | - | 17.8 |
| Disposals | (0.1) | (1.4) | (2.6) | - | (4.1) |
| Balance at 31 December 2019 | 29.8 | 80.0 | 81.5 | - | 191.3 |
| Depreciation charge for the year | 2.9 | 5.4 | 14.0 | - | 22.3 |
| Disposals | - | (2.2) | - | - | (2.2) |
| Balance at 31 December 2020 | 32.7 | 83.2 | 95.5 | - | 211.4 |
| Net book value | | | | | |
| At 31 December 2019 | 80.1 | 25.9 | 53.5 | 13.7 | 173.2 |
| At 31 December 2020 | 77.3 | 27.5 | 60.4 | 12.7 | 177.9 |

Land and buildings contains land with a cost of £24.6m that does not attract any depreciation (2019: £24.6m).

10. Property, plant & equipment (continued)

| <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 2019 | 105.6 | 98.7 | 117.8 | 5.5 | 327.6 |
| Acquisitions | 0.2 | 7.7 | 12.5 | 19.2 | 39.6 |
| Disposals | - | (1.4) | (2.6) | - | (4.0) |
| Transfers between items | 3.7 | 0.7 | 6.6 | (11.0) | - |
| Balance at 31 December 2019 | 109.5 | 105.7 | 134.3 | 13.7 | 363.2 |
| Acquisitions | 0.3 | 7.1 | 13.0 | 6.8 | 27.2 |
| Disposals | - | (2.2) | - | - | (2.2) |
| Transfers between items | - | - | 7.8 | (7.8) | - |
| Balance at 31 December 2020 | 109.8 | 110.6 | 155.1 | 12.7 | 388.2 |
| Depreciation & impairment | | | | | |
| Balance at 1 January 2019 | 26.8 | 76.5 | 73.1 | - | 176.4 |
| Depreciation charge for the year | 2.8 | 4.7 | 10.2 | - | 17.7 |
| Disposals | - | (1.4) | (2.5) | - | (3.9) |
| Balance at 31 December 2019 | 29.6 | 79.8 | 80.8 | - | 190.2 |
| Depreciation charge for the year | 2.9 | 5.5 | 14.0 | - | 22.3 |
| Disposals | - | (2.2) | - | - | (2.2) |
| Balance at 31 December 2020 | 32.5 | 83.1 | 94.8 | - | 210.3 |
| Net book value | | | | | |
| At 31 December 2019 | 79.9 | 25.9 | 53.5 | 13.7 | 173.0 |
| At 31 December 2020 | 77.3 | 27.5 | 60.3 | 12.7 | 177.8 |

Land and buildings contains land with a cost of £24.6m that does not attract any depreciation (2019: £24.6m).

11. Right of Use Assets

| <i>Consolidated and Company</i> | Land & buildings £ m | Plant & machinery £ m | Fixture, fittings, tools & equipment £ m | Total £ m |
|---|-------------------------|--------------------------|---|--------------|
| Cost | | | | |
| Balance at 1 January 2019 | 22.6 | 0.5 | 4.8 | 27.9 |
| Acquisitions | 0.1 | 0.4 | 1.0 | 1.5 |
| Balance at 31 December 2019 | 22.7 | 0.9 | 5.8 | 29.4 |
| Balance at 1 January 2020 | 22.7 | 0.9 | 5.8 | 29.4 |
| Acquisitions | 17.5 | 0.6 | 0.4 | 18.5 |
| Balance at 31 December 2020 | 40.2 | 1.5 | 6.2 | 47.9 |
| Depreciation & impairment | | | | |
| Balance at 1 January 2019 | - | - | - | - |
| Depreciation charge for the year | (2.6) | (0.4) | (2.0) | (5.0) |
| Balance at 31 December 2019 | (2.6) | (0.4) | (2.0) | (5.0) |
| Balance at 1 January 2020 | (2.6) | (0.4) | (2.0) | (5.0) |
| Depreciation charge for the year | (2.6) | (0.5) | (2.1) | (5.2) |
| Balance at 31 December 2020 | (5.2) | (0.9) | (4.1) | (10.2) |
| Net Book value at 31 December 2020 | 35.0 | 0.6 | 2.1 | 37.7 |
| Net Book value at 31 December 2019 | 20.1 | 0.5 | 3.8 | 24.4 |

12. Investments

| Net book value | 2020 £ m | 2019 £ m |
|---------------------|-------------|-------------|
| <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. 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.

