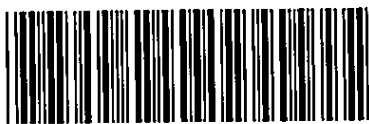


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Thales Missile Electronics Limited

Annual report and accounts
for the year ended 31 December 2008

Registered number: 3004769

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Directors' report

The directors present their annual report and financial statements, together with the auditors' report, for the year ended 31 December 2008.

Principal activities

Thales Missile Electronics Limited is part of the Missile Electronics SBU (Strategic Business Unit) of Thales SA. The company's principal activities are the development and production of electronics (fuzes, seekers) for missiles.

The company's main customers are European and US missile makers – the company's research activities are typically funded by government agencies. The company's research and development programmes are concentrated on the continued evolution of its products.

Business review

Revenue in 2008 showed an increase of 21% over the previous year, an increase of £6.0m. However turnover tends to be cyclical depending on the stage of the contract (ie development/production stages). The business remains profitable although trading at lower margins.

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Turnover	35,206	29,196	43,328	41,407	29,510
Operating Profit	1,551	1,178	3,291	4,212	3,988
Profit after tax	2,371	1,536	3,635	2,824	3,035
Net assets	13,464	16,389	16,387	15,809	17,823
<hr/>					
Number of employees (No.)	217	242	257	263	268

In 2008 the company made a significant investment in Research and Development of £1.3m, an increase of 33% on 2007. The directors expect the general level of activity to continue with turnover of c£40m for the next 3 years and operating profit around £2.5m. Future prospects are likely in both the domestic and export markets, particularly in the United States.

Dividends

The directors recommended an interim dividend of £20,000 per ordinary share which was paid on 31st December 2008 to ordinary shareholders. The directors are recommending no additional dividend to be paid.

Financial risk management objectives and policies

The Company's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, finance leases and hire purchase contracts, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Directors' report (continued)

The Company also enters into derivative transactions, in the form of forward currency contracts. The purpose is to manage currency risks arising from the Company's operations and its sources of finance.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Company's accounting policies in relation to derivatives are set out in Note 1.

Foreign currency risk

The Company also has transactional currency exposures. Such exposure arises from sales or purchases by the Company in currencies other than the unit's functional currency. Approximately 40% of the Company's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst 94% of costs related to those sales are denominated in the unit's functional currency. The Company uses forward currency contracts to eliminate the currency exposures on any individual transactions in excess of €100,000 for which payment is anticipated more than one month after the Company has entered into a firm commitment for a sale or purchase. The forward currency contracts must be in the same currency as the hedged item. It is the Company's policy not to enter into forward contracts until a firm commitment is in place.

It is the Company's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

At 31 December 2008, the Company had hedged 99% of its foreign currency sales for which firm commitments existed at the balance sheet date, extending to October 2010.

Directors' report (continued)

Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables, finance lease receivables and investments.

The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. This may also involve the negotiation of third party guarantees of customer creditworthiness. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Company's maximum exposure to credit risk is the carrying amount as disclosed in Note 12.

Commodity price risk

The Company's exposure to price risk is minimal.

Interest rate risk

The Company's exposure to the risk for changes in market interest rates is minimal.

Liquidity risk

The Company prepares regular cash flow forecasts to ensure that there are always necessary funds in place to enable financial liabilities to be met as they fall due.

Environmental Information

Thales UK have implemented an Environmental Policy to conduct our current and future business in a way that protects the environment. This is achieved through development and implementation of Environmental Management Systems against which we report Environmental performance regularly to the Thales Holding UK plc board. It is a Thales requirement that operating companies are certified to the International Standard for Environmental Management Systems ISO 14001 to which we have been certified. Current Environmental Programmes include reducing our Carbon footprint and Implementing a Green Purchasing programme.

Directors' report (continued)

Directors

The directors who served during the year were as follows:

Name	Date of appointment
P R Shore	26 April 2000
J F Pernotte	19 December 1994
S J Hill	1 September 2007
P S Jones	1 September 2007

Directors' liabilities

The company has not granted any indemnity against liability to its directors during the year or at the date of approving the directors' report.

Supplier payment policy

It is the company's normal practice to make payments to suppliers promptly provided that the supplier has performed in accordance with the relevant terms and conditions.

Creditors days at 31 December 2008, based on the aggregate of the amounts which were owed to trade creditors at that date and the aggregate of the amounts which the Company was invoiced by suppliers during the year, amounted to 86 days (2007 - 49 days).

Employee matters

People are the Company's greatest assets. With growing competition, attracting and retaining quality workers from the local community is key. Therefore it makes good business sense to incorporate attractive employment policies and principles with the view to creating a skilled, happy, diverse, proud and motivated workforce. This is what the company tries to achieve.

Disabled employees

The Company's attitude concerning the employment of disabled persons is the same as that relating to all other staff in matters of recruitment, continuity of employment, training, development and promotion. Nevertheless the Company is very conscious of the difficulties experienced by the disabled and takes account sympathetically of individual circumstances.

Employee consultation

Employee involvement and commitment is the established responsibility of the Board of Directors and requires their participation. Regular contact and exchanges of information between managers and staff are maintained through departmental managers, the staff council, trade union representatives and social functions. The Company promotes the principle of team briefing on a regular and continuing basis with the aim of ensuring that all employees are personally advised of the financial and commercial progress of the Company.

Directors' report (continued)

Donations

During the period to 31 December 2008 charitable donations of £2,681 (2007: £ 3,403) were made.

No political donations were made during the year.

Disclosure of information to the auditors


So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of the auditor, the director has taken all the steps he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with section 489 of the Companies Act 2006, the company has not elected to re-appoint its auditors annually and Ernst & Young LLP will therefore continue in office.

