

Thales Electronics Plc

Annual report and accounts
for the year ended 31 December 2004

Registered number: 497098



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Directors' report

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 2004.

Principal activities

The principal activity of the company is a holding company. No change is currently envisaged to the company's activity.

The subsidiary undertakings held by the company are listed in note 9 to the accounts. Consolidated accounts are not presented as the company takes advantage of the exemption afforded by Section 228 of the Companies Act 1985.

Business review

The directors consider the results for the year to be satisfactory. The directors do not foresee any change in the business of the company in the foreseeable future.

Results and dividends

The audited accounts for the year ended 31 December 2004 are set out on pages 6 to 15. The profit for the year after taxation was £68,4680,000 (2003 - £107,120,000).

The directors do not recommend the payment of a dividend (2003 - Interim 31.83p per share).

Directors

The directors who served during the year were as follows:

Name

A. Dorrian

Lord Freeman

J. Haagen

Resigned 6 September 2004

D. Horne

W. Moffatt

Appointed 6 September 2004

Directors' interests

According to the register of directors' interests, no director had any beneficial interests in the shares of the company or held the right to subscribe for shares during the period. The directors did hold shares in the French parent company Thales SA as at 31 December 2004, but have taken advantage of SI 1985/802 not to disclose details in the accounts.

Directors' report (continued)

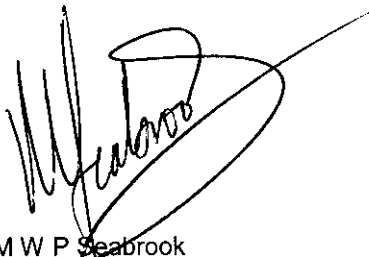
Donations

No charitable or political donations were made during the year.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the annual general meeting.

By order of the Board

A handwritten signature in black ink, appearing to read 'M W P Seabrook', written over a large, stylized oval shape.

M W P Seabrook
Secretary

2 Dashwood Lang Road
Bourne Business Park
Addlestone
Surrey
KT15 2NX

 March 2005

Directors' responsibilities

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

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

To the Members of Thales Electronics Plc Limited

We have audited the financial statements of Thales Electronics Plc for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet and the related notes numbered 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

As discussed in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

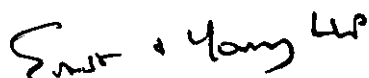
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates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

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

Independent auditors' report (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2004 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor

1 More London Place
London
SE1 2AF

24 March 2005

Profit and loss account

For the year ended 31 December 2004

	Note	2004 £000	2003 £000
Operating profit	2	167	20,184
Profit on sale of fixed asset investments	3	2,526	54,550
Amounts written off investments		(2,981)	(27,297)
(Loss)/profit on ordinary activities before finance charges		(288)	47,437
Finance income (net)	4	36,030	59,500
Profit on ordinary activities before taxation	5	35,742	106,937
Tax credit on profit on ordinary activities	7	32,726	183
Profit on ordinary activities after taxation		68,468	107,120
Dividend paid	8	-	(95,000)
Retained profit for the year	14	68,468	12,120

The accompanying notes are an integral part of this profit and loss account.

There are no recognised gains or losses in either year other than the profit for that year.

Balance sheet

At 31 December 2004

	Note	2004 £000	2003 £000
Fixed assets			
Investments	9	160,130	158,610
Current assets			
Debtors			
- due within one year	10	822,924	890,955
Creditors: Amounts falling due within one year	11	(249,297)	(384,278)
Net current assets		573,627	506,677
Total assets less current liabilities		733,757	665,287
Provisions for liabilities and charges	12	(987)	(985)
Net assets		732,770	664,302
Capital and reserves			
Called-up share capital	13	74,613	74,613
Share premium account	14	212,215	212,215
Capital redemption reserve	14	279,325	279,325
Profit and loss account	14	166,617	98,149
Shareholders' funds	15	732,770	664,302

The accounts on pages 6 to 15 were approved by the Board of Directors on **24** March 2005 and signed on its behalf by:



David Horne
Director

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

1 Statement of accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding period.

Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The company has taken advantage of the exemption from preparing consolidated accounts afforded by Section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of Thales SA, a company incorporated in France which prepares consolidated accounts which are publicly available. The company is also, on this basis, exempt from the requirement of FRS 1 to present a cash flow statement.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and

deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

Notes to accounts (continued)

2 Operating profit

	2004 £000	2003 £000
Administrative expenses	253	289
Release of debt	-	20,016
Exchange loss	(86)	(121)
Operating profit	167	20,184

3 Profit on sale of fixed asset investments

	2004 £000	2003 £000
<i>Profit on disposal of subsidiaries:</i>		
Thales Telecommunication Services Ltd.	-	53,100
Thales Instruments Ltd.	-	1,450
<i>Profit on disposal of associated company:</i>		
Paypoint Ltd.	2,526	-
	2,526	54,550

4 Finance income (net)

	2004 £000	2003 £000
<i>Investment income</i>		
Interest receivable from group companies	3,671	2,542
Dividends received	30,937	60,641
Other interest receivable and similar income	4,626	384
	39,234	63,567

Interest payable and similar charges

Bank loans and overdrafts	358	192
Interest payable to fellow group companies	2,846	3,875
	3,204	4,067

Finance income (net)

Investment income	39,234	63,567
Less: Interest payable and similar charges	(3,204)	(4,067)
	36,030	59,500

Notes to accounts (continued)

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2004 £000	2003 £000
Exchange loss	<u>86</u>	<u>121</u>

For the year ended 31 December 2004 auditors' remuneration for audit services has been borne by a fellow subsidiary. No amounts were payable to Ernst & Young LLP for non-audit services.

6 Employees and directors' emoluments

The directors received no remuneration for their services in respect of the company in either the current or preceding year. The company had no employees other than the directors.

7 Tax on profit on ordinary activities

(a) The tax credit comprises:

	2004 £000	2003 £000
UK Corporation tax	1,604	(332)
Adjustments in respect of prior years	<u>(34,330)</u>	<u>149</u>
Total current tax (see (b) below)	<u>(32,726)</u>	<u>(183)</u>
Tax on profit on ordinary activities	<u>(32,726)</u>	<u>(183)</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2003 - 30%). The differences are reconciled below:

	2004 £000	2003 £000
Profit on ordinary activities before tax	35,743	106,937
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 - 30%)	10,723	32,081
Non-taxable income	<u>(9,119)</u>	<u>(32,413)</u>
Tax (overprovided)/underprovided in previous years	<u>(34,330)</u>	<u>149</u>
Total current tax (note 7(a))	<u>(32,726)</u>	<u>(183)</u>

(c) Factors that may affect future tax charges

As a UK resident company in the Thales Group the company is eligible to surrender group relief to, or claim group relief from, other Thales Plc Group companies. These claims or surrenders may be made with or without charge.

Notes to accounts (continued)

8 Dividend paid

	2004 £000	2003 £000
Dividend paid on equity shares		
<i>Equity dividend on ordinary shares</i>		
- Nil (2003 - interim paid of 31.83p per ordinary share)	-	95,000

9 Fixed asset investments

	2004 £000	2003 £000
Subsidiary undertakings	142,223	140,703
Associated companies	17,907	17,907
	<u>160,130</u>	<u>158,610</u>

Fixed asset investments are carried at cost less any provision for impairment in value. In the opinion of the directors the investments are not worth less than the amount stated above.

Subsidiary undertakings

The company has investments in the following subsidiary undertakings. To avoid a statement of excessive length, details of investments that are not significant have been omitted.

	Country of incorporation	Principal Activity	Holding	%
Controls and Communications Ltd	England & Wales	Holding company	Ordinary shares	100
Decca Ltd	England & Wales	Holding company	Ordinary shares	100
Saracen Insurance Ltd	Bermuda	Insurance services	Ordinary shares	100
Thales Corporate Services Ltd	England & Wales	Central services	Ordinary shares	100
Thales Properties Ltd	England & Wales	Property management	Ordinary shares	100
Thales Research & Technology Ltd	England & Wales	Research and development	Ordinary shares	100
Thales Universite Ltd	England & Wales	Training and education	Ordinary shares	100
Racal Radio Limited	England & Wales	Non-trading company	Ordinary shares	100

Notes to accounts (continued)

9 Fixed asset investments (continued)

Cost	£000
At 1 January 2004	249,156
Additions	4,501
Disposals	(5,263)
At 31 December 2004	<u>248,394</u>

Amounts written off	
At 1 January 2004	108,453
Eliminated on disposal	(5,263)
Provision for impairment	2,981
At 31 December 2004	<u>106,171</u>

Net book value	
At 31 December 2004	<u>142,223</u>
At 31 December 2003	<u>140,703</u>

Other participating interests

The company has investments in the following associated undertakings.