13. Inventories

| | 2020 | 2019 |
|-----------------------------------|----------------|----------------|
| <i>Consolidated</i> | £ m | £ m |
| Raw materials & consumables | 160.0 | 130.3 |
| Work in progress | 1,034.9 | 998.2 |
| Finished goods & goods for resale | 8.8 | 6.7 |
| | <u>1,203.7</u> | <u>1,135.2</u> |
| | 2020 | 2019 |
| <i>Company</i> | £ m | £ m |
| Raw materials & consumables | 159.4 | 129.1 |
| Work in progress | 1,028.0 | 990.7 |
| Finished goods & goods for resale | 8.8 | 6.7 |
| | <u>1,196.2</u> | <u>1,126.5</u> |

Included within work in progress is an inventory provision of £6.2m (2019: £1.9m).

14. Trade and other receivables

| | 2020 | 2019 |
|--|--------------|--------------|
| | £ m | £ m |
| Due within one year | | |
| Consolidated | | |
| Trade receivables – amounts recoverable on contracts | 198.2 | 248.8 |
| Amounts owed by group undertakings | 27.2 | 21.6 |
| Other receivables | 50.1 | 42.1 |
| Prepayments & accrued income | 14.5 | 31.5 |
| | <u>290.0</u> | <u>344.0</u> |
| Company | | |
| Trade receivables – amounts recoverable on contracts | 196.6 | 245.1 |
| Amounts owed by group undertakings | 28.0 | 22.5 |
| Other receivables | 49.7 | 42.0 |
| Prepayments & accrued income | 14.3 | 31.1 |

| | | |
|--------------------------------------|--------------|--------------|
| | <u>288.6</u> | <u>340.7</u> |
| 15. Trade and other payables | | |
| | 2020 | 2019 |
| | £ m | £ m |
| Due within one year | | |
| Consolidated | | |
| Trade payables | 97.5 | 106.0 |
| Lease liabilities | 4.8 | 25.4 |
| Amounts owed to group undertakings | 98.3 | 77.1 |
| Other creditors | 37.9 | 37.3 |
| | <u>238.5</u> | <u>245.8</u> |
| Company | | |
| Trade payables | 97.5 | 105.8 |
| Lease liabilities | 4.8 | 25.4 |
| Amounts owed to group undertakings | 98.2 | 77.1 |
| Other creditors | 37.1 | 36.8 |
| | <u>237.6</u> | <u>245.1</u> |
| Due within more than one year | | |
| Consolidated and Company | | |
| Lease liabilities | 33.6 | - |
| | <u>33.6</u> | <u>-</u> |

Included in current trade and other payables in 2019 is £20.2m related to lease liabilities which were amounts due after more than one year and as such should have been presented as Non-current liabilities. In the current year balance sheet lease liabilities of this nature are classified as Non-current liabilities. The comparatives have not been adjusted as the re-classification from current to non-current is not considered sufficiently material to warrant an IAS 8 prior year adjustment.

16. Provisions

| Consolidated and Company | Contract |
|--------------------------|------------|
| | £m |
| At 1 January 2019 | 0.8 |
| Created | 5.8 |
| Utilised and released | (0.8) |
| At 31 December 2019 | <u>5.8</u> |
| At 1 January 2020 | 5.8 |
| Created | 6.3 |
| Utilised and released | (5.4) |
| At 31 December 2020 | <u>6.7</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.

