General Dynamics United Kingdom Limited

Annual report and financial statements

Registered number 1911653

31 December 2018

Contents

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2018.

Principal Activities

General Dynamics United Kingdom ("the Company") specialises primarily in the design, delivery and through-life support of solutions in the Command, Control, Communications, Computing and Information (C4I) domain and armoured vehicles; most notably the AJAX programme.

C4I (Command, Control, Communications, Computing and Information) is the delivery of vital information via the integration of technology and networks. This information is used to observe and act decisively in the field of battlespace management. The Company delivered Bowman in 2004; one of the world's most advanced battlefield communication systems, to the United Kingdom Ministry of Defence (UK MoD). In addition, the Company has been awarded the first phase of the MORPHEUS contract, known as Evolve to Open, which aims to modernise the UK's communications and command and control systems by evolving the Bowman network into a more open system, able to maintain pace with ever-advancing technology.

The Company is contracted for the Demonstration, Production and Extended Support Phases of the AJAX programme for the UK Army. AJAX will offer unparalleled protection, weight and agility for a vehicle of its class, along with the most advanced Intelligence, Surveillance and Target Acquisition and Reconnaissance (ISTAR) capabilities. With six variants, the AJAX family of vehicles offers advanced electronic architecture and proven technology for an unparalleled balance of survivability, lethality and mobility along with high reliability for a vehicle of its weight class.

The Company also provides a range of best-in-class avionics products including tactical processors, ground to air data links, weapon management computer systems and secure data recorders. This wealth of experience in the avionics business has made the Company a key supplier to programmes such as Typhoon and Wildcat.

Research and development

The Company has a policy of targeted investment in the design and development of new technologies and capabilities that support business growth and the pursuits that the business hopes to win in future periods.

Key major areas of interest include the research of an export version of the MORPHEUS concept, Military avionic systems, NATO interoperability and vehicle electronic architecture integration. Work continues to maximise advantage from available technologies from within the larger General Dynamics Corporation, in addition to the external supply chain.

The Company is committed to fostering business relationships with external suppliers and continues to pledge support to the UK Government's Small- Medium Sized enterprise agenda. The EDGE UK® facility continues to be used to source potential third party solutions and thereby help provide Small and Medium Enterprises with new business opportunities.

Results and proposed dividend

Profit after taxation for the year ended 31 December 2018 was £75.8.m compared to £82.8m for the year ended 31 December 2017. The directors paid no dividend for the year (*2017: £nil*).

Directors' Report *(continued)*

Directors

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

Non-Executive Directors:
Sir Andrew Cahn (Non-Executive Director)
Lord Levene of Portsoken (Chairman)

Executive Directors:
C Marzilli
G L Whited

In addition, there have been changes to the Directors who held office in the period from December 31st 2018 to the signing of the accounts as detailed below:

Resignations:
Sir Andrew Cahn (*Resignation Date: March 5th 2019)*
C Marzilli (*Resignation Date: January 10th 2019)*

New Appointments:
Steven Edward Rowbotham *(Appointed Executive Director March 5th 2019)*
Lieutenant General Andrew Collingwood Figgures *(Appointed Non-Executive Director June 5th 2019)*

Corporate Responsibility

During 2018, the Company continued to build on its solid progress and actively ensured delivery of our stakeholder commitments. Our website explains to stakeholders the Company policies, strategies and business progress; and is updated on a regular basis. Employees receive frequent updates on our progress and the latest Company initiatives through the weekly e-newsletter, which they all receive.

The Company strives to maintain the highest standards of ethical conduct and corporate responsibility. Our employees receive annual training on this subject, and support mechanisms are in place for employees through an information telephone line. By operating proactive policies, the Company manages its customer and supplier relationships responsibly.

The Company is committed to the Armed Forces Corporate Covenant. The Company supports service leavers by attending Transition Fairs designed to promote employment opportunities, contribute to military thought leadership and support employees who wish to serve in the Reserves and undertake military training. The Company was awarded the Armed Forces Covenant Employer Recognition Scheme Gold Award for its ongoing commitment to service leavers, which was re-signed by the Company in 2018.

In addition, the Company regularly supports Armed Forces charities, including ABF – The Soldiers' Charity, Combat Stress and SSAFA. In 2018, the Company employees actively supported the #22PushUpChallenge, Reservist Day and Armed Forces Day where GDUK was very proud to be the headline sponsor.

The single greatest contribution to the communities in which the Company operates is the sustained wealth created by providing hundreds of highly skilled jobs. Charitable donations and community involvement are encouraged across all our sites and employees are supported by well-developed policies and practices.

Employees' involvement/Disclosure for Employment for Disabled Persons/Engagement with suppliers/customers

A comprehensive employee communications programme is active which includes bi-annual all-employee briefings in addition to monthly 'flow-down' meetings and the weekly e-bulletin, Dynamics Extra. Topics covered include market forecasts, product development, facilities and Company financial status.

Directors' Report *(continued)*

The Company encourages participation and involvement in matters, which affect their interests as employees. Encouragement is given to employees to provide feedback using organisation wide questionnaires with the aim of achieving a common awareness on all aspects affecting the performance of the Company. The Employee Consultation Group provides a forum for elected employee representatives to openly discuss business and employment matters with senior management.

The Company is committed to promoting diversity and creating a fully inclusive working environment, where every employee can fulfil their potential. The Company recognises that diversity of experience, perspectives and capabilities is good for the team and wider stakeholders and it is critical to future success. The Company has a commitment to a comprehensive inclusion and diversity strategy.

Political and charitable contributions

The Company made no political contributions during the year (*2017: £nil*). Donations to local community charities amounted to £26,575 in 2018 (*2017:* £82,630).

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company 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 auditor is aware of that information.

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.

By Order of the Board

Lord Levene of Portsoken
Director

21 Holborn Viaduct
London
EC1A 2DY

Date....24 September............2019

Strategic Report

Business Review

The Company operates in the defence sector offering a broad portfolio of products and service. Throughout 2018, the Company has focused on its key strategies of customer first, delivering our order book, whilst positioning for key pursuit wins for the future. The AJAX, BCIP 5.6 and MORPHEUS Evolve to Open (EvO) programmes achieved some significant milestones in 2018;

- The AJAX platform underwent extensive testing trials including successful live firing trials in preparation for delivery to the British Army ready for an in-service date of 2020.

- The EvO programme continued to meet all of its milestones in 2018; delivering six of the programme increments as planned, engaging with over 600 end users to directly influence the solution being developed and manufactured several hundred pre-production units. In addition, positive progress continued to be achieved through working closely with the UK MoD team at all levels to transition key activities over to the UK MoD from the Company.

- The latest software update to the in-service Bowman Tactical Communications system, BCIP 5.6, was completed with the trials successfully concluding and the System Requirements being signed off by the UK MoD.

In December 2018, the Company reached a Memorandum of Agreement with UK MoD to enter into a modification recasting the AJAX Programme. The Recast modification made changes to the technical baseline for the vehicles, extends design and validation efforts to run concurrent with Production, introduces the use of production vehicles in Reliability Growth Trials (RGT), provides for capability drops which will retrofit design changes into previously produced production vehicles and extends the vehicle delivery schedule. The modification also increases the value of the contract in recognition of new scope, which includes Cannon Lethality Upgrade, Barrel Bend Study, Muzzle Blast and BCIP 5.6. With these changes the nature of the goods and services to be provided can no longer be viewed as separately identifiable therefore, the to-go effort will now be performed as a fully integrated activity focused on the overall promise. The recasting activity was successfully concluded with UK MoD and signed in May 2019.

The work on future pursuits continued throughout 2018 with the research and development projects progressing as planned to position the Company for future pursuit wins. In July 2018, the Company was awarded the EvO Design and Installation Certification contract that was a competitively won contract from the UK MoD. In May 2019, the Company was awarded a new 5-year contract from the UK MoD for the ongoing support of the current in-service tactical communications systems, Bowman.