2 Dashwood Lang Road
The Bourne Business Park
Addlestone
Nr Weybridge
Surrey KT15 2NX

By order of the Board



P S Jones

30th July 2009

Director

Statement of Directors' responsibilities

United Kingdom company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period, 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 accounts 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 to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, 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 shareholders of Thales Missile Electronics Limited

We have audited the financial statements of Thales Missile Electronics Limited for the year ended 31 December 2008 which comprise the Income Statement, the Statement of Recognised Income and Expense, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 25. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 to the shareholders of Thales Missile Electronics Ltd (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP

Registered Auditors

London

30 July 2009

Income statement

for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Continuing operations			
Revenue	2	35,206	29,196
Cost of sales	3	(27,681)	(23,733)
Gross profit		7,525	5,463
Administration expenses		(5,792)	(3,584)
Restructuring costs		(182)	(701)
Profit from operations	3	1,551	1,178
Investment income	4	505	504
Other gains and losses	5	-	-
Finance costs		149	73
Profit before taxation		2,205	1,755
Income tax (expense)/credit	7	166	(219)
Profit for the period		2,371	1,536

The accompanying notes are an integral part of this income statement.

All operations are classed as continuing.

Statement of recognised income and expense
for the year ended 31 December 2008

	2008 £000	2007 £000
Continuing operations		
Gains/(losses) on cash flow hedges	(4,346)	131
Deferred tax rate change	-	5
Tax on items taken directly to equity	1,217	-
Net income recognised directly in equity	(3,129)	136
Transfers:		
Transferred to Profit & Loss on cash flow hedges	(275)	-
Tax on items transferred from equity	82	-
Profit for the period	2,371	1,536
Total recognised income and expense for the period	(951)	1,672

The accompanying notes are an integral part of this statement of recognised income and expense

Balance sheet
at 31 December 2008

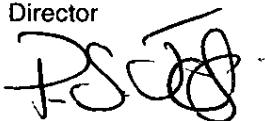
	Note	2008 £000	Restated 2007 £000
ASSETS			
Non-current assets			
Other intangible assets	9	913	1,146
Other non-current financial assets	18	1,558	729
Property, plant & equipment	10	1,973	2,049
Deferred tax asset	19	1,686	663
		<u>6,130</u>	<u>4,587</u>
Current assets			
Inventories	11	1,746	5,233
Trade and other receivables	12	14,931	12,576
Current tax receivables		202	344
Cash and cash equivalents	14	11,371	10,241
Derivative financial instruments	17	558	499
		<u>28,808</u>	<u>28,893</u>
Total assets		<u>34,938</u>	<u>33,480</u>
LIABILITIES			
Current liabilities			
Trade and other payables	15	(14,540)	(15,271)
Provisions	16	(1,173)	(1,592)
Derivative financial instruments	17	(5,761)	(228)
		<u>(21,474)</u>	<u>(17,091)</u>
Net current assets		<u>7,334</u>	<u>11,802</u>

Balance sheet (continued)
at 31 December 2008

	Note	2008 £000	2007 £000
Total liabilities		<u>(21,474)</u>	<u>(17,091)</u>
Net assets		<u>13,464</u>	<u>16,389</u>
EQUITY			
Share capital	20	-	-
Capital reserves	21	1,747	1,747
Other reserves	21	110	85
Hedging reserves	21	(3,129)	192
Retained earnings	21	14,736	14,365
Total equity		<u>13,464</u>	<u>16,389</u>

The accounts on pages 9 to 48 were approved by the board of directors and authorised for issue on 30th July 2009.
They were signed on its behalf by:

Director



P S Jones

30th July 2009

The accompanying notes are an integral part of this balance sheet

Cash flow statement
for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
OPERATING ACTIVITIES			
Profit from operations		1,551	1,178
Adjustments for;			
Depreciation of property, plant & equipment		458	326
Finance costs		149	73
Impairment costs		170	-
(Decrease) in retirement benefit obligations		(808)	-
Amortisation of intangible assets		233	19
(Decrease) in provisions		(419)	(1,311)
Share-based payments		25	30
Operating cash flows before movement in working capital		1,359	315
Decrease/(increase) in inventories		3,487	(3,716)
Construction contracts work-in-progress		3,059	5,435
(Increase)/decrease in receivables		(4,857)	112
(Decrease)/increase in payables		(449)	3,981
Cash generated from operations		2,599	6,127
Income taxes received/(paid)		578	(46)
Net cash from operating activities		3,177	6,081
INVESTING ACTIVITIES			
Interest received		505	504
Purchases of property, plant and equipment		(552)	(1,274)
Purchases of trading intangible assets		-	(1,165)
Net cash used in investing activities		(47)	(1,935)
FINANCING ACTIVITIES			
Dividends paid		(2,000)	(1,700)
Net cash (used in)/from financing activities		(2,000)	(1,700)
Net increase/(decrease) in cash & cash equivalents		1,130	2,446
Cash & cash equivalents at beginning of year	14	10,241	7,795
Cash & cash equivalents at end of year	14	11,371	10,241

Notes to accounts

for the year ended 31 December 2008

General Information

The Company is incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 5. The nature of the Company's operations and principal activities are set out in the directors' report.

The financial statements are presented in pounds sterling, the currency in which the majority of the Company's transactions are denominated.