17. Deferred tax

An analysis of the deferred tax balance is shown below:

| | 1 January 2019 | Recognised in income | Recognised in equity | 31 December 2019 |
|--------------------------------|---------------------------|---------------------------------|---------------------------------|-----------------------------|
| Consolidated | | | | |
| Deferred Tax Asset | £m | £m | £m | £m |
| Accelerated capital allowances | 2.8 | 1.3 | - | 4.1 |
| Accounting policy change | 2.8 | 0.2 | - | 3.0 |
| Employee benefits | 55.5 | (1.7) | 8.1 | 61.9 |
| IAS 39 fair value adjustment | 13.8 | - | 2.3 | 16.1 |
| Net tax asset | <u>74.9</u> | <u>(0.2)</u> | <u>10.4</u> | <u>85.1</u> |
| Deferred Tax Liability | | | | |
| IAS 39 fair value adjustment | (2.6) | - | (11.0) | (13.6) |
| Net tax liability | <u>(2.6)</u> | <u>-</u> | <u>(11.0)</u> | <u>(13.6)</u> |
| | 1 January 2020 | Recognised in income | Recognised in equity | 31 December 2020 |
| Deferred Tax Asset | £m | £m | £m | £m |
| Accelerated capital allowances | 4.1 | 1.9 | - | 6.0 |
| Accounting policy change | 3.0 | (2.8) | - | 0.2 |
| Employee benefits | 61.9 | (13.0) | 33.9 | 82.9 |
| Losses | - | 3.8 | - | 3.8 |
| IAS 39 fair value adjustment | 16.1 | - | (6.6) | 9.5 |
| Net tax asset | <u>85.1</u> | <u>(10.1)</u> | <u>27.3</u> | <u>102.4</u> |
| Deferred Tax Liability | | | | |
| IAS 39 fair value adjustment | (13.6) | - | 6.1 | (7.5) |
| Net tax liability | <u>(13.6)</u> | <u>-</u> | <u>6.1</u> | <u>(7.5)</u> |

The UK Group has not recognised deferred tax assets in respect of losses arising in MBDA Inc. amounting to £18.6m (2019: £18.6m).

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The UK deferred tax asset/(liability) as at 31 December 2020 was calculated at 19% (2019: 17%).

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly and increase the deferred tax asset by approximately £25.0m. The majority of this impact relates to employee benefits and will be recognised directly in equity.

17. Deferred tax (continued)

An analysis of the deferred tax balance is shown below:

| | 1 January 2019 | Recognised in income | Recognised in equity | 31 December 2019 |
|--------------------------------|---------------------------|---------------------------------|---------------------------------|-----------------------------|
| Company | | | | |
| Deferred Tax Asset | £m | £m | £m | £m |
| Accelerated capital allowances | 2.8 | 1.3 | - | 4.1 |
| Accounting policy change | 2.8 | 0.2 | - | 3.0 |
| Employee benefits | 55.5 | (1.7) | 8.1 | 61.9 |
| IAS 39 fair value adjustment | 13.8 | - | 2.3 | 16.1 |
| Net tax asset | <u>74.9</u> | <u>(0.2)</u> | <u>10.4</u> | <u>85.1</u> |
| Deferred Tax Liability | | | | |
| IAS 39 fair value adjustment | (2.6) | - | (11.0) | (13.6) |
| Net tax liability | <u>(2.6)</u> | <u>-</u> | <u>(11.0)</u> | <u>(13.6)</u> |
| | 1 January 2020 | Recognised in income | Recognised in equity | 31 December 2020 |
| Deferred Tax Asset | £m | £m | £m | £m |
| Accelerated capital allowances | 4.1 | 1.9 | - | 6.0 |
| Accounting policy change | 3.0 | (2.8) | - | 0.2 |
| Employee benefits | 61.9 | (13) | 33.9 | 82.9 |
| Losses | - | 3.8 | - | 3.8 |
| IAS 39 fair value adjustment | 16.1 | - | (6.6) | 9.5 |
| Net tax asset | <u>85.1</u> | <u>(10.1)</u> | <u>27.3</u> | <u>102.4</u> |
| Deferred Tax Liability | | | | |
| IAS 39 fair value adjustment | (13.6) | - | 6.1 | (7.5) |
| Net tax liability | <u>(13.6)</u> | <u>-</u> | <u>6.1</u> | <u>(7.5)</u> |

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The UK deferred tax asset as at 31 December 2020 was calculated at 19% (2019: 17%).