The Company's prime value is generated from its employees, supply chain and customer relationships. In addition to the employee engagement described within the Director's report, the Company continues to invest in training, development and involvement of employees across the business. The Company continues to work closely with its supply chain through several forums and is committed to paying suppliers within the terms set out by the UK Government's Prompt Payment Code. During 2018, the Company continued to focus on building collaborative relationships with customers and external stakeholders and were awarded the ISO 44001 Collaborative Business Relationship Management accreditation, which is utilised across its programmes.

The year ended 31 December 2018 has been a positive year with profit 10.9% above target driven by strong programme execution and changes in the reserves. Total turnover increased by 8% to £736m in 2018 compared to 2017 driven by greater than planned volumes on existing contracts particularly EvO and AJAX. Total operating profit increased by £0.6m to a profit of £89.1m in 2018 compared to profit of £88.5m in 2017; gross profit increased by £16.8m. The majority of the difference in operating profit is due to a one-off cost credit in 2017 from research and development tax credits driving additional operating earnings. Net current assets increased to £315m compared to £236m in 2017. The main reasons for this change was down to a cash receipt late in December 2018, which was swept into the GD Group Cash Pooling arrangement generating an increase in amounts owed by fellow subsidiaries. This movement also contributed to the increase in Current Assets from £534m in 2017 to £706m in 2018. An increase in Current Liabilities driven by the amount of VAT due related to the December receivables also contributed to this movement.

Strategic Report *(continued)*

Business performance is assessed using several key performance indicators in addition to the traditional financial measures. These are focused on delivery performance in development and production contracts, staff turnover, the success rate of new business pursuits and the measurement of cost effectiveness and productivity. In terms of staff turnover for 2018, the number of voluntary leavers as a percentage of headcount stood at 5%, which is viewed by the Company as a positive metric. In addition, the Company recruited the staff it needed to execute programmes and attract new future talent. The Graduate and Apprentice scheme operated by the Company attracted another successful intake of future talent that will assist the Company in its strategy to grow the business.

Business Risks and opportunities

The management at the individual programme and the Business Unit levels reviews company risks and opportunities regularly. Key risks to the business include the impact of the United Kingdom's exit from the European Union. A number of actions have been put in place to minimise the potential impact of this change on the business and the management teams continue to monitor the latest events as more information becomes available. The Company perceives one of the biggest risks is getting equipment for its programmes from third parties into the UK from other countries, which would affect deliveries to customers. The Company continues to work through gaining Approved Economic Operator status from the UK Government in order to help part mitigate some of this impact.

Financial Risk Management

Foreign Exchange Rate Risk: change in foreign exchange rates are dealt with by the Company as follows:

- To the extent possible, the foreign currency exchange rate risk relating to receipts from customers, payments to suppliers and inter-company transactions denominated in foreign currencies are sought to be mitigated via the terms and conditions within contracts.
- The Company will also seek to reduce the impact of foreign exchange risk by concluding transactions in the Company's functional currency or naturally hedging income and expenses in a foreign currency.
- Alternatively, the Company will enter into derivative instruments, principally foreign currency forward purchase and sale contracts, designed to offset and minimise risk. The Company does not use derivatives for trading or speculative purposes.

Credit Risk: Credit risk is considered by the Company to be low given that the majority of sales are to UK and overseas governments.

Liquidity and Cash-flow Risk: The Company's liquidity is ensured by means of regular group-wide monitoring and planning of liquidity coordinated by the Group's centralized treasury department. In order to facilitate cash management activities, the Company has entered into a cash pool agreement with other General Dynamics companies within Europe. The cash pooling arrangement and regular forecasting of cash needs by the cash pool members significantly reduces any cash flow risk to the Company.

The Company has had another successful year with key programmes achieving significant milestones and extensions, coupled with investment activities, which position the Company well for future growth opportunities. These investments have three broad thrusts: firstly to position for the future re-capitalisation of our core UK business; secondly to focus on building out from our established domestic business into adjacent areas in the UK Defence Market, thereby expanding our UK footprint; and thirdly, by using the UK Defence Prosperity agenda to underpin targeted export opportunities which leverage our strong domestic capabilities and products. Employees, customers and suppliers continue to be at the forefront of the Company's prime value generation and the ongoing focus on these key relationships will ensure a vibrant future for the Company, already recognised as a central part of the UK Defence landscape.

Lord Levene of Portsoken
Director

21 Holborn Viaduct
London
EC1A 2DY

Date....24....September..........2019

Statement of directors' responsibilities in respect of the Directors' report, the Strategic report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Independent auditor's report to the members of General Dynamics United Kingdom Limited

Opinion

We have audited the financial statements of General Dynamics United Kingdom Limited ("the Company") for the year ended 31 December 2018 which comprise the Income Statement, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity 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 Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that 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 its 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 are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Independent auditor's report to the members of General Dynamics United Kingdom Limited (continued)

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Independent auditor's report to the members of General Dynamics United Kingdom Limited (continued)

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.

Huw Brown (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
30/9/19

Income statement
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Turnover	2	**735,632**	680,242
Cost of sales		**(608,242)**	(569,689)
Gross profit		**127,390**	110,553
Administrative expenses		**(38,313)**	(22,020)
Operating profit		**89,077**	88,533
Interest receivable and similar income	4	**474**	244
Interest payable and similar charges	5	**(4,418)**	(46)
Other gains and losses	6	**4,046**	-
Profit before taxation	7	**89,179**	88,731
Tax on profit	9	**(13,378)**	(5,895)
Profit for the financial year		**75,801**	82,836

The profit for the year and the preceding year arises entirely from continuing operations.

The notes on pages 13 to 46 form part of these financial statements.

Other Comprehensive Income

		2018 £000	2017 £000
Profit for the financial year		**75,801**	82,836
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain recognised on the pension scheme	23	**(85)**	2,886
Movement on deferred tax relating to actuarial gain on the pension scheme		-	491
Reversal of deferred tax on de-recognition of pension surplus		-	(491)
Recognition/(restriction) of pension surplus	23	**7,352**	(3,840)
Items that will be reclassified subsequently to profit or loss:			
Change in fair value of cash flow hedges	20	**(17,003)**	5,784
Total comprehensive income for the year		**66,065**	87,666

Balance sheet
At 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Goodwill	10	-	600
Intangible assets	10	2,248	4,032
Tangible assets	11	30,651	31,191
		32,899	35,823
Current assets			
Stock and work in progress	12	158	76
Debtors	13	688,677	519,061
Other financial assets	16	14,763	14,889
Cash at bank		2,598	13
		706,196	534,039
Creditors: amounts falling due within one year	14	(391,453)	(297,785)
Net current assets		314,743	236,254
Amounts falling due after more than one year			
Debtors	13	15,678	15,678
Pension scheme surplus	13	4,438	-
Other financial assets	16	631	11,535
Total assets less current liabilities		368,389	299,290
Creditors: amounts falling due after more than one year	15	(5,500)	(6,730)
Provisions for liabilities and charges	18	(17,373)	(13,961)
Net assets including pension liability		345,516	278,599
Capital and reserves			
Called up share capital	19	9,262	9,262
Capital redemption reserve		88	88
Other reserves		1	1
Cashflow hedge reserve	20	9,419	26,422
Profit and loss account		326,746	242,826
Equity Shareholders' funds		345,516	278,599

These financial statements were approved by the board of directors on 24 9 2019 and were signed on its behalf by:

Levene

Lord Levene of Portsoken
Director

The notes on pages 13 to 46 form part of these financial statements.

