

Thales Electronics Plc

Annual report and accounts
for the year ended 31 December 2003

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 2003.

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 8 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 2003 are set out on pages 6 to 15. The profit for the year after taxation was £107,120,000 (2002 – profit £11,377,000).

No final dividend is proposed and during the year an interim dividend of 31.83p per share was paid (2002 - £nil).

Directors

The directors who served during the year were as follows:

Name	Appointed
A. Dorrian Lord Freeman	
J. Haagen	
D. Horne	1 January 2003

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 2003, 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 indicated their willingness to continue in office 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 'DRG' followed by a stylized flourish.

Director

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

30th June 2004

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 2003 which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes numbered 1 to 17. 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

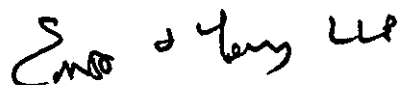
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates 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 2003 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

 June 2004

Profit and loss account

For the year ended 31 December 2003

	Note	2003 £000	2002 £000
Operating profit	1	20,184	442
Profit on sale of fixed asset investments	2	54,550	-
Amounts written off investments		(27,297)	(441)
Profit on ordinary activities before finance charges		47,437	1
Finance income (net)	3	59,500	15,859
Profit on ordinary activities before taxation		106,937	15,860
Tax credit/(charge) on profit on ordinary activities	6	183	(4,483)
Profit on ordinary activities after taxation		107,120	11,377
Dividend paid	7	(95,000)	-
Retained profit for the year	13	12,120	11,377

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 2003

	Note	2003 £000	2002 £000
Fixed assets			
Investments	8	158,610	168,683
		<u>158,610</u>	<u>168,683</u>
Current assets			
Debtors			
- due within one year	9	890,955	902,850
Cash at bank and in hand		-	10,000
		<u>890,955</u>	<u>912,850</u>
Creditors: Amounts falling due within one year	10	<u>(384,278)</u>	<u>(427,222)</u>
Net current assets		<u>506,677</u>	<u>485,628</u>
Total assets less current liabilities		<u>665,287</u>	<u>654,311</u>
Provisions for liabilities and charges	11	<u>(985)</u>	<u>(2,129)</u>
Net assets		<u>664,302</u>	<u>652,182</u>
Capital and reserves			
Called-up share capital	12	74,613	74,613
Share premium account	13	212,215	212,215
Capital redemption reserve	13	279,325	279,325
Profit and loss account	13	98,149	86,029
Shareholders' funds	14	<u>664,302</u>	<u>652,182</u>

The accounts on pages 6 to 15 were approved by the Board of Directors on 30th June 2004 and signed on its behalf by:



David Horne
Director

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

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

Financial statements 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 the Accounts

1 Operating profit

	2003 £000	2002 £000
Administrative expenses	289	290
Release of debt	20,016	254
Exchange loss	(121)	(102)
Operating profit	20,184	442

2 Profit on sale of fixed asset investments

	2003 £000	2002 £000
<i>Profit on disposal of subsidiaries:</i>		
Thales Telecommunication Services Ltd.	53,100	-
Thales Instruments Ltd.	1,450	-
	54,550	-

3 Finance income (net)

	2003 £000	2002 £000
<i>Investment income</i>		
Interest receivable from group companies	2,542	3,225
Dividends received	60,641	16,204
Other interest receivable and similar income	384	176
	63,567	19,605

Interest payable and similar charges

Bank loans and overdrafts	192	121
Interest payable to fellow group companies	3,875	3,625
	4,067	3,746

Finance income (net)

Investment income	63,567	19,605
Less: Interest payable and similar charges	(4,067)	(3,746)
	59,500	15,859

Notes to the Accounts (continued)

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2003 £000	2002 £000
Exchange loss	<u>121</u>	<u>102</u>

For the year ended 31 December 2003 auditors' remuneration for audit services has been borne by a fellow subsidiary. No amounts were payable to Ernst & Young LLP for non-audit services.

5 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.