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly and increase the deferred tax asset/(liability) by approximately £25.0m. The majority of this impact relates to employee benefits and will be recognised directly in equity.

18. Called up share capital

| | 2020 £ | 2019 £ |
|---|-----------|-----------|
| 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. No dividend has been paid in the year (2019:£132m).

19. Lease liabilities

| Consolidated and Company | £ m |
|---------------------------------|---------------|
| At 1 January 2019 | (29.1) |
| Lease liabilities created | (2.2) |
| Lease liabilities utilised | 5.9 |
| At 31 December 2019 | (25.4) |
| At 1 January 2020 | (25.4) |
| Lease liabilities created | (19.2) |
| Lease liabilities utilised | 6.2 |
| At 31 December 2020 | (38.4) |

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

Total commitment of future minimum lease payments

| | 2020 £ m | 2019 £ m |
|---------------|-------------|-------------|
| Due in | | |
| 1 year | 4.8 | 1.3 |
| 2-5 years | 10.2 | 5.4 |
| After 5 years | 23.4 | 18.7 |
| Total | 38.4 | 25.4 |

20. Leases as Lessor

The UK Group leases out its investment property to Roxel (UK Rocket Motors) Limited.

During the year £1,290,242 (2019: £1,290,242) 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:

2020 – Operating leases under IFRS 16

| | 2020 | 2019 |
|----------------------|------------|------------|
| | £ | £ |
| Less than one year | 1,290,242 | 1,290,242 |
| One to two years | 1,290,242 | 1,290,242 |
| Two to three years | 1,290,242 | 1,290,242 |
| Three to four years | 1,290,242 | 1,290,242 |
| Four to five years | 1,290,242 | 1,290,242 |
| More than five years | 16,450,586 | 17,740,828 |

21. Commitments

There are no unrecognised contractual commitments at the year-end (2019: £nil). Commitment for capital expenditure at 31 December 2020 was £8.9m (2019: £7.7m).

22. Employee benefits

| | 2020 £ m | 2019 £ m |
|---|----------------|----------------|
| <i>Consolidated and Company</i> | | |
| Recognised liability for defined benefit obligation | (2,345.2) | (2,192.2) |
| Liability for long service award | (0.8) | (0.8) |
| Fair value of plan assets | 1,956.6 | 1,836.8 |
| Total | <u>(389.4)</u> | <u>(356.2)</u> |

| Assets of defined benefit pensions plans | 2020 £ m | | 2019 £ m | |
|--|----------------|-------------|----------------|-------------|
| Equities | 240.3 | 12.3% | 220.4 | 12.0% |
| Pooled investment vehicles | 610.9 | 31.2% | 573.1 | 31.2% |
| Fixed interest securities | 592.3 | 30.3% | 536.3 | 29.2% |
| Index-linked securities | 285.7 | 14.6% | 295.7 | 16.1% |
| Property | 155.3 | 7.9% | 143.3 | 7.8% |
| Cash | 66.4 | 3.4% | 55.1 | 3.0% |
| Other | 5.7 | 0.3% | 12.9 | 0.7% |
| | <u>1,956.6</u> | <u>100%</u> | <u>1,836.8</u> | <u>100%</u> |