Statement of Changes in Equity

	Called up Share capital	Capital redemption reserve	Other reserves	Cash flow hedge reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2018	**9,262**	**88**	**1**	**26,422**	**242,826**	**278,599**
Profit for the year	-	-	-	-	**75,801**	**75,801**
Actuarial loss on pension schemes	-	-	-	-	**(85)**	**(85)**
IFRS 2 share based payment charges	-	-	-	-	**852**	**852**
IAS 19 (movement in pension surplus)	-	-	-	-	**525**	**525**
Recognition of pension surplus					**6,827**	**6,827**
Fair value of cashflow hedges	-	-	-	**(17,003)**	-	**(17,003)**
At 31 December 2018	**9,262**	**88**	**1**	**9,419**	**326,746**	**345,516**

	Called up Share capital	Capital redemption reserve	Other reserves	Cash flow hedge reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000	£000
Balance sheet as at 1 January 2017	9,262	88	1	20,638	161,906	191,895
Profit for the year	-	-	-	-	82,836	82,836
Actuarial gain on pension schemes	-	-	-	-	2,886	2,886
IFRS 2 share based payment charges	-	-	-	-	(962)	(962)
IAS 19 (derecognition of pensions surplus)	-	-	-	-	(3,840)	(3,840)
Fair value of cashflow hedges	-	-	-	5,784	-	5,784
At 31 December 2017	9,262	88	1	26,422	242,826	278,599

Notes

(forming part of the financial statements)

1 Accounting policies

General Dynamics United Kingdom Limited (the "Company") is a private company incorporated, domiciled and registered in the UK. The registered number is 1911653 and the registered address is 21 Holborn Viaduct, London, EC1A 2DY.

Basis of Preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ("FRS 101").* In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, General Dynamics Corporation includes the Company in its consolidated financial statements. The consolidated financial statements of General Dynamics Corporation are prepared in accordance with US GAAP and are available to the public and may be obtained from 2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Disclosures in respect of capital management;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures in relation to new standards not yet applied;
- Disclosures in respect comparatives of Fixed Assets and Intangibles; and
- Disclosures in respect of transactions with wholly owned subsidiaries

As the consolidated financial statements of General Dynamics Corporation include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments, excluding the Save As You Earn scheme;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Change in significant accounting policy

The Company has adopted IFRS 9 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. See note 20.

Notes *(continued)*

1 Accounting policies *(continued)*

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Measurement Convention

The financial statements are prepared on the historic cost basis except for derivatives which are stated at fair value.

The financial statements are presented in round thousands.

Going Concern

The directors have assessed the Company's financial resources and forecasts and based on this review have concluded that the business has sufficient funds as well as a pipeline of work and thus it is appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements.

On a quarterly basis the Executive Directors are presented with the business forecasts covering a minimum of the next twelve months. Annually, the Executive Directors are presented with the five year plans for the Company's business units.

As part of the quarterly Board meetings the Company's Board members review the forecasts for the business including the risks and opportunities, the pipeline of forecast orders and an overview of how the business is performing. The Board members also gain insight into how new business pursuits are progressing and challenge the management teams on approach, strategy and understanding if pursuits were not won.

The business is currently in a very healthy state with a significant level of backlog which it will deliver over the next four years. The mix of work with vehicle production, tactical communications and avionics provides the Company with a diverse portfolio of products to offer into markets. The investment in new products and services combined with the experience gained on the AJAX and EvO programmes will provide the business with a significant advantage on future pursuits. The order pipeline has significant opportunities, some sole source and some competitive, aligned to the Company's core competences. The Company has gained ISO44001 accreditation and continues to invest in collaboration with its value chain to enhance its position in the market in future.

Intangible assets

(i)Goodwill

Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognised. Such benefits include future synergies expected from the combination and intangible assets not meeting the criteria for separate recognition. Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortised and is tested annually for impairment at country level, representing the lowest level at which it is monitored for internal management purposes, by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill relates. The recoverable amount is assessed by reference to the net present value of expected future pre-tax cash-flows ('value-in-use') or fair value less costs to sell if higher. The discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustments for the risks associated with the relevant cash generating unit or groups of cash generating units. When the recoverable amount of the goodwill is less than its carrying amount, an impairment loss is recognised immediately in the income statement which cannot be subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii)Customer relationships

Customer relationships represent the future economic benefits arising from specific supplier or customer lists, or are party to supplier or customer relationships that are valuable. Customer relationships are held at cost less any provisions for impairment, with impairment reviews being performed annually. Amortisation commences when the Customer Relationship assets are available and is over the estimated useful life of 8 years.

(iii)Other Intangibles

The other Intangibles are a Royalty-Fee licence for relief from royalty. Royalty-Fee licence relief is held at cost less any provisions for impairment, with impairment reviews being performed annually. Amortisation commences when the Royalty-Fee licence relief is available and is over the estimated useful life of 8 years.

Notes *(continued)*

1 Accounting policies *(continued)*

(iv)Computer software

Where software is not an integral part of a related item of computer hardware, it is classified as an intangible asset. Costs that are directly associated with the acquisition or production of identifiable software products controlled by the Group, which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Capitalised costs include those of software licences and development, including costs of employees, consultants and an appropriate portion of relevant overheads. Costs that are directly associated with identifying, sourcing, evaluating or maintaining computer software are recognised as an expense as incurred. Software under development is held at cost less any provisions for impairment, with impairment reviews being performed annually. Amortisation commences when the software assets are available for use and is over their estimated useful lives of three to four years.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Freehold Buildings:	50 years
Leasehold Land and Buildings:	Life span of lease
Plant, Machinery and Motor Vehicles:	4-8 years
Finance Lease Plant and Machinery:	3-5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Fixed asset investments

Investments in subsidiaries are carried at cost less provision for impairment (if any).

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

Foreign Currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account, except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

Warranties

Warranties are calculated on a Percentile basis on programmes, monies are transferred into a Generic Warranty Provision, which is reviewed on an annual basis. The review is based on Historical Data, with the number of items accessed still under warranty, future projections are also taken into account.

Research and Development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Employee Benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Notes *(continued)*

1 Accounting policies *(continued)*

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans and other post-employment benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

General Dynamics Retirement and Death Benefit Scheme (the Scheme)

Our Company sponsors a hybrid arrangement that includes both a defined contribution section and a defined benefit section. The defined benefit section was closed from 6th April 1997, at which time members ceased to accrue benefits on a defined benefit basis. The assets of the scheme are held separately from the assets of the Company.

The defined benefit section costs and obligations depend on several assumptions and estimates. The key assumptions include mortality and interest rates used to discount estimated future liabilities. The Company determines the long-term expected rate of return on cash by reference to bank base rates, the long-term return on bonds by reference to UK long dated government and corporate bond yields, and the long-term rate of return on equities based on the rate of return on bonds allowing for forward-looking returns.

These retirement scheme estimates are based on our best judgement, including consideration of current and future market conditions. In the event any of the assumptions change, pension and post-retirement benefit cost could increase or decrease. In line with the requirements of the Scheme regulator any shortfalls in asset value in the actuarial valuation for the defined benefit section are met by the Company over an agreed period. For additional information on the Pension Scheme, see note 21 of the Annual report and financial statements.

Paragraph 11(b) of IFRIC 14 states that if the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognise an asset. The Company does have an unconditional right to a refund and the pension surplus has been recognised as an asset on the balance sheet.

Notes *(continued)*

1 Accounting policies *(continued)*

***Employee Benefits** (continued)*

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Employee share schemes

The share option programme allows employees to acquire shares in the Company's ultimate parent. The fair value of options granted after 7 November 2002 and those not yet vested as at the effective date of IFRS 2, is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black - Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

For cash settled share based payment transactions, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

Financial Instruments

Recognition and initial measurement

Trade receivables and debt securities are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at 'fair value through profit or loss' (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

Classification
On initial recognition, a financial asset is classified as measured at amortised cost; Fair Value through OCI ('FVOCI') or FVTLP.

Notes *(continued)*

1 Accounting policies *(continued)*

Financial Instruments (continued)

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely principal and interest on the principal amount outstanding.

A debt instrument is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This investment is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in joint ventures are carried at cost less impairment.

Subsequent measurement and gains and losses

Financial assets at FVTPL – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost – these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

Debt instruments at FVOCI – these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI – these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

De-recognition of financial assets

The Company recognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Notes *(continued)*

1 Accounting policies *(continued)*

Financial liabilities and equity

Classification

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on de-recognition is also recognised in profit or loss.