1. Accounting Policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS regulations.

The principal accounting policies adopted are set out below:

Adoption of new and revised standards

The following International Financial Reporting Interpretations Committee (IFRIC) interpretations have been adopted in the financial statements

- IFRIC 11 IFRS 2 Group and Treasury Share transactions - *Effective for periods beginning on or after 1 March 2007*. It has had no impact on the results or net assets of the Company.
- IFRIC 12 Service Concession Arrangements - *Effective for periods beginning on or after 1 January 2008*. It has had no impact on the results or net assets of the Company .
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - *Effective for periods beginning on or after 1 January 2008*. It has had no impact on the results or net assets of the Company .
- IFRIC15 Agreements for the Construction of Real Estate *Effective for periods beginning on or after 1 January 2008*. It has had no impact on the results or net assets of the Company .
- IFRIC16 Hedges of a Net Investment in a Foreign Operation *Effective for periods beginning on or after 1 October 2008*. It has had no impact on the results or net assets of the Company.

Notes to accounts (continued)

for the year ended 31 December 2008

New standards and interpretations not applied

At the date of authorisation of these financial statements the following standards and interpretations, which have not been applied in these statements, were in issue but not yet effective:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption - *Effective for periods beginning on or after 1 January 2009*

IFRS 2 Share-based Payment – Amendment relating to vesting conditions and cancellations - *Effective for periods beginning on or after 1 January 2009*

IFRS 3 Business Combinations – Comprehensive revision on applying the acquisition method - *Effective for periods beginning on or after 1 July 2009*

IFRS 8 Operating Segments - *Effective for periods beginning on or after 1 January 2009*

IAS 1 Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income - *Effective for periods beginning on or after 1 January 2009*

IAS 1 Presentation of Financial Statements – Amendments relating to disclosure of puttable instruments and obligations arising on liquidation - *Effective for periods beginning on or after 1 January 2009*

IAS 23 Borrowing costs – Comprehensive revision to prohibit immediate expensing - *Effective for periods beginning on or after 1 January 2009*

IAS 27 Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to IFRS 3 - *Effective for periods beginning on or after 1 July 2009*

IAS 27 Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to IFRS 3 - *Effective for periods beginning on or after 1 January 2009*

IAS 28 Investments in Associates – Consequential amendments arising from amendments to IFRS 3 - *Effective for periods beginning on or after 1 July 2009*

IAS 31 Interests in Joint Ventures – Consequential amendments arising from amendments to IFRS 3 - *Effective for periods beginning on or after 1 July 2009*

IAS 32 Financial Instruments: Presentation – Amendments relating to puttable instruments and obligations arising on liquidation - *Effective for periods beginning on or after 1 January 2009*

IAS 39 Financial Instruments: Recognition and Measurement – Amendments for eligible hedged items - *Effective for periods beginning on or after 1 July 2009*

IFRIC Interpretation 17 Distributions of Non-Cash Assets to Owners – *Effective for periods beginning on or after 1 July 2009*

Notes to accounts (continued)
for the year ended 31 December 2008

IFRIC Interpretation 18 Transfer of Assets from Customers – Effective for periods beginning on or after 1 July 2009

The Directors do not consider that the adoption of the amendments resulting from the May 2008 or the April 2009 Annual Improvements projects will result in a material impact on the financial information of the Group. These amendments are effective for accounting periods beginning on or after 1 January 2009, with the exception of the amendment to IFRS 5 which is effective for accounting periods beginning on or after 1 July 2009.

The Directors do not anticipate that the adoption of these standards and interpretations, wherever relevant, will have a material impact on the Company's financial statements in the period of initial application.

Intangible fixed assets

Research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied that all the following conditions are met.

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably

In such cases, an internally generated intangible asset is recognised and amortised on a straight line basis over its useful life.

Patents and trademarks

Patents and trademarks are measured initially at purchase cost and amortised on a straight line basis over their estimated useful lives.

Notes to accounts (continued)
for the year ended 31 December 2008

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Fixtures and equipment are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold land and buildings	10 years/ 10% per annum/term of lease
Plant and machinery	5 years/ 20% per annum
Fixtures and Fittings	5 years/ 20% per annum
Computers	3 years/ 33% per annum

Residual value is calculated on prices prevailing at the date of acquisition or revaluation and is revised annually.

Interest costs incurred in bringing assets to a state where they are ready to be used are capitalised as part of the costs of the asset.

Notes to accounts (continued)
for the year ended 31 December 2008

Impairment of property, plant and equipment and intangible assets excluding goodwill

At each balance sheet date the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are carried at fair value (in the majority of cases this will equate to original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year-end). Bad debts are written off when identified. Long term receivables are discounted where necessary.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost plus directly attributable transaction costs.

Notes to accounts (continued)
for the year ended 31 December 2008

At subsequent reporting dates, debt securities that the Company has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially recorded at the proceeds received, net of direct issue costs, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Company's accounting policy for borrowing costs (see below).

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Notes to accounts (continued)
for the year ended 31 December 2008

Derivative financial instruments and hedge accounting

The Company's activities expose it primarily to the financial risks of changes in foreign exchange rates. The Company uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Company's risk management strategy.

The Company does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in profit or loss. The Company's policy with respect to hedging the foreign currency risk of a firm commitment is to designate it as a cash flow hedge. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in profit or loss in the same period in which the hedged item affects profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Government grants

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and credited to the income statement on a straight line basis over the expected useful lives of the assets concerned.

Other grants are credited to the income statement as the related expenditure is incurred.

Notes to accounts (continued)

for the year ended 31 December 2008

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the first-in-first-out method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate. Un-invoiced research and development fully funded by customers is carried forward as work in progress.

Construction contracts

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable; and contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenue and expenses. The Company uses the percentage of completion method to determine the appropriate amount of revenue and costs to recognise in a given period. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

In determining costs incurred up to the year end, any costs relating to future activity on a contract are excluded and are shown as contract work in progress. The aggregate of the cost incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end.

Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from the customers on construction contracts, under receivables and prepayments. Where the progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under trade and other payables.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

- Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of certain non-current assets and derivative contracts, provisions for pensions and other post retirement benefits and tax losses carried

Notes to accounts (continued)
for the year ended 31 December 2008

forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

- Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor activities

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Lessee activities

Assets held under finance leases are recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets in which case they are capitalised in accordance with the Company's policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Notes to accounts (continued)
for the year ended 31 December 2008

Revenue recognition

Revenue represents the fair value of consideration received or receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Operating revenue from services provided are recognised insofar as the transaction has been completed on the balance sheet date.

Revenue from construction contracts is recognised in accordance with the company's accounting policy on construction contracts as previously detailed in this note.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Company's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being updated to each balance sheet date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Company's defined benefit obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The expected return on plan assets and the interest cost on scheme liabilities are included within financial income and expense in the income statement.

Notes to accounts (continued)
for the year ended 31 December 2008

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward contracts and options (see above for details of the Company's accounting policies in respect of such derivative financial instruments).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payments

Share options granted by the company's parent to its employees are accounted for in accordance with the requirements of IFRS 2.

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The Group uses a binomial model to measure the amount of the benefit to employees receiving the options granted. The fair value of such options is determined at the date of grant. The amounts thus obtained are taken to income statement over the vesting period of the rights. Recognition in the income statement is linear over the vesting period of each scheme. No expense is recognised for options that do not ultimately vest, with the exception of options where vesting is conditional upon a market condition.

This expense is included in income from operations and a corresponding credit is recognised increasing retained earnings. It thus has no effect on the overall amount of shareholders' funds.

Notes to accounts (continued)

for the year ended 31 December 2008

Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies

In the process of applying the Company's accounting policies management considers that it has not made any judgements that will have a significant effect on the amounts recognised on the financial statements apart from those involving estimations.

Key sources of estimation uncertainty

The Company has determined that the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, would not have a significant risk of causing a material adjustment of the carrying amounts of assets and liabilities within the next financial year.

Notes to accounts (continued)

for the year ended 31 December 2008

2 Revenue

An analysis of the Group's revenue is as follows:

	2008 £000	2007 £000
Sale of goods	17,440	10,301
Revenue from construction contracts	9,311	11,309
Services	8,455	7,586
Revenue per income statement	35,206	29,196
Investment income	505	504
Revenue as defined in IAS18	35,711	29,700

3 Profit from operations

Profit from operations is stated after charging/(crediting):

	2008 £000	2007 £000
Net foreign exchange losses	89	26
Research and development costs	1,329	1,001
Pension project savings	(618)	(1,389)
Depreciation of property, plant and equipment	458	326
Amortisation of internally generated intangible assets included in other operating expenses	233	19
Cost of inventories recognised as an expense	27,681	23,733
Staff costs (note 6)	9,676	10,913
Auditors' remuneration for audit services	64	52

Amounts payable to Ernst & Young LLP and their associates by the Company in respect of non-audit services were £2,000 (2007 - £1,500). This was for providing a certificate of sales for the Ministry of Defence.

Notes to accounts (continued)
for the year ended 31 December 2008

4 Investment Income

	2008 £000	2007 £000
Interest on bank deposits	505	504
	<u>505</u>	<u>504</u>

5 Other gains and losses

	2008 £000	2007 £000
Hedge ineffectiveness on cash flow hedges	-	-
	<u>-</u>	<u>-</u>

6 Staff costs

The average monthly number of employees (including executive directors) was:

	2008 Number	2007 Number
Programmes	19	20
Technical	76	85
Production and Materials	76	89
Sales, Commercial and Marketing	15	17
Management/Administration	31	31
	<u>217</u>	<u>242</u>

	2008 £000	2007 £000
Their aggregate remuneration comprised:		
Wages and salaries	8,248	8,785
Social security costs	884	980
Other pension costs (see note 18)	519	1,118
Share-based payment expense (see note 22)	25	30
	<u>9,676</u>	<u>10,913</u>

Notes to accounts (continued)
for the year ended 31 December 2008

Directors' Emoluments

Remuneration	2008	2007
	£000	£000
Emoluments	256	246
Total emoluments	256	246

The emoluments of directors disclosed above include the following amounts paid to the highest paid director

149	103
-----	-----

As at 31 December the following amounts relating to the highest paid director were accrued under a defined benefit pension scheme:

27	25
----	----

Accrued pension entitlement

	Number	Number
During the period the following number of directors:		
Accrued benefits under money purchase pension schemes	-	-
Accrued benefits under defined benefit pension schemes	2	3
Exercised share options	-	-
Received entitlement to shares under long term incentive schemes	-	-

Notes to accounts (continued)
for the year ended 31 December 2008

7 Income tax expense

	2008 £000	2007 £000
Current tax:		
UK Corporation tax	(202)	(344)
Adjustments in respect of prior years	(234)	9
Total current tax	<u>(436)</u>	<u>(335)</u>
Deferred tax		
Origination and reversal of temporary differences charge/(credit)	270	554
Adjustments in respect of prior years	-	-
Total deferred tax	<u>270</u>	<u>554</u>
Total tax charge / (credit) on profit on ordinary activities	<u>(166)</u>	<u>219</u>

Corporation tax is calculated at 28.5% (2007 - 30%) of the estimated assessable profit for the year.

With effect from 1 April 2008 the standard rate of UK Corporation tax has reduced from 30 per cent to 28 per cent. As a result, the current tax charge/(credit) for the period has been calculated at the weighted average rate of 28.5 per cent and the deferred tax balances have been calculated using a tax rate of 28 per cent.