| Defined benefit pension plan amounts for the current and previous 4 years. | 2020 £m | 2019 £m | 2018 £m | 2017 £m | 2016 £m |
|--|----------------|----------------|----------------|----------------|----------------|
| Defined benefit obligations | (2,345.2) | (2,192.2) | (2,024.7) | (2,064.5) | (2,142.3) |
| Plan assets at bid value | 1,956.6 | 1,836.8 | 1,702.7 | 1,729.2 | 1,637.2 |
| Total deficit before tax | <u>(388.6)</u> | <u>(355.4)</u> | <u>(322.0)</u> | <u>(335.3)</u> | <u>(505.1)</u> |
| Actuarial gain / (loss) on plan liabilities | <u>(167.5)</u> | <u>(175.3)</u> | <u>39.8</u> | <u>84.8</u> | <u>(402.0)</u> |
| Actuarial gain / (loss) on plan assets (at bid value) | <u>26.0</u> | <u>128.1</u> | <u>(31.3)</u> | <u>92.3</u> | <u>265.4</u> |

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 deficit. 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 | 2020 | 2019 |
|--|-----------|-----------|
| Inflation rate | 2.7% | 2.8% |
| Discount rate | 1.4%-1.6% | 2.1%-2.2% |
| Increase for salaries | 2.7% | 2.8% |
| Pension increase | 2.0%-2.7% | 2.0%-2.8% |

| Movement in present value of obligations | 2020 | 2019 |
|--|------------------|------------------|
| | £m | £m |
| Defined benefit obligation 1 January | (2,192.2) | (2,024.7) |
| Current service cost | (23.1) | (22.8) |
| Past service cost | (0.6) | - |
| Interest on obligation | (43.8) | (57.2) |
| Actuarial (losses)/ gains recognised in equity | (167.5) | (175.3) |
| Benefits paid | 82.5 | 88.4 |
| Members contributions | (0.5) | (0.6) |
| Defined benefit obligation at 31 December | <u>(2,345.2)</u> | <u>(2,192.2)</u> |

| Movement in present value of plan assets | 2020 | 2019 |
|---|----------------|----------------|
| | £m | £m |
| Fair value of plan assets at 1 January | 1,836.8 | 1,702.7 |
| Contributions paid into plan | 138.7 | 45.7 |
| Scheme expenses | (1.0) | (1.1) |
| Expected return on plan assets | 38.1 | 49.2 |
| Actuarial (losses)/gains recognised in equity | 26.0 | 128.1 |
| Benefits paid | (82.5) | (88.4) |
| Member contributions | 0.5 | 0.6 |
| Fair value of plan assets at 31 December | <u>1,956.6</u> | <u>1,836.8</u> |

For more details regarding the relevant schemes, including sensitivity analysis for key assumptions, please refer to Note 24 Retirement Benefits in the BAE Systems plc Annual Report 2020.

23. Related party disclosures

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

| | | |
|---------------------------------------|-------------|-------------|
| MBDA France S.A.S. | 2020 | 2019 |
| | £ m | £ m |
| Sales | 115.3 | 79.4 |
| Purchases | (57.9) | (43.0) |
| Owed to | (20.0) | (14.8) |
| Receivable from | 35.6 | 7.4 |
| MBDA Italia S.p.A. | 2020 | 2019 |
| | £ m | £ m |
| Sales | 2.7 | 2.4 |
| Purchases | (78.4) | (44.8) |
| Owed to | (60.8) | (29.7) |
| Receivable from | - | 0.9 |
| MBDA Deutschland GmbH | 2020 | 2019 |
| | £ m | £ m |
| Sales | 1.1 | 1.0 |
| Purchases | (1.8) | - |
| Owed to | (1.8) | - |
| Receivable from | 0.1 | 1.0 |
| MBDA Spain | 2020 | 2019 |
| | £ m | £ m |
| Sales | - | 1.1 |
| Purchases | - | (0.1) |
| MBDA Services S.A.S. | 2020 | 2019 |
| | £ m | £ m |
| Purchases | (30.4) | (30.5) |
| Owed to | (7.6) | (8.5) |
| Receivable from | 5.1 | 7.0 |
| Bayern Chemie GmbH | 2020 | 2019 |
| | £ m | £ m |
| Purchases | (23.0) | (95.1) |
| Owed to | (3.7) | (8.1) |
| Roxel UK Rocket Motors Limited | 2020 | 2019 |
| | £ m | £ m |
| Purchases | (38.1) | (26.1) |
| Owed to | (3.5) | (7.7) |
| TDW GmbH. | 2020 | 2019 |
| | £ m | £ m |
| Purchases | (14.4) | (7.1) |
| Owed to | (1.3) | (1.7) |