De-recognition of financial liabilities

The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or they expire.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shortened period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Derivative financial instruments and hedging

Derivative financial instruments

The Company enters into forward contracts as derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Notes *(continued)*

1 Accounting policies *(continued)*

Hedge accounting

The Company designates certain hedging instruments in respect of foreign currency risk as cash flow hedges where the hedges are of foreign exchange risk on firm commitments.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset of non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Certain ineffectiveness can arise during the hedging process. The main sources of hedge ineffectiveness are considered to be timing differences between entering into the hedged items and into the hedging instruments and differences between the maturity profile of the hedged items and the hedging instruments.

Impairment

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected.

When determining whether credit risk of a financial asset has increased significantly since initial recognition and when estimating Expected Credit Losses (ECL), the Company considers reasonable and supportable information which is relevant and available without undue cost of effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment, including forward looking information.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy of financial re-organisation.

Loss allowances for trade receivables and contract assets (as defined in IFRS 15) are always measured at an amount equal to lifetime ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a short period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Notes *(continued)*

1 Accounting policies *(continued)*

***Impairment** (continued)*

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between cash flows due to the entity in accordance with the contract and the cash flows the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one of more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery.

Notes *(continued)*

2 Turnover

Turnover has been wholly derived from the operation of design, production and support of armoured vehicles, avionic, communications and associated electronic equipment, which originates in the United Kingdom. The analysis of turnover by geographical destination is as follows:

	2018	2017
	£000	£000
United Kingdom	**723,542**	673,625
Europe	**8,641**	5,251
North America	**1,761**	731
Rest of the World	**1,688**	635
	735,632	680,242

3 Staff numbers and costs

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

	2018	2017
	Number of employees	
Administration	**251**	185
Production	**909**	842
	1,160	1,027

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Wages and salaries	**53,527**	48,176
Social security costs	**6,040**	5,571
Other pension costs (see note 23)	**7,936**	7,144
	67,503	60,891

Notes *(continued)*

4 Other interest receivable and similar income

	2018 £000	2017 £000
Bank interest	**281**	140
Pension interest	**193**	104
	474	244

5 Interest payable and similar charges

	2018 £000	2017 £000
On all other loan interest payable	**(824)**	(46)
Gain/(Loss) on foreign exchange	**(3,594)**	-
	(4,418)	(46)

6 Other gains and losses

	2018 £000	2017 £000
Gains on hedge ineffectiveness	**4,046**	-
	4,046	-

7 Profit on ordinary activities before taxation

	2018 £000	2017 £000
The profit on ordinary activities before taxation is stated after charging/(crediting):		
Operating leases		
• Land and buildings	**735**	735
• Motor vehicles	**44**	158
Research and development	**1,396**	1,642
Depreciation of owned fixed assets	**1,799**	1,459
Depreciation of leased assets	**273**	52
Goodwill impairment	**600**	1,800
Intangible amortisation	**2,255**	3,057
Exchange loss	**-**	(575)
IFRS 2 share based payment charges	**852**	(963)
Restructuring charge	**-**	(120)
Auditor's Remuneration		
Audit of these Financial Statements	**224**	217
Taxation compliance services	**126**	154

The movement in IFRS 2 arose as a result of a fall in share price.

Notes *(continued)*

8 Directors' remuneration

	2018	2017
	£000	£000
Directors' emoluments	**240**	241
Company contributions to money purchase pension schemes	**12**	12

Two Directors exercised share options of the ultimate parent company in the year *(2017: 2)*. The above amounts do not include any gains made on the exercise of share options. Gains made on the exercise of share options by these Directors were £339k *(2017:£561k)*. These shares had an average market price of £156.15 *(2017:£145.24)*.

Two of the Directors' emoluments represent the intercompany recharge of their salary for time spent on affairs of the Company.

Pensions

The number of Directors who were members of pension schemes was as follows:

	2018	2017
	Number	Number
Hybrid pension	**2**	2

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid Director:

	2018	2017
	£000	£000
Directors' emoluments	**84**	84
Company contributions to pension schemes	**-**	-

No Director had a direct or indirect interest in any transaction, arrangement or agreement, which in the opinion of the other Directors requires disclosure under the provisions of the Companies Act 2006.

Notes *(continued)*

9 Taxation

	2018 £000	2017 £000
UK deferred tax (see note 18)	**605**	447
UK current tax	**11,975**	6,323
Adjustments in respect of prior periods	**798**	(875)
Income statement	**13,378**	5,895

Reconciliation of effective tax rate	2018 £000	2017 £000
Profit for year	**75,801**	82,836
Total tax expense	**13,378**	5,895
Profit excluding taxation	**89,179**	88,731
Tax using the Corporate tax rate of 19% (2017:19.25%)	**16,944**	17,080
Non-deductible expenses	**15**	441
Tax exempt revenues	**(510)**	(2,065)
Profits taxed at a lower rate	**(4,664)**	(2,089)
Capital allowances for year in excess of depreciation	**190**	388
Under/(over) provided in prior years	**798**	(875)
Deferred tax	**605**	447
Impact of IFRS15	**-**	(7,432)
Total tax expense	**13,378**	5,895

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to the UK Corporation tax rate was announced in the 2016 Budget to further reduce the tax rate to 17% (to be effective from 1 April 2020). This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2017 and 2016 has been calculated on the rate of 17%.

The 2017 deferred tax on IFRS15 was calculated at 19% of the adjustment in the retained earnings brought forward due to the change in revenue recognition rules.

Notes *(continued)*

10 Intangible assets

	Goodwill £000	Customer relationships £000	Other £000	Software £000	Total £000
Cost At 1 January 2018	**17,141**	**14,200**	**1,820**	**6,409**	**39,570**
Transfer	-	-	-	368	368
Additions	-	-	-	103	103
At 31 December 2018	**17,141**	**14,200**	**1,820**	**6,880**	**40,041**
Accumulated amortisation At 1 January 2018	16,541	13,349	1,726	3,322	34,938
Transfer	-	-	-	49	49
Amortisation charge for the year	-	851	94	1,261	2,206
Impairment loss recognised	600	-	-	-	600
Amortisation At 31 December 2018	**17,141**	**14,200**	**1,820**	**4,632**	**37,793**
Net book value At 31 December 2018	**-**	**-**	**-**	**2,248**	**2,248**
Net book value At 31 December 2017	**600**	**851**	**94**	**3,087**	**4,632**

The net book value of Goodwill has been reduced by recognising an impairment loss of £600k as a result of a review of the Company's future UK MoD ISTAR programmes.

Notes *(continued)*

10 Intangible assets *(continued)*

Key impairment assumptions

- Management approved forecasts were used covering a period of 5 years.
- A discount rate of 10% was used.

Investments

Investment entity	Holding company	Share capital	Proportion held	Loss in year £000
General Dynamics Information Systems and Technology Arabia Company, Olaya Area, Al-Munajem Building, PO Box 30505, Riyadh 11361	General Dynamics UK Ltd	SAR12,000,000	49%	-

All investments have been written down to zero in prior years.

11 Tangible fixed assets

	Premises land and buildings	Short leasehold land and buildings	Plant machinery and motor vehicles	Total
Cost	£000	£000	£000	£000
At 1 January 2018	26,242	6,205	38,417	70,864
Transfer	-	-	(368)	(368)
Additions	2,704	71	(863)	1,912
Disposals	-	-	(62)	(62)
At 31 December 2018	28,946	6,276	37,124	72,346
Depreciation				
At 1 January 2017	3,997	6,054	29,622	39,673
Transfer	-	-	(49)	(49)
Charge for year	466	66	1,589	2,121
Disposals	-	-	(50)	(50)
At 31 December 2018	4,463	6,120	31,112	41,695
Net book value				
At 31 December 2018	24,483	156	6,012	30,651
At 31 December 2017	22,245	151	8,795	31,191

The net book value of plant and machinery and motor vehicles above includes a net book value of £nil *(2017: £273,000)* in respect of assets held under finance leases. Depreciation charged in the year on these assets was £273,000 *(2017: £52,000)*. Land and buildings not depreciated was valued at £6,147,000 *(2017:£6,147,000)*.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred. Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Notes *(continued)*

12 Stocks and work in progress

	2018 £000	2017 £000
Raw materials and consumables	**158**	76

13 Debtors

	2018 £000	2017 £000
Amounts falling due within one year:		
Amounts owed by fellow subsidiaries	**231,089**	102,053
Amounts recoverable on contracts	**430,903**	386,291
Trade debtors	**6,064**	5,099
Prepayments and other debtors	**20,621**	25,618
Total amounts falling due within one year	**688,677**	519,061
Trade debtor amounts greater than one year		
Trade debtor	**15,678**	15,678
Pension scheme surplus	**4,438**	-
Total debtors	**708,793**	534,739

The trade debtor greater than one year relates to the award of a default judgement against the State of Libya in favour of the Company. Substantial work is being undertaken to recover the debt and recovery is not expected within one year.