The tax charge/(credit) for the year can be reconciled to the income statement as follows:

	2008 £000	2007 £000
Profit / (loss) on ordinary activities before tax	<u>2,205</u>	<u>1,755</u>
Profit / (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5%	628	527
Tax effect of:		
Expenses not deductible for tax purposes	(324)	29
Prior year adjustment to deferred tax	(227)	(399)
Difference between statutory tax rate and weighted average tax rate for the period	(9)	-
Adjustments to prior year (current tax)	(234)	9
Adjustments to prior year (deferred tax)	-	-
Deferred tax rate change impact	-	53
Total tax charge	<u>(166)</u>	<u>219</u>

Notes to accounts (continued)
for the year ended 31 December 2008

In addition to the amount charged to the income statement deferred tax has been charged directly to equity as detailed below;

	2008 £000	2007 £000
Net loss/(gain) on revaluation of cash flow hedges	(1,293)	51
Deferred tax expense reported in equity	(1,293)	51
	<hr/>	<hr/>

8 Dividends

	2008 £000	2007 £000
Amounts recognised as distributions to equity holders in the period		
- Final dividend for the year ended 31 December 2007 of £17,000 (2006 - £30,000) per share	-	1,700
- Interim dividend for the year ended 31 December 2008 of £20,000 per share	2,000	-
	<hr/>	<hr/>
Proposed final dividend for the year ended 31 December 2008 of nil.	-	-
	<hr/>	<hr/>

Notes to accounts (continued)
for the year ended 31 December 2008

9 Other intangible assets

	Patents & trademarks £000
Cost	
At 1 January 2007	-
Additions	1,165
At 31 December 2007	1,165
Additions	-
At 31 December 2008	1,165
Amortisation	
At 1 January 2007	-
Charge for the year	19
At 31 December 2007	19
Charge for the year	233
At 31 December 2008	252
Carrying amount	
At 31 December 2008	913
At 31 December 2007	1,146
At 1 January 2007	-

Patents and trademarks are amortised over their estimated useful lives, which is on average 5 years.

Notes to accounts (continued)
for the year ended 31 December 2008

10 Property, plant and equipment

	Leasehold Improvements £000	Plant and machinery £000	Fixtures & Fittings £000	Total £000
Cost or valuation				
At 1 January 2007	4,277	1,775	1,569	7,621
Additions	1,287	(41)	28	1,274
Disposals	-	(12)	-	(12)
At 31 December 2007	5,564	1,722	1,597	8,883
Additions	452	97	3	552
Disposals	(191)	-	-	(191)
At 31 December 2008	5,825	1,819	1,600	9,244
Accumulated depreciation and impairment				
At 1 January 2007	4,205	883	1,432	6,520
Charge for the year	31	269	26	326
Disposals	-	(12)	-	(12)
At 31 December 2007	4,236	1,140	1,458	6,834
Charge for the year	173	256	29	458
Disposals	(21)	-	-	(21)
At 31 December 2008	4,388	1,396	1,487	7,271
Carrying amount				
At 31 December 2008	1,437	423	113	1,973
At 31 December 2007	1,328	582	139	2,049
At 1 January 2007	72	892	137	1,101

Notes to accounts (continued)
for the year ended 31 December 2008

11 Inventories

	2008 £000	2007 £000
Raw materials and consumables	-	-
Work-in-progress	1,746	5,233
	<u>1,746</u>	<u>5,233</u>

12 Trade and other receivables

	2008 £000	Restated 2007 £000
Trade and other receivables:		
Amounts receivable from the sale of goods	12,881	6,996
Less: Provision for the impairment of receivables	-	-
Amounts receivable from the sale of goods - net	<u>12,881</u>	<u>6,996</u>
Amounts receivable from construction contract customers (note 13)	2,050	5,580
	<u>14,931</u>	<u>12,576</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

At 31 December the aged trade receivables analysis is as follows:

	Total	Neither past due nor impaired	Overdue less than 3 months	Overdue 3 to 6 months	Overdue more than 6 months
	£000	£000	£000	£000	£000
2008:					
Amounts receivable from the sale of goods	<u>12,881</u>	<u>9,321</u>	<u>3,458</u>	<u>102</u>	<u>-</u>
2007:					
Amounts receivable from the sale of goods	<u>6,996</u>	<u>6,491</u>	<u>505</u>	<u>-</u>	<u>-</u>

Notes to accounts (continued)
for the year ended 31 December 2008

13 Construction Contracts

	2008 £000	2007 £000
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in trade and other receivables	2,050	5,580
Amounts due to contract customers included in trade and other payables	(10)	(481)
	<u>2,040</u>	<u>5,099</u>
Contract costs incurred plus recognised profits less recognised losses to date	118,399	110,373
Less: progress billings	(116,359)	(105,274)
	<u>2,040</u>	<u>5,099</u>

At 31 December 2008, retentions held by customers for contract work amounted to £ Nil (2007: £Nil). Advances received from customers for contract work amounted to £1,447,000 (2007: £604,000)

At 31 December 2008, amounts of £ Nil (2007: £ Nil) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

14 Cash and cash equivalents

Bank balances and cash comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

15 Trade and other payables

	2008 £000	Restated 2007 £000
Trade creditors and accruals	14,530	14,790
Amounts due to construction contract customers (note 13)	10	481
	<u>14,540</u>	<u>15,271</u>

The directors consider that the carrying amount of trade payables approximates their fair value.

The average credit period taken for trade purchases is 33 days (2007: 28 days)

Notes to accounts (continued)
for the year ended 31 December 2008

16 Provisions

	Warranty/Loss £000
At 1 January 2008	1,592
Additional provision in the year	1,099
Utilisation of provision	(1,518)
At 31 December 2008	<u>1,173</u>
Included in current liabilities	1,173
Included in non-current liabilities	-
	<u>1,173</u>

The provision for post-sale rectification and support costs relates to anticipated costs to be borne by the company in respect of rectification and support of products already delivered to customers and will be utilised over 3 years. The balance of the provision represents future cost provision for existing contracts.