6 Tax on profit on ordinary activities

(a) The tax (credit)/charge comprises:

	2003 £000	2002 £000
UK Corporation tax	(332)	-
Adjustments in respect of prior years	<u>149</u>	<u>3,666</u>
Total current tax (see (b) below)	(183)	3,666
Origination and reversal of timing differences	<u>-</u>	<u>817</u>
Tax on profit on ordinary activities	<u>(183)</u>	<u>4,483</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% (2002 - 30%). The differences are reconciled below:

	2003 £000	2002 £000
Profit on ordinary activities before tax	106,937	15,860
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 - 30%)	32,081	4,758
Income and expenses not deductible for tax purposes	(32,413)	(5,362)
Tax overprovided in previous years	149	3,666
Group loss relief surrendered for no consideration	<u>-</u>	<u>604</u>
Total current tax (note 6(a))	<u>(183)</u>	<u>3,666</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 the Accounts (continued)

7 Dividend paid

	2003 £000	2002 £000
Dividend paid on equity shares		
<i>Equity dividend on ordinary shares</i>		
- interim paid of 31.83p (2002 - nil) per ordinary share	<u>95,000</u>	<u>-</u>

8 Fixed asset investments

	2003 £000	2002 £000
Subsidiary undertakings	140,703	150,776
Associated companies	<u>17,907</u>	<u>17,907</u>
	<u>158,610</u>	<u>168,683</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 the Accounts (continued)

8 Fixed asset investments (continued)

Cost	£000
At 31 December 2002	272,109
Additions	17,224
Disposals	(40,177)
At 31 December 2003	<u>249,156</u>
 Amounts written off	
At 31 December 2002	121,333
Eliminated on disposal	(20,161)
Provision for impairment	7,281
At 31 December 2003	<u>108,453</u>
 Net book value	
At 31 December 2003	<u>140,703</u>
 At 31 December 2002	<u>150,776</u>

Subsidiary companies

On 2 January 2003 the company acquired the entire share capital of Racal Radio Limited from Thales Defence Limited for a consideration of £17,224,443.

During the year, a number of former subsidiaries were struck-off as follows;

On 10th June; Racal Telecommunications International Limited, Racal Microelectronic Systems Limited, Racal Information Technology Services Limited, Racal Imaging Systems Limited

On 1st July; Racal-SES Limited, Racal Milgo Limited, Racal Electronics Iran Limited, Racal-Comsec Limited, Racal Newbridge Limited, Racal Panorama Limited, Racal Data Communications Group Limited, Racal Newbridge Trustees Limited

On 4th November; Racal Finance Limited

On 2nd December; Racal Health and Safety Limited, Racal Instruments Group Limited

Notes to the Accounts (continued)

8 Fixed asset investments (continued)

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 2002 and 31 December 2003	32,592
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Amounts written off

At 31 December 2002 and 31 December 2003	14,685
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Net book value

At 31 December 2002 and 31 December 2003	17,907
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9 Debtors

	2003 £000	2002 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	890,568	892,879
Other debtors	55	9,971
Corporation tax recoverable	332	-
	<u>890,955</u>	<u>902,850</u>

10 Creditors: Amounts falling due within one year

	2003 £000	2002 £000
Bank loans and overdrafts	73,011	48,291
Amounts owed to group undertakings	310,468	368,893
Other creditors	187	198
Accruals and deferred income	612	9,840
	<u>384,278</u>	<u>427,222</u>

Notes to the Accounts (continued)

11 Provisions for liabilities and charges

	Other provisions £000
At 31 December 2002	2,129
Utilised in year	(1,144)
Balance at 31 December 2003	<u>985</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.

12 Share capital

	2003 £000	2002 £000
<i>Authorised</i>		
1,600,000,000 ordinary shares of 25p each	<u>400,000</u>	<u>400,000</u>
<i>Allotted, called-up and fully paid</i>		
298,452,708 ordinary shares of 25p each	<u>74,613</u>	<u>74,613</u>

13 Reserves

	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 31 December 2002	212,215	279,325	86,029	577,569
Retained profit for the year	-	-	12,120	12,120
At 31 December 2003	<u>212,215</u>	<u>279,325</u>	<u>98,149</u>	<u>589,689</u>

Notes to the Accounts (continued)

14 Reconciliation of movements in shareholders' funds

	2003 £000	2002 £000
Opening shareholders' funds	652,182	640,805
Profit for the financial period	12,120	11,377
Closing shareholders' funds	<u>664,302</u>	<u>652,182</u>

15 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.

16 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.

17 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.