During the year the Directors have reviewed the recognition of the pension surplus in accordance with IFRIC 14. The surplus has been considered to be recoverable by the Company in the form of a refund based on external actuarial advice and opinion. This surplus has been recognised as a non-current debtor net of a 35% tax charge theoretically payable on the recoverable surplus on winding up of the scheme.

14 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Obligations under finance leases (see note 17)	**-**	144
Payments on account on long term contracts	**120,333**	122,576
Trade creditors	**166,468**	110,670
Taxation and social security	**74,790**	21,954
Deferred tax liability (see note 18)	**3,863**	1,329
Accruals and deferred income	**25,624**	40,737
Intercompany amount owed to subsidiaries	**375**	375
	391,453	297,785

Movement in deferred tax relates to £605,000 charged through the Profit and Loss and £1,929,000 recognised in other comprehensive income.

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	2018 **£000**	2017 £000
Cash flow liability	-	1
Obligations under finance leases (see note 17)	-	129
Welsh Development Agency grant	**5,500**	6,600
	5,500	6,730

The £7.7m Welsh Development Grant was received in 2016 in order to help fund the development of the Merthyr Tydfil site. The grant is repayable in equal instalments over 7 years.

16 Other financial asset and liabilities

	2018 **Assets** **£000**	2017 Assets £000
Current		
Cashflow hedges held at fair value – foreign exchange contracts	**14,763**	14,889
Non-current		
Cashflow hedges held at fair value – foreign exchange contracts	**631**	11,535
	15,394	26,424

Financial risk management

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The foreign currency exchange rate risk relates to receipts from customers, payments to suppliers and inter-company transactions denominated in foreign currencies. To the extent possible, the Company include terms in its contracts that are designed to protect it from this risk. The Company will also seek to reduce the impact of foreign exchange risk by concluding transactions in the Company's functional currency or naturally hedging income and expenses in a foreign currency. Otherwise, it enters into derivative instruments, principally foreign currency forward purchase and sale contracts, designed to offset and minimise its risk. The Company does not use derivatives for trading or speculative purposes.

To further reduce market price resulting from changes in price, the Company enters into fixed price contracts with customers and suppliers.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

Credit risk is considered to be low given that the majority of sales are to UK and overseas governments.

Notes *(continued)*

Financial risk management *(continued)*

Liquidity risk and cash flow risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Cash flow risk is the risk that the Company's available cash will not be sufficient to meet its financial obligations.

The Company's liquidity is ensured by means of regular group-wide monitoring and planning of liquidity coordinated by the Group's centralised treasury department.

In order to facilitate cash management activities, the Company has entered into a cash pool agreement for which General Dynamics European Finance Ltd operates as the cash pool leader. The zero balancing cash pool consists of four underlying pools of different currencies (Eur, Swiss Francs, USD and GBP). Cash pool members pool their accounts to obtain a reduction in external financing costs and can obtain more favourable credit and debit interest rates due to economies of scale. The cash pooling arrangement and regular forecasting of cash needs by the cash pool members significantly reduces any cash flow risk to the Company.

17 Obligations under finance leases

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2018	2017
	£000	£000
Within one year	-	144
In the second to fifth years	-	129
	-	273

18 Provisions for liabilities and charges

	Deferred tax on pension surplus	**Warranty provision**	**Total**
	£000	**£000**	**£000**
At 1 January 2018	-	**13,961**	**13,961**
Profit and loss	-	**5,801**	**5,801**
Deferred tax on pension scheme surplus	**(2,389)**	-	**(2,389)**
At 31 December 2018	**(2,389)**	**19,762**	**17,373**

The elements of deferred taxation are as follows:

	2018	2017
	£000	£000
Deferred tax on pension scheme surplus	**(2,389)**	-
Income Statement		
Difference between accumulated depreciation and capital allowances	**2,132**	1,465
Other timing differences	**(199)**	(136)
Other Comprehensive income		
Other timing differences	**1,930**	-
Deferred tax liability	**1,474**	1,329

Notes *(continued)*

18 Provisions for liabilities and charges *(continued)*

Net deferred tax liability includes deferred tax creditor included in note 14.

The deferred tax on the pension scheme surplus arises as a result of the recognition of the pension surplus as discussed in note 13. A 35% penal tax charge is theoretically payable on the recoverable surplus on winding up of the scheme. IFRIC14 requires that this penal tax charge is shown as a reduction against the value of the pension asset.

19 Share capital

The share capital of the Company comprises ordinary shares of 50p each.

	2018 Number of Shares	£000	2017 Number of Shares	£000
Allotted, called-up and fully paid	**18,523,150**	**9,262**	18,523,150	9,262

20 Hedging reserve

	2018 £000	2017 £000
Opening balance	**26,422**	20,638
Gain/(loss) recognised on cash flow hedges		
Foreign currency forward contracts	**(11,028)**	5,784
Income tax related to gains / (losses) recognised in other comprehensive income	**(2,617)**	-
Transfer to income statement:		
Foreign currency forward contract ineffectiveness	**(4,046)**	-
Income tax related to gains / (losses) transferred to income	**688**	-
Closing balance	**9,419**	26,422

The fair value of foreign currency forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity in the contract using a risk-free interest rate.

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss when the hedge transaction impacts the profit or loss. The gain or loss relating to the ineffective portion is recognised in the income statement and is included in the 'other gains and losses' line item.

During 2016, "recast" discussions with the MoD started in respect of the AJAX contract and the Company began to renegotiate contract terms and conditions. The recast process involved a modification to the scope of work and an increase in price.

As at 31 December 2018, there was an expectation that a new subcontract would be signed with a supplier in September 2019 resulting in a change to the future timing and amount of cash flows for which a foreign currency forward contract had been entered into in order to hedge foreign currency exposure. As a result, the hedged forecast transaction is no longer expected to occur resulting in all cumulative gains / losses in reserves relating to these hedge relationships beyond the anticipated amendment signing of September 2019, to be reclassified to the income statement.

Both Euro and USD cash flows covered by foreign currency forward contracts on the AJAX project are layered in a bucketed approach and designated against cash flow payments that arise to a specific supplier. The first Euro / USD cash payments made to the supplier within a given 'time bucket' of the hedge inception, will be allocated against that hedging instrument. Once an appropriate time bucket has been established, the transactions falling within that time bucket are considered to be the hedged items for that hedging relationship. Where time buckets overlap, cash flows will be allocated to the hedging instrument with the earliest inception date. Excess cash flows are then allocated against and used to support the next layer. This is to ensure that the cash flow does not switch between the hedging instruments it is supporting, subsequent to its initial designation.

Notes *(continued)*

20 Hedging reserve *(continued)*

Where identification of hedged items are performed by reference to time buckets and a hedge transaction occurs outside of that time bucket, it cannot be considered to be the same hedged item, If there are no cash flows within a time bucket, then there can be no hedged item. To the extent that insufficient cash flow is able to be allocated against a hedge instrument within the "time bucket," hedge ineffectiveness is recognised on the remaining deficit with the corresponding gain / loss moved from reserves to the profit and loss account.