Notes to accounts (continued)
for the year ended 31 December 2008

17 Financial instruments

Fair value

Set out below is a comparison of the carrying amounts and fair value of all of the Company's financial instruments, including those classified under discontinued operations, that are carried in the financial statements.

	2008 Carrying amount £000	Fair value £000	2007 Carrying amount £000	Fair value £000
Financial Assets:				
Cash	11,371	11,371	10,241	10,241
Trade and other receivables	14,931	14,931	12,576	12,576
Derivative financial instruments	558	558	499	499
Financial Liabilities:				
Trade and other payables	14,540	14,540	15,271	15,271
Derivative financial instruments	5,761	5,761	228	228

All trade creditors will be paid within the next 3 months.

Currency derivatives

The Company utilises currency derivatives to hedge significant future transactions and cash flows. The Company is party to a number of foreign currency forward contracts and options in the management of its exchange rate exposures. The instruments are purchased internally from the Group treasury department in Paris and are primarily denominated in the currencies of the Company's principal markets. At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which the Company is committed are as follows:

	2008 £000	2007 £000
Forward foreign exchange contracts	18,868	22,161

In addition, the Company had options to sell currency of \$17,003,000 equivalent to an amount of approximately £9,827,000 as a hedge against exchange losses on future sale of goods. These arrangements are made with Thales treasury to cover the period between tender date and contract award.

At 31 December 2008, the fair value of the Company's currency derivatives is estimated to be approximately £(5,203,000) (2007: £271,000). These amounts are based on quoted market prices for equivalent instruments at the balance sheet date, comprising £558,000 assets (2007: £499,000) and £5,761,000 liabilities (2007: £228,000). The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £(4,346,000) (2007: £275,000) has been deferred in equity.

Notes to accounts (continued)
for the year ended 31 December 2008

The contractual maturity of the Company's derivatives is as follows:

	Timing of cash flows					Net carrying amount as shown in the balance sheet
	Within one year £000	Between one and two years £000	Between two and five years £000	More than five £000	£000	£000
At 31 December 2008						
Derivative assets:-						
Gross cash inflows	2,418	120	149	-	2,687	
Gross cash outflows	(2,418)	(120)	(149)	-	(2,687)	
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>558</u>
Derivative liabilities:-						
Gross cash inflows	15,261	921	-	-	16,182	
Gross cash outflows	(15,261)	(921)	-	-	(16,182)	
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,761</u>
At 31 December 2007						
Derivative assets:-						
Gross cash inflows	12,972	6,992	-	-	19,964	
Gross cash outflows	(12,972)	(6,992)	-	-	(19,964)	
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>499</u>
Derivative liabilities:-						
Gross cash inflows	1,389	560	248	-	2,197	
Gross cash outflows	(1,389)	(560)	(248)	-	(2,197)	
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>228</u>

Notes to accounts (continued)
for the year ended 31 December 2008

Maturity of financial liabilities

The contractual maturity of the Company's non-derivative financial liabilities is as follows:

	Timing of cash flows				£000
	Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000	
At 31 December 2008					
Trade creditors	5,379	-	-	-	5,379
Other payables	9,161	-	-	-	9,161
Derivative financial instruments	5,303	458	-	-	5,761
	<u>19,843</u>	<u>458</u>	<u>-</u>	<u>-</u>	<u>20,301</u>
At 31 December 2007					
Trade creditors	2,135	-	-	-	2,135
Other payables	13,136	-	-	-	13,136
Derivative financial instruments	79	149	-	-	228
	<u>15,350</u>	<u>149</u>	<u>-</u>	<u>-</u>	<u>15,499</u>

The Company's funding strategy is to ensure a mix of funding sources offering flexibility and cost effectiveness to match its requirements.

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and net assets as a result of market movements in foreign exchange and interest rates in relation to the Company's financial instruments.

The impact of the income due to changes in interest rates reflects the effect on the Company's cash and bank balances and overdrafts and loans.

	1% increase in interest rate £000	1% decrease in interest rate £000	10% weakening in sterling £000	10% strengthening in sterling £000
At 31 December 2007				
Impact on income statement gain/(loss)	102	(102)	-	-
Impact on equity increase/(decrease)	-	-	(1,262)	1,148
At 31 December 2008				
Impact on income statement gain/(loss)	114	(114)	-	-
Impact on equity increase/(decrease)	-	-	(1,548)	1,407

18 Retirement benefit schemes

The Thales Group operates a number of schemes within the UK for the benefit of employees. The schemes include both defined benefit schemes and defined contribution schemes. During 2007 and 2008, the Group undertook a pension project which merged 8 existing defined benefit schemes into a single scheme with 2 sections.

Defined contribution schemes

The total cost charge to income in relation to defined contribution schemes amounted to £144,000 (2007: £182,000) representing contributions payable to the schemes by the Company at rates specified in the rules of the plan.

Defined benefit schemes

The Thales Group operates 3 defined benefit schemes that provide benefits to eligible UK employees, namely the Thales UK Pension Scheme, the Thales Shared Cost Section of the Railways Pension Scheme and the Avimo Pension Scheme. The Company participates in Thales UK Pension. The Company's share of assets and liabilities in the scheme(s) are derived on a proportionate basis related to the cash contributions made. The management consider this the most appropriate basis of allocation.

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated balance sheet for the plan.