	Country of incorporation	Holding	%
Camelot Group Plc	England & Wales	Ordinary shares	20.00
Camelot International Services Limited	England & Wales	Ordinary shares	20.00
Satellite Information Services (Holding) Limited	England & Wales	Ordinary shares	21.96

£000

Cost	
At 31 December 2003 and 31 December 2004	<u>32,592</u>
Amounts written off	
At 31 December 2003 and 31 December 2004	<u>14,685</u>
Net book value	
At 31 December 2003 and 31 December 2004	<u>17,907</u>

Notes to accounts (continued)

10 Debtors

	2004 £000	2003 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	821,904	890,568
Other debtors	1,020	55
Corporation tax recoverable	-	332
	<u>822,924</u>	<u>890,955</u>

11 Creditors: Amounts falling due within one year

	2004 £000	2003 £000
Bank loans and overdrafts	97,209	73,011
Amounts owed to group undertakings	149,307	310,468
Corporation tax owed to group undertaking	97	-
Corporation tax creditor	1,604	-
Other creditors	183	187
Accruals and deferred income	897	612
	<u>249,297</u>	<u>384,278</u>

12 Provisions for liabilities and charges

	Other provisions £000
At 1 January 2004	985
Charged in profit & loss account	962
Released unused	(960)
Balance at 31 December 2004	<u>987</u>

Other provisions relate to the disposal of group companies. It is expected that the majority of this expenditure will be incurred in the next financial year and all of it within two years.

Notes to accounts (continued)

13 Share capital

	2004 £000	2003 £000
<i>Authorised</i>		
1,600,000,000 ordinary shares of 25p each	400,000	400,000
<i>Allotted, called-up and fully paid</i>		
298,452,708 ordinary shares of 25p each	74,613	74,613

14 Reserves

	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 31 December 2003	212,215	279,325	98,149	589,689
Retained profit for the year	-	-	68,468	68,468
At 31 December 2004	212,215	279,325	166,617	658,157

15 Reconciliation of movements in shareholders' funds

	2004 £000	2003 £000
Opening shareholders' funds	664,302	652,182
Profit for the financial period	68,468	12,120
Closing shareholders' funds	732,770	664,302

16 Contingent liabilities

The company has issued a guarantee, not limited in value, in respect of the due and punctual performance of two subsidiaries under various agreements in relation to a European defence project.

A deed has been signed between the company and Camelot Group Plc whereby the company has to provide further funding to a maximum of £10 million if the net asset value of Camelot Group Plc falls below £50 million and the cash value of Camelot Group Plc falls below £25 million for the period during and six months after the expiry or termination of the second running licence.

The company has issued two guarantees, not limited in value, in respect of the performance of a subsidiary company and of an associated company of their respective obligations under various agreements in relation to a United Kingdom defence project. The guarantee in respect of the associated company's obligations is joint and several with the other shareholders of that company.

The company has issued two guarantees to secure fellow subsidiaries' overdrafts and group banking facilities under a 'mass' bank account arrangement.

Notes to accounts (continued)

17 Ultimate parent company

The immediate parent company is Thales UK Plc, a company incorporated in the UK. The ultimate parent company is Thales SA a company incorporated in France. This is also both the largest and smallest group which includes the company and for which consolidated financial statements are prepared. Copies of the group financial statements of Thales SA are available from 45 rue de Villiers, 92526 Neuilly sur Seine Cedex, France.

18 Related party transactions

In accordance with the exemption in Financial Reporting Standard No. 8 "Related Party Disclosures", transactions with other undertakings within, and investee related parties of, the Thales group have not been disclosed in these accounts.