23. Related party disclosures (continued)

| MEL | 2020 | 2019 |
|------------|-------------|-------------|
| | £ m | £ m |
| Sales | - | 2.5 |
| Purchases | (0.4) | (1.7) |
| Owed to | (0.7) | (0.1) |

| MBDA UAE | 2020 | 2019 |
|-----------------|-------------|-------------|
| | £ m | £ m |
| Sales | 1.3 | 3.1 |
| Receivable from | - | 2.8 |

The receivable balance due to the Company from Horizon Land Limited of £0.8m (2019:£0.9m) has been eliminated upon consolidation.

The Company received a dividend from MBDA Treasury Company Limited of £3.3m (2019: £4.6m) and was due £0.3m in interest. The Company is owed £6.6m (2019: £7.7m) by Horizon Land Limited (refer to Note 26).

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

| BAE Systems Plc | 2020 | 2019 |
|------------------------|-------------|-------------|
| | £ m | £ m |
| Sales | 182.3 | 209.1 |
| Purchases | (65.5) | (48.2) |
| Owed to | (9.6) | (5.7) |
| Receivable from | 131.7 | 206.4 |

| Leonardo Finmeccanica SpA | 2020 | 2019 |
|----------------------------------|-------------|-------------|
| | £ m | £ m |
| Sales | 1.3 | - |
| Purchases | (21.0) | (18.5) |
| Owed to | (0.4) | - |
| Receivable from | - | 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 and equity accounted investments. The UK Group does not hedge the translation effect of exchange rate movements on the income statements or balance sheet of foreign subsidiaries and equity accounted investments it regards as long-term investments.

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

Interest risk

The UK Group loans cash to MBDA Treasury Company Limited, on which interest is received based on LIBOR / EURIBOR. The business is therefore exposed to volatility in underlying interest rates.

Credit risk

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

Forward currency deals

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

Consolidated and Company

| | 2020 | | | 2019 | | |
|--------------|-------------|---------------|---------------|-------------|---------------|---------------|
| | Asset | Liability | Net | Asset | Liability | Net |
| | £m | £m | | £m | £m | |
| USD purchase | 0.1 | (2.9) | (2.8) | 0.4 | (1.5) | (1.1) |
| USD sale | 1.4 | (0.3) | 1.2 | 0.7 | (0.6) | 0.1 |
| EUR purchase | 6.2 | (28.9) | (22.7) | 1.0 | (53.9) | (52.9) |
| EUR sale | 29.1 | (15.5) | 13.6 | 64.4 | (23.3) | 41.1 |
| SEK purchase | 2.1 | (0.2) | 1.9 | - | (5.5) | (5.5) |
| SEK sale | 0.5 | (2.2) | (1.8) | 5.1 | (0.1) | 5.0 |
| Total | <u>39.4</u> | <u>(50.0)</u> | <u>(10.6)</u> | <u>71.6</u> | <u>(84.9)</u> | <u>(13.3)</u> |

The £10.5m net financial liability (2019 liability: £13.3m) gives rise to a deferred tax asset of £2.0m (2019 asset: £2.5m). The credit effect on the fair value reserve in equity is £3.1m (2019 credit: £36.9m).

There is no hedge ineffectiveness recognised in the statement of profit or loss (2019: £nil).