The Implementation Guidance to suggests that a 3 month layering approach for the designation of highly probable forecast transactions designated in cash flow hedging relationships may be appropriate. However due to commercial considerations and a desire to settle invoices within 30 days, a time bucket of 30 days prior to hedge maturity and 30 days after hedge maturity has been adopted.

In the absence of specific implementation guidance in IFRS9, where the hedged cash flows are relatively homogenous, the implementation guidance in IAS39 has been considered instead.. The guidance suggests that a 3-month time period (45 days either side of the timing of the hedged forecast transaction) for the determination of whether a hedged forecast transaction remains highly probable, is appropriate. With the exception of hedges put in place to cover exchange rate risk on the AJAX contract, all other forward currency hedging instruments have been deemed effective where paid within 45 days of the hedge maturity.

The Company has adopted IFRS 9 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement.*

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- Changes to hedge accounting policies have been applied prospectively.
- All hedging relationships designated under IAS 39 at 31 December 2017met the criteria for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

21 Financial commitments

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

	2018 £000	2017 £000
Contracted	**170**	64
Authorised but not contracted	**13**	86

Notes *(continued)*

21 Financial commitments *(continued)*

(b) Aggregate commitments under non-cancellable operating leases are as follows:

	2018		2017	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
Within one year	**224**	**160**	6	158
In the second to fifth years inclusive	**32**	**48**	645	93
Over five years	**6,841**	**-**	7,155	-
	7,097	**208**	7,806	251

22 Contingent liabilities

	2018	2017
Performance guarantees	**£114k**	£114k
Offset bond expressed in AED	**AED 4,416k**	AED 4,416k
-expressed in GBP	**£948k**	£895k

The performance guarantee in 2018 is made up of a performance bond of £114,000 (*2017: £114,000*).

The offset bond provides security for payment of funds. Should the Company not spend the total, this will be offset to a third party to guarantee these funds will be spent. The value is offset against the programme. This has been converted into GBP at a rate of 0.21.

23 Pension scheme

The Company sponsors the General Dynamics Retirement and Death Benefit Scheme ('the Scheme'). The Scheme is a hybrid arrangement which includes both a defined contribution section and a defined benefit section comprising of current and deferred pensioners. The defined benefit section of the Scheme was closed from 6 April 1997, at which time members ceased to accrue benefits on a defined benefit basis and were given the option to transfer their benefits to the defined contribution section of the Scheme. The assets of the Scheme are held separately from those of the Company, being invested with an external fund manager. The expenses of the Scheme are borne by the Company.

Defined contribution element

The pension cost for the year was £7,936,000, (2017: £7,144,000). There were no outstanding or prepaid contributions at 31 December 2018 (2017: £nil).

Notes *(continued)*

23 Pension scheme *(continued)*

Defined Benefit Section

A full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 5 April 2015. This has been updated on an approximate basis to 31 December 2018.

The actuarial valuation resulted in a pension surplus asset. This was based on assumptions taking a worst case scenario of all eligible employees retiring early.

The contributions made by the Company totalled £850,000 (2017: £850,000). The pension costs for the year were £nil (2017: £nil) on the basis that the Directors consider it unlikely that all eligible employees will retire early and therefore the scheme is in balance.

GMP equalisation

During the year, a past service cost of £1.7m has been recognised in relation to GMP equalisation.

Assumptions

The mortality assumptions utilised were PMA92 and PFA92, projected using the medium cohort mortality improvement rates.

The mortality assumptions adopted at 31 December 2018 imply the following life expectancies:

Male retiring at age 65 in 2018	21.9
Female retiring at age 65 in 2018	23.8
Male retiring at age 65 in 2038	23.3
Female retiring at age 65 in 2038	25.4

Expected long term rates of return

The long-term expected rate of return on cash is determined by reference to bank base rates at the balance sheet dates. The long-term expected return on bonds is determined by reference to UK long dated government and corporate bond yields at the balance sheet date. The long-term expected rate of return on equities is based on the rate of return on bonds with an allowance for out-performance.

The expected long term rates of return applicable for each period are as follows:

	Period commencing 01/01/2019 % per annum	Period commencing 01/01/2018 % per annum
Equity	5.82%	5.78%
Bonds	2.87%	2.54%
Gilts	1.82%	1.78%
Property	5.32%	5.28%
Cash	2.87%	2.54%
Overall for scheme	3.80%	3.84%

The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:

	2018	2017	2016
Revaluation rate for deferred pensioners	**2.41%**	2.40%	2.55%
Rate of increase in pensions in payment and deferred pensions	**2.41%**	2.40%	2.55%
Discount rate applied to scheme liabilities	**2.89%**	2.50%	2.70%
Inflation assumption	**3.31%**	3.30%	3.45%

In valuing the liabilities of the pension fund at 31 December 2017 mortality assumptions have been made as indicated above. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2018 would have increased by £723,000 before deferred tax.

The table below sets out the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the IAS 19 liabilities and the surplus of assets below the IAS 19 liabilities (which equals the gross pension asset).

Notes *(continued)*

23 Pension scheme *(continued)*

Scheme assets

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and therefore inherently uncertain, were:

	2018	2017
	£000	£000
Fair value of plan assets	**26,308**	25,887
Present value of funded deferred benefit obligations	**(19,534)**	(18,588)
Historic contribution adjustment	**53**	-
Surplus	**6,827**	7,299
Deferred tax at 35%	**(2,389)**	-
Non-recognition of Pension Surplus	-	(7,299)
Net pension asset	**4,438**	-

Following a review of the pension scheme and in accordance with IFRIC 14, the pension surplus is deemed to be recoverable and the net pension debtor has been recognised in the 2018 accounts.

Reconciliation of opening and closing balances of the present value of the scheme liabilities.

	2018	2017
	£000	£000
Scheme liabilities at start of year	**18,588**	18,223
Interest cost	**469**	497
Actuarial gains	**(1,196)**	(470)
Benefits paid, death in service insurance premiums and expenses	**(714)**	(387)
Past service costs	**1,483**	-
Impact of Defined Benefits underpin member retirements	**904**	725
Scheme liabilities at end of year	**19,534**	18,588

Notes *(continued)*

23 Pension scheme *(continued)*

Reconciliation of opening and closing balances of the fair value of scheme assets

	2018 £000	2017 £000
Fair value of scheme assets at start of year	**25,887**	21,682
Interest income	**662**	601
Actuarial (losses)/gains	**(1,281)**	2,416
Contributions by employer	**850**	850
Benefits paid	**(714)**	(387)
Impact of Defined Benefits underpin member retirements	**904**	725
Fair value of scheme assets at end of year	**26,308**	25,887

Movement in the surplus during the year

	2018 £000	2017 £000
Surplus in the Scheme at 1 January	**7,299**	3,459
Contribution	**850**	850
Other finance expense	**193**	104
Past Service Cost	**(1,483)**	-
Actuarial (losses)/gains	**(85)**	2,886
Historic contribution adjustment	**53**	-
Surplus in the Scheme at 31 December	**6,826**	7,299

Analysis of amounts included in other finance (expense)/income:

	2018 £000	2017 £000
Interest income	**662**	601
Interest on pension scheme liabilities	**(469)**	(497)
	193	104

Analysis of amount recognised in Other Comprehensive Income

	2018 £000	2017 £000
Return on plan assets (excluding amounts included in net interest cost)	**(1,281)**	2,416
Experience gains arising on Scheme liabilities	**(1,044)**	1,182
Changes in assumptions underlying the present value of Scheme liabilities	**2,240**	(712)
Net release/(restriction) of pension surplus	**7,352**	(3,840)
	7,267	(1,061)

Notes *(continued)*

23 Pension scheme *(continued)*

The fair value of the plan assets and the return on those assets were as follows:

	2018	2017
	£000	£000
Equity	**6,011**	6,990
Bonds	**8,120**	7,481
Gilts	**6,737**	6,117
Property	**1,818**	1,750
Cash	**422**	178
Diversified growth	**3,200**	3,371
Total	**26,308**	25,887
Actual return on plan assets	**(619)**	3,017

A history of experience gains and losses at 31 December 2018 would have been as follows:

	2018	2017	2016	2015	2014
Difference between the expected and actual return on scheme assets:	**£000**	£000	£000	£000	£000
Amount	**(1,281)**	2,416	488	(16)	1,223
Percentage of scheme assets (at end of year)	**5%**	9%	2%	0%	7%
Experience losses on scheme liabilities:					
Amount	**1,196**	470	(4,122)	3,372	322
Percentage of present value of scheme liabilities (at end of year)	**6%**	3%	23%	17%	2%
Total amount recognised in statement of total recognised gains and losses:					
Amount	**(85)**	2,886	(3,624)	(850)	(850)
Percentage of present value of scheme liabilities (at end of year)	**0%**	16%	20%	4%	5%

History of plans

The history of the plans for the current and prior periods is as follows:

	2018	2017	2016	2015	2014
	£000	£000	£000	£000	£000
Present value of scheme liabilities	**(19,534)**	**(18,588)**	(18,223)	(13,892)	(18,254)
Fair value of scheme assets	**26,308**	**25,887**	21,682	19,882	18,714
Historic contribution adjustment	**53**	-	-	-	-
Surplus/(deficit)	**6,827**	**7,299**	3,459	5,990	460

Notes *(continued)*

23 Pension scheme *(continued)*

The expected contribution to be paid to the scheme in the next financial year is £850,000.

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is (£85,000 loss) *(2017: £ 2,886,000 gain)*.

Cumulative actuarial gains and losses reported in the statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under IAS 19, are £8,984,000 *(2017:£8,134,000)*.

24 Related party disclosures

The Company is controlled by its immediate parent undertaking General Dynamics Ltd. The ultimate controlling party is General Dynamics Corporation (See note 27).

25 Employee benefits

Share based payments

The Save As You Earn (SAYE) scheme is offered to all employees of General Dynamics United Kingdom Ltd (GDUK) once a year and employees have the option of entering either a 3 year or 5 year scheme.

The terms and conditions of grants are as follows:

Grant date/ Employees entitled/ nature of scheme	Number of instruments	Vesting conditions	Contractual life of options
2011 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 30/11/11.	7,174	5 years from start of contract	2017
2012 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 30/11/12.	2,795	5 years from start of contract	2018
2013 Cash-settled 3 year SAYE award to GDUK employees. Granted by parent on 5/12/13.	7,979	3 years from start of contract	2017
2013 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 5/12/13.	2,448	5 years from start of contract	2019
2014 Cash-settled 3 year SAYE award to GDUK employees. Granted by parent on 3/12/14.	13,111	3 years from start of contract	2018
2014 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 3/12/14.	1,838	5 years from start of contract	2020
2015 Cash-settled 3 year SAYE award to GDUK employees. Granted by parent on 30/11/15.	16,297	3 years from start of contract	2019
2015 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 30/11/15.	2,961	5 years from start of contract	2021
2016 Cash-settled 3 year SAYE award to GDUK employees. Granted by parent on 30/11/16.	16,689	3 years from start of contract	2020
2016 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 30/11/16.	2,710	5 years from start of contract	2022
2017 Cash-settled 3 year SAYE award to GDUK employees. Granted by parent on 30/11/17.	15,278	3 years from start of contract	2021
2017 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 30/11/17.	2,801	5 years from start of contract	2023
2018 Cash-settled 3 year SAYE award to GDUK employees. Granted by parent on 27/11/18.	22,123	3 years from start of contract	2022
2018 Cash-settled 5 year SAYE award to GDUK employees. Granted by parent on 27/11/18.	4,227	5 years from start of contract	2024

Notes *(continued)*

25 Employee benefits *(continued)*

Share based payments *(continued)*

The number and weighted average exercise prices of SAYE share options are as follows:

	2018 Weighted Average exercise price £	**2018** Number of options	2017 Weighted Average exercise price £	2017 Number of options
Outstanding at the beginning of the year	**97.37**	**69,133**	81.44	54,861
Forfeited during the year	**112.31**	**(9,523)**	88.61	(1,523)
Exercised during the year	**149.72**	**(11,804)**	144.65	(6,939)
Granted during the year	**117.94**	**26,830**	119.19	22,734
Lapsed during the year	-	-	-	-
Outstanding at the end of the year	**106.99**	**74,636**	97.37	69,133
Exercisable at the end of the year	**102.42**	**506**	80.43	416

The weighted average share price at the date of exercise of share options exercised during the period was £149.72 (2017: £144.65).

The options outstanding at the year-end have an exercise price in the range of £76.11 to £127.66 and a weighted average remaining contractual life of 2.6 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black Scholes model. Measurement inputs and assumptions are as follows:

	SAYE 3 year		SAYE 5 year	
	2018	2017	**2018**	2017
Fair value at grant date	29.5588	30.1131	32.7216	33.6241
Weighted average share price	118.4147	127.6591	118.4147	127.6591
Exercise price	118.4147	127.6591	118.4147	127.6591
Expected volatility (expressed as % used in the modelling under Black Scholes model)	17.893	17.559	17.348	17.353
Option life (expressed as weighted average life used in the modelling under Black Scholes model)	39 months	39 months	63 months	63 months
Expected dividends	1.8%	1.8%	1.8%	1.8%
Risk-free interest rate (based on national government bonds)	2.848%	1.618%	2.833%	1.952%

Notes *(continued)*

25 Employee benefits *(continued)*

Share based payments *(continued)*

The total expenses recognised for the year arising from share based payments are as follows:

	2018	2017
	£000	£000
Equity settled share based payments (Restricted Stock and EC options for which the Company has applied the exemption)	**110**	97
Cash settled share based payments (SAYE)	**(460)**	322
Total carrying amount of liabilities (SAYE)	**735**	1,993
Total intrinsic carrying amount of liabilities in respect of vested benefits	**-**	-

26 Financial Instruments

Fair value of financial instruments

At 31 December, the Company held the following instruments to hedge exposures to changes in foreign currency.

	0-6 months	**6-12 months**	**>12 months**	**Total**
	£000	£000	£000	£000
Foreign currency risk				
Forward exchange contracts				
Net exposure	176,300	148,592	47,892	372,784
Average GBP-USD forward contract rate	1.4899	1.3723	1.3723	
Average GBP-EURO forward contract rate	0.8263	0.8678	-	
Average GBP-CAD forward contract rate	1.777	1.7344	1.7344	

The carrying value of the following current financial instruments approximates fair value because of the short period to maturity:

- Cash and cash equivalents
- Trade receivables
- Amounts recoverable on contracts
- Prepayments & other debtors
- Trade payables
- Payments on account on long term contracts
- Accruals and deferred income

Notes *(continued)*

26 Financial Instruments *(continued)*

The fair value measurement of some derivatives requires assumptions and management's assessment of certain market parameters. Where a market price is not available, a valuation model which takes into consideration discounted cash flows is used with consideration for the special characteristics of the underlying asset.

The fair value of foreign currency forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity in the contract using a risk-free interest rate.

Carrying amount and fair value of each class of financial assets and liabilities are presented in the table below:

As at 31 December 2018	Financial assets measured at fair value through profit or loss (£000)	Financial assets measured at amortised cost (£000)	Financial liabilities measured at fair value through profit or loss (£000)	Financial liabilities measured at amortised cost (£000)	Total carrying amount (£000)	Fair value (£000)
Cash & cash equivalents[1]	-	226,680	-	-	2,598	2,598
Trade debtors within 1 year [2]	-	443,976	-	-	668,056	668,056
Prepayments and other debtors	-	17,811	-	-	17,811	17,811
Derivative financial assets	4,046	11,348	-	-	15,394	15,394
Trade debtor greater than 1 year	-	15,678	-	-	15,678	15,678
Total assets	4,046	715,493	-	-	719,537	719,537
Trade creditors [3]	-	-	-	287	287	287
Accruals & deferred income	-	-	-	26	26	26
Total liabilities	-	-	-	313	313	313

27 Ultimate parent company

The Company is a 100% owned subsidiary undertaking of General Dynamics Limited, a company incorporated in Great Britain. General Dynamics Corporation is the ultimate parent company incorporated in the USA.