	2008 £000	2007 £000
Net benefit expense:		
Current service cost	(375)	(925)
Amortisation of scheme amendments	-	1,408
Total service charge	(375)	483
Interest cost	(1,603)	(1,704)
Expected return on plan assets	1,864	1,848
Amortisation of unrecognised gains & losses	2	(71)
Curtailement charge	-	-
Total charge	(112)	556
Actual return on plan assets	(3,437)	11

Notes to accounts (continued)
for the year ended 31 December 2008

	2008 £000	2007 £000
Benefit asset / (liability):		
Present value of defined obligations	(14,470)	(14,517)
Fair value of plan assets	11,833	15,379
Funded status	(2,637)	862
Unrecognised actuarial losses	4,195	(133)
Unrecognised scheme amendments	-	-
Net amount recognised	1,558	729

Changes in the present value of the defined benefit obligation are as follows:

Opening present value of obligations	(14,517)	(17,013)
Current service cost	(375)	(925)
Interest cost	(1,603)	(1,704)
Plan participants' contributions	(147)	(165)
Scheme amendments	-	929
Curtailments / Settlements	-	27
Actuarial gains/(losses) on obligation	980	3,074
Benefits paid	1,192	1,260
Closing present value of obligations	(14,470)	(14,517)

Changes in the fair value of Plan Assets are as follows:

Opening fair value of plan assets	15,379	15,453
Expected return on plan assets	1,864	1,848
Employers' contributions	936	1,011
Plan participants' contributions	147	165
Benefits paid	(1,192)	(1,260)
Actuarial gains (losses) on plan assets	(5,301)	(1,838)
Closing fair value of plan assets	11,833	15,379

The Thales Group expects to contribute £68m to its defined benefit pension plans in 2009.

Notes to accounts (continued)
for the year ended 31 December 2008

	Year ended 31 December 2008	Year ended 31 December 2007
The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:		
Equities	48%	60%
Bonds	50%	38%
Property	1%	1%
Cash	1%	1%

The overall expected rate of return on assets is determined based on market prices prevailing at that date, applicable to the period over which the obligation is to be settled. There has been a significant change in the expected rate of return on assets due to the improved stock market scenario.

The principal assumptions used in determining pension obligations for the Group's plans are shown below:

Discount rate	6.5%	6.3%
Expected rate of return on assets	6.4%	6.7%
Future salary increases	3.9%	4.4%
Future price inflation	2.9%	3.4%
Future pension increases	2.6%	3.2%

In determining the pension liabilities the Thales Group uses mortality assumptions which are based on published mortality tables. The actuarial table used is: Males – PMA92 medium cohort year of birth, with initial mortality rates increased by 16% Females – PFA92 medium cohort year of birth, with initial mortality rates increased by 35%

The measurement bases required by IAS19 are likely to give rise to significant fluctuations in the reported amounts of the defined benefit pension schemes assets and liabilities from year to year, and do not necessarily give rise to a change in the contributions payable into the schemes, which are recommended by the independent actuaries based on the expected long term rate of return on the schemes assets.

During 2007, the Thales Group undertook a pensions project that changed the structure of benefits for active members and offered other options to pensioners and deferred members. This resulted in reduced ongoing costs and a reduction of existing liabilities, which are shown as scheme amendments within the total service credit on page 39.

Notes to accounts (continued)
for the year ended 31 December 2008

Amounts for the current and previous four periods are as follows:

	2004	2005	2006	2007	2008
	£000	£000	£000	£000	£000
Defined benefit obligation	(6,260)	(7,159)	(17,013)	(14,517)	(14,470)
Plan assets	4,691	5,232	15,453	15,379	11,833
(Deficit)/surplus	(1,569)	(1,927)	(1,560)	862	(2,637)
Experience adjustments on plan assets	2,417	829	635	(1,838)	(5,301)
Experience adjustments on plan liabilities	-	-	-	(616)	(567)

Notes to accounts (continued)

for the year ended 31 December 2008

19 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting period.

Deferred Tax Asset	Capital allowances £'000	Retirement benefit obligations £'000	Revaluation of properties £'000	Cash flow hedges £'000	Tax losses £'000	Other £'000	Total £'000
As at 1 January 2007	1,000	224	-	-	-	70	1,294
Charged to income statement	(56)	(224)	-	-	-	(70)	(350)
As at 31 December 2007	944	-	-	-	-	-	944
Charged to income statement	(39)	-	-	-	1	-	(38)
Charged to equity	-	-	-	1,216	-	-	1,216
As at 31 December 2008	905	-	-	1,216	1	-	2,122

Deferred Tax Liability	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Revaluation of properties £'000	Cash flow hedges £'000	Deferred development costs £'000	Other £'000	Total £'000
As at 1 January 2007	-	-	-	(26)	-	-	(26)
Charged to income statement	-	(204)	-	-	-	-	(204)
Charged to equity	-	-	-	(51)	-	-	(51)
As at 31 December 2007	-	(204)	-	(77)	-	-	(281)
Charged to income statement	-	(232)	-	-	-	-	(232)
Charged to equity	-	-	-	77	-	-	77
As at 31 December 2008	-	(436)	-	-	-	-	(436)

Notes to accounts (continued)
for the year ended 31 December 2008

20 Share capital

	2008 £000	2007 £000
<i>Authorised</i>		
100 ordinary shares of £1.00 each	<u>100</u>	<u>100</u>
<i>Allotted, called-up and fully-paid</i>		
100 ordinary shares of £1.00 each	<u>100</u>	<u>100</u>

Capital management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2008 and 31 December 2007.