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

24. Financial instruments (continued)

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

| | 2020 | | | | 2019 | | | |
|-------|-----------------------|----------------------|-------------------------|--------|-----------------------|----------------------|-------------------------|--------|
| | 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 | (12.9) | 4.1 | (0.2) | (9.0) | (5.5) | (7.2) | 0.9 | (11.8) |
| USD | (1.3) | (0.2) | (0.1) | (1.6) | (0.2) | (0.8) | - | (1.0) |
| Other | 0.6 | (0.6) | - | - | (0.4) | (0.1) | - | (0.5) |
| Total | (13.6) | 3.3 | (0.3) | (10.6) | (6.1) | (8.1) | 0.9 | (13.3) |

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 2020:

| 2020 | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|------------------------------|---------------|---------------|---------------|-------------|
| Assets | | | | |
| Derivatives used for hedging | - | 39.4 | - | 39.4 |
| Total assets | - | 39.4 | - | 39.4 |
| Liabilities | | | | |
| Derivatives used for hedging | - | 49.9 | - | 49.9 |
| Total liabilities | - | 49.9 | - | 49.9 |
| 2019 | | | | |
| Assets | | | | |
| Derivatives used for hedging | - | 71.6 | - | 71.6 |
| Total assets | - | 71.6 | - | 71.6 |
| Liabilities | | | | |
| Derivatives used for hedging | - | 84.9 | - | 84.9 |
| Total liabilities | - | 84.9 | - | 84.9 |

- 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).

24. Financial instruments (continued)

Consolidated Deposits

Deposits are carried at historic value as below:

| | Interest rate | 2020 £m equivalent | 2019 £m equivalent |
|-------|---------------|-----------------------|-----------------------|
| GBP | LIBOR | 478.9 | 229.1 |
| USD | LIBOR | 2.1 | (2.5) |
| EUR | EURIBOR | 3.2 | 2.6 |
| Other | LIBOR | 1.6 | 1.0 |
| | | <u>485.8</u> | <u>230.2</u> |

Company Deposits

Deposits are carried at historic value as below:

| | Interest rate | 2020 £m equivalent | 2019 £m equivalent |
|-------|---------------|-----------------------|-----------------------|
| GBP | LIBOR | 478.7 | 228.4 |
| USD | LIBOR | 0.3 | 1.1 |
| EUR | EURIBOR | 3.1 | 2.6 |
| Other | LIBOR | 1.5 | 0.9 |
| | | <u>483.6</u> | <u>233.0</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 on the statement of financial position.

Contained in cash and cash equivalents is £90.5m (2019: £77.3m) of restricted cash related to a bank account jointly managed by the Company and the UK Ministry of Defence.

25. Reserves

| | 2020 £ m | 2019 £ m |
|-----------------------------|----------------|----------------|
| <i>Consolidated</i> | | |
| Hedging reserves | (7.7) | (10.8) |
| Translation reserve | 0.4 | (0.1) |
| Other reserves | 42.8 | 42.8 |
| Retirement benefit reserves | (363.1) | (255.5) |
| | <u>(327.6)</u> | <u>(223.6)</u> |
| <i>Company</i> | | |
| Hedging reserves | (7.7) | (10.8) |
| Other reserves | 42.9 | 42.8 |
| Retirement benefit reserves | (363.1) | (255.5) |
| | <u>(327.9)</u> | <u>(223.5)</u> |

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.

Other Reserves

The other reserves relate to a capital reduction in 2012.

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).

26. Long term loan

| Company | 2020 £ m | 2019 £ m |
|------------------------------|-------------|-------------|
| Loan to Horizon Land Limited | 6.6 | 7.7 |
| | <u>6.6</u> | <u>7.7</u> |

The long term loan of £6.6m 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 base points.

27. Subsequent events

There have been no events occurring after 31 December 2020 which require adjustment to or disclosure in these financial statements.

28. 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 Group B80 Building 2, Rond-Point Dewoitine BP 90112 31703 Blagnac Cedex France (incorporated in The Netherlands, 37.5% shareholding), and Leonardo SpA Piazza Monte Grappa n. 4 00195 Rome Italy (incorporated in Italy, 25% shareholding).