The largest and smallest group in which the results of the Company are consolidated is that headed by General Dynamics Corporation, incorporated in the USA. The consolidated accounts of the group are available to the public and may be obtained from 2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042 – 4513, USA.

28 Accounting Estimates and Judgements

Accounting estimates and judgements

The preparation of the consolidated financial statements in conformity with FRS101 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The reported amounts and note disclosures reflect management's best estimate of the most probable set of economic conditions and planned course of actions. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

[1] Cash and cash equivalents includes £224,082,311 being amounts owed by fellow subsidiary under the cash pooling arrangements.
[2] Trade debtors includes amounts recoverable on contacts and intercompany receivables.

[3] Trade creditors includes amounts owing to a subsidiary and payments on account on long term contracts.

Notes *(continued)*

28 Accounting Estimates and Judgements *(continued*

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements include:

Revenue IFRS 15

Long Term Contracts

The majority of the Company's projects are long-term development or support contracts spanning multiple financial years. Revenue on long-term contracts is recognised over time as work progresses using costs incurred to date relative to total estimated costs at completion to measure progress towards satisfying performance obligations. Incurred cost represents work performed which corresponds with and thereby best depicts the transfer of control to the customer. Contract costs include labour, material, subcontractor costs and G&A expenses. The Company estimates the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognise that profit over the life of the contract.

Contract estimates are based on various assumptions to project the outcome of future events that often span several years. These assumptions include labour productivity and availability, the complexity of the work to be performed, the cost and availability of materials, the performance of subcontractors and the availability/ timing of funding from the customer.

As a significant change in one or more of these estimates could affect the profitability of contracts, the Company reviews and updates its contract-related estimates regularly. The Company recognises adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date on a contract is recognised in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognised using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, the Company recognises the total loss in the period it is identified.

The majority of revenue is derived from long-term contracts and programmes that can span several years. Revenue is accounted for, in accordance with IFRS15.

Performance Obligations

An assessment is conducted on contract inception to identify the number of performance obligations pertaining to the contract award using the 5-step methodology defined in IFRS15. A number of contracts have multiple performance obligations, most commonly due to the contract covering multiple phases of the product lifecycle (development, production, maintenance and support). For contracts with multiple performance obligations, the contract's transaction price is allocated to each performance obligation using the best estimate of the standalone-selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach for that distinct goods/ service performance obligation. The transaction price is allocated to each distinct performance obligation and recognized as revenue as, the performance obligation is satisfied.

The nature of the Company's contracts gives rise to some types of variable consideration, including positive incentive adjustments and final contract pricing adjustments. Positive incentive adjustments are included within the estimated transaction price when there is a basis to reasonably estimate the amount of the recovery and there is no significant risk of reversal. These estimates are based on experience, anticipated performance and best judgment at the time of reviewing the contract financials.

Notes *(continued)*

28 Accounting Estimates and Judgements *(continued)*

Revenue IFRS 15 *(continued)*

Performance obligations are satisfied over time as work progresses or at a point in time. Revenue from products and services transferred to customers over time accounted for 99.97% of revenue in 2018, 99.9% in 2017 and 99.8% in 2016. Substantially all of the revenue is recognised over time, because control is transferred continuously to customers. The majority of revenue recognised at a point in time is for sales of specialised Bowman cables. Revenue on these contracts is recognised when the customer receives the cable and a billing is raised.

Warranty obligations are accounted for within the contract estimates at completion and the basis of assumptions reviewed quarterly. As programme costs are incurred, an accrual is made based upon the assumptions within the estimate at completion and held on the balance sheet until warranty returns are received.

At December 31, 2018, the Company had £2,828M of remaining performance obligations, which is also referred to as total backlog, the majority of which relates to the AJAX contract. The Company expects to recognize approximately 22% of the remaining performance obligations as revenue in 2019, a further 24% by the end of 2020 and the balance thereafter.

The impact of adjustments in contract estimates on operating earnings can be reflected in either operating costs and expenses or revenue. The aggregate impact of adjustments in contract estimates increased revenue and operating earnings as follows (£m):

Year Ended December 31	2018	2017
Revenue	**20**	4
EBIT	**20**	4

A change to the way in which provisions are calculated contributed to the largest proportion of the impact on revenue and earnings across the portfolio. In addition, some of the Communications contracts achieved some key milestones during the year, which resulted in a change to the programme risk profile. This was partly offset by a negative change in the expected margin rate on some one of the Avionics programmes.

Revenue by Category

The portfolio of products and services consists of 192 active profit centres compared to 179 at the end of 2017. The following series of tables presents revenue disaggregated by several categories.

Revenue by major products and services was as follows (£m):

Year Ended December 31	2018	2017
C4	**183**	158
Avionics	**44**	32
AJAX	**509**	490
Total	**736**	680

Notes *(continued)*

28 Accounting Estimates and Judgements *(continued)*

***Revenue IFRS 15** (continued)*

Revenue by contract type was as follows (£m):

Year Ended December 31, 2018	C4	Avionics	AJAX	Total Revenue
Firm Fixed-Price	181	44	509	**734**
Firm Fixed Price 2017	*154*	*31*	*481*	***666***
Time and Materials	2	0	0	**2**
Time and Materials 2017	*3*	*0*	*9*	***12***
Other	0	0	0	**0**
Other 2017	*2*	*0*	*0*	***2***
Total revenue	**183**	**44**	**509**	**736**
Total revenue 2017	*159*	*31*	*490*	*680*

Each of these contract types presents advantages and disadvantages. Typically, more risk is assumed with fixed-price contracts. However, these types of contracts offer additional profits when work is completed for less than originally estimated. Time and Material contracts generally are lower risk. Accordingly, the associated base fees are usually lower than fees earned on fixed-price contracts. Under time-and-materials contracts, profit may vary if actual labour-hour rates vary significantly from the negotiated rates. In addition, because these contracts can provide little or no fee for managing material costs, the content mix can affect profitability.

Revenue by customer was as follows (£m):

	C4/ Avionics	AJAX	Total Revenue
UK Government	180	508	688
Non-UK Government	47	1	48
Total revenue	**227**	**509**	**736**

Contract Modifications

Contract modifications are routine in the performance of contracts. Contracts are often modified to account for changes in contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct and therefore, are accounted for as part of the existing contract on a cumulative catch up basis. An assessment is conducted for every contract modification to determine if the amendment results in a separate performance obligation or if the modification results in the combining of performance obligations.

Following the AJAX recast conclusion, the Company conducted a full review of the AJAX performance obligations in relation to the contract amendment that was received. With these changes, the nature of the goods and services to be provided can no longer be viewed as separately identifiable performance obligations. Therefore, the to-go effort will now be performed as a fully integrated activity focused on the overall promise resulting in a single performance obligations for AJAX.

Notes *(continued)*

28 Accounting Estimates and Judgements *(continued)*

Revenue IFRS 15 (continued)

The revenue traded in 2018 is primarily related to contracts that were awarded pre 1st January 2018. £716m of the revenue recognised in the current period relates to performance obligations, which have been fully or partially satisfied in previous periods

Contract Balance

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (Debtors Less than 1 year), and customer advances and deposits (Creditors less than 1 year) on the Balance Sheet. Amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. However, sometimes advances or deposits from customers can be received before revenue is recognised, resulting in contract liabilities. These assets and liabilities are reported on the Balance Sheet at the end of each reporting period. At 31 December 2017, the Company held £42.8m of contract liabilities. During 2018, £34.5m of this was traded as revenue, primarily related to the Typhoon, Bowman Support and the EvO contracts. At the close of 2018, the company held £40.9m of contract liabilities primarily relating to the EvO and Bowman programmes.

29 Post balance sheet events

Throughout 2018, the Company underwent discussions with UK MoD on the AJAX programme schedule with a Memorandum of Agreement signed December 2018 and the recasting activity successfully concluding in May 2019 (note 28)

There were no other material post balance sheet events as at the approval of these accounts.