21 Reserves

	Capital reserve £000	Other reserve £000	Hedging reserve £000	Retained earnings £000	Total £000
At 1 January 2007	1,747	55	61	14,524	16,387
Share based payment	-	30	-	-	30
Deferred tax rate change	-	-	-	5	5
Total income and expense for the year recognised directly in equity	-	-	131	-	131
Retained profit for the year	-	-	-	1,536	1,536
Dividend paid in year	-	-	-	(1,700)	(1,700)
At 31 December 2007	<u>1,747</u>	<u>85</u>	<u>192</u>	<u>14,365</u>	<u>16,389</u>
At 1 January 2008	1,747	85	192	14,365	16,389
Share based payment	-	25	-	-	25
Total income and expense for the year recognised directly in equity	-	-	(3,321)	-	(3,321)
Retained profit for the year	-	-	-	2,371	2,371
Dividend paid in year	-	-	-	(2,000)	(2,000)
At 31 December 2008	<u>1,747</u>	<u>110</u>	<u>(3,129)</u>	<u>14,736</u>	<u>13,464</u>

Notes to accounts (continued)
for the year ended 31 December 2008

A capital reserve of £1,747,000 was granted in 1996 by the company's immediate parent company. It is to be held by the Company as a contribution to its permanent capital as a non-distributable reserve.

Other reserves are in respect of share-based payments.

Hedging reserves represent the cash flow hedge in equity in accordance with IAS 39.

22 Share based payments

The Group grants options in the shares of Thales SA to employees as part of an employee incentive program. All options granted under this program are equity-settled (if this is the case). Historically, these have been issued annually. At 31 December 2008, the following options were outstanding:

Type of arrangement	General employee share option plan	General employee share option plan	General employee share option plan	General employee share option plan	General employee share option plan	General employee share option plan
Date of grant	1 July 2003	1 July 2004	30 June 2005	9 November 2006	4 July 2007	1 July 2008
Number granted	5,900	4,850	4,750	5,300	520	1,970
Contractual life	10 years	10 years	10 years	10 years	10 years	10 years
Vesting conditions	Fully vested after 4 years	Fully vested after 4 years	Fully vested after 4 years	Fully vested after 4 years	Fully vested after 4 years	Fully vested after 4 years

The estimated fair value of each share option granted in the general employee share option plan is £5.22 (2007:£6.76)

This estimated fair value was calculated by applying a binomial option pricing model.

Notes to accounts (continued)
for the year ended 31 December 2008

	General employee share option plan	General employee share option plan	General employee share option plan	General employee share option plan	General employee share option plan	General employee share option plan
Date of grant	1 July 2003	1 July 2004	30 June 2005	9 November 2006	4 July 2007	1 July 2008
The model inputs were:						
Share price at grant date	€ 25.70	€ 29.50	€ 34.01	€ 36.47	€ 45.13	€ 35.72
Exercise price	€ 25.70	€ 29.50	€ 34.01	€ 36.47	€ 44.77	€ 38.50
Expected volatility*	34%	32%	30%	30%	20%	20%
Dividend rate	3.5%	3.5%	2.5%	2.5%	2.5%	2.5%
Risk-free interest rate	3.8%	4.4%	3.0%	3.0%	4.5%	4.5%
Expected rate of cancellation pre-vesting	2%	2%	2%	2%	2%	2%
Expected rate of departure post-vesting	3%	3%	3%	3%	3%	3%
Early exercise multiple	1.5	1.5	1.5	1.5	1.3	1.3

*Measured on the basis of a mix between historical and implicit volatility.

To allow for the effects of early exercise, it was assumed that the employees would exercise the options after vesting date when the share price was 1.3 times the exercise price.

In accordance with IFRS 2, the Group values the costs represented by options attributed to employees. The fair value of these options is determined at their respective attribution date. This amount is taken to profit and loss, spreading over the period of acquisition of benefits.

Notes to accounts (continued)
for the year ended 31 December 2008

Details of options outstanding during the year are presented below:

		2008		2007
	Number of	Weighted	Number of	Weighted
	options	average	options	average
		exercise price		exercise price
Outstanding at start of year	20,821	£23.21	20,800	£20.97
Granted	1,970	£30.90	520	£32.83
Exercised	(400)	£23.68	(499)	£20.54
Cancelled	(150)	£23.68	-	-
Outstanding at end of year	22,241	£25.93	20,821	£23.21
Exercisable at end of year	17,461	£24.84	14,666	£21.96

The weighted average share price at the date of exercise for share options exercised during the period was £31.54 (2007 £32.35). The options outstanding at 31 December 2008 had exercise prices in the range €25.70 to €44.77, and the weighted average remaining contractual life of 6.4 years (2007 7.0 years)

The expense arising from share and share option plans was £25,086 (2007 £30,019).

23 Operating lease arrangements

The Company as lessee

	2008	2007
	£000	£000
Minimum lease payments under operating leases charged to expense for the year	299	354

At the balance sheet date, the Company has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2008	2007
	£000	£000
- Within one year	187	182
- In the second to fifth years inclusive	145	284
	332	466

Operating lease payments represent rentals payable by the Company for vehicles and office machines. Leases are negotiated for an average term of 4 years and rentals are fixed for an average of 4 years.

Notes to accounts (continued)
for the year ended 31 December 2008

24 Events after the balance sheet date

There are no post-balance sheet events that materially affect the financial statements included in these statutory accounts.

25 Related party transactions

The immediate parent company is Thales UK Limited, 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.

Trading transactions

During the year, the Company entered into the following trading transactions with related parties:

	Sales of goods		Purchases of goods		Amounts owed by related parties		Amounts owed to related parties	
	2008	2007	2008	2007	2008	2007	2008	2007
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Parent company	-	-	2,150	2,393	24	-	391	255
Fellow subsidiaries	2,184	776	2,267	4,807	671	463	766	206
Key management personnel	-	-	-	-	-	-	-	-

Sales of goods to related parties were made at the Company's usual list prices. Purchases were made at market price discounted to reflect the quantity of goods purchased and the relationships between the parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:-

	2008	2007
	£000	£000
Short-term employee benefits	711	569
Post-employment benefits	153	136
	<u>864</u>	<u>705</u>