Thales Missile Electronics Limited

Annual report and accounts
for the year ended 31 December 2009

Registered number 3004769

Contents

Directors' report

The directors present their annual report and financial statements, together with the auditors' report, for the year ended 31 December 2009

Principal activities

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 and development programmes are concentrated on the continued evolution of its products, and are typically funded by government agencies

Business review

Revenue in 2009 showed an increase of 21% over the previous year, an increase of £7 4m 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

	2009	2008	2007	2006	2005
	£000	£000	£000	£000	£000
Turnover	42,581	35,206	29,196	43,328	41,407
Operating Profit	3,510	1,551	1,178	3,291	4,212
Profit after tax	2,302	2,371	1,536	3,635	2,824
Net assets	18,718	13,464	16,389	16,387	15,809
Number of employees (No)	230	217	242	257	263

In 2009 the company continued to invest in Research and Development with spend of £0 7m The directors expect the general level of activity to continue Future prospects are likely in both the domestic and export markets, particularly in the United States

Dividends

The directors do not recommend the payment of a dividend (2008 £20,000 per ordinary share)

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

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 44% of the Company's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst 98% 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 2009, the Company had hedged 99% of its foreign currency sales for which firm commitments existed at the balance sheet date, extending to October 2010

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

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

Going concern accounting basis

The Company's business activities, together with the factors likely to affect its future development , performance and position are set out in the business review on page 1 In addition, the notes to the accounts include the Company's objectives , policies and processes for managing its capital and details of its financial instruments and hedging activities The Company's financial risk management objectives and its exposures to credit and liquidity risk are set out in the preceding paragraphs

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the foreseeable future and therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements

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

Statement of Directors' responsibilities

Directors

The directors who served during the year were as follows

Name	Date of appointment	Date of resignation
P R Shore	26th April 2000	7th July 2009
J F Pernotte	19th December 1994	31st December 2009
S J Hill	1st September 2007	30th September 2009
P S Jones	1st September 2007	
M E Broughton	1st October 2009	
F J L Le Lay	7th September 2009	
D J Vincent	7th September 2009	

On 1st April 2010 A C K Cresswell and E A McCrone were appointed as directors of the company whilst M E Broughton, F J L Le Lay and D J Vincent resigned from the board

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 2009, 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 42 days (2008 - 33 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

Donations

During the period to 31 December 2009 charitable donations of £2,571 (2008 £ 2,681) 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

By order of the Board

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

P.S. Jones

Date 24th Sept 2010

P S Jones

Director

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors are required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are 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 auditor's 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 2009 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow, the Statement of Changes in Equity and the related notes 1-26 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view
Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Amin Mawji (Senior Statutory Auditor)
For and on behalf of **Ernst & Young LLP (Statutory Auditor)**

London
Date 29 September 2010

Statement of comprehensive income
for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Continuing operations			
Revenue	2	42,581	35,206
Cost of sales	3	(32,898)	(27,681)
Gross profit		9,683	7,525
Administration expenses		(5,916)	(5,792)
Restructuring costs		(257)	(182)
Profit from operations	3	3,510	1,551
Investment income	4	87	505
Other gains and losses	5	-	-
Finance costs	6	(553)	149
Profit before taxation		3,044	2,205
Income tax (expense)/credit	8	(742)	166
Profit for the period		2,302	2,371
Other comprehensive income			
Net movement on cash flow hedges		4,076	(4,615)
Tax on cash flow hedge		(1,147)	1,293
Other comprehensive income for the year net of tax		2,929	(3,322)
Total comprehensive income for the year net of tax		5,231	(951)

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

Statement of financial position
at 31 December 2009

	Note	2009 £000	2008 £000
ASSETS			
Non-current assets			
Other intangible assets	10	680	913
Other non-current financial assets	19	1,570	1,558
Property, plant & equipment	11	1,103	1,973
Deferred tax asset	20	1,097	1,686
		4,450	6,130
Current assets			
Inventories	12	2,462	1,746
Trade and other receivables	13	10,964	14,931
Current tax receivables		-	202
Cash and cash equivalents	15	17,049	11,371
Derivative financial instruments	18	97	558
		30,572	28,808
Total assets		35,022	34,938
LIABILITIES			
Current liabilities			
Trade and other payables	16	(13,536)	(14,540)
Provisions	17	(1,541)	(1,173)
Current tax payable		(824)	-
Derivative financial instruments	18	(403)	(5,761)
		(16,304)	(21,474)
Net current assets		14,268	7,334
Total liabilities		(16,304)	(21,474)
Net assets		18,718	13,464

Statement of comprehensive income
for the year ended 31 December 2009

	Note	2009 £000	2008 £000
EQUITY			
Share capital	21	-	-
Capital reserves	22	1,747	1,747
Other reserves	22	133	110
Hedging reserves	22	(200)	(3,129)
Retained earnings	22	17,038	14,736
Total equity		18,718	13,464

The accounts on pages 9 to 50 were approved by the board of directors and authorised for issue on 24th September 2010 They were signed on its behalf by

Director

P.S. Jones

P S Jones

The accompanying notes are an integral part of this statement of financial position

Statement of changes in equity
For the year ended 31 December 2009

	Share Capital £000	Share premium account £000	Other reserve £000	Hedging reserve £000	Retained earnings £000	Total £000
At 1 January 2008	-	-	1,832	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	-	-	1,857	(3,129)	14,736	13,464
At 1 January 2009	-	-	1,857	(3,129)	14,736	13,464
Share based payment	-	-	23	-	-	23
Total income and expense for the year recognised directly in equity	-	-	-	2,929	-	2,929
Retained profit for the year	-	-	-	-	2,302	2,302
At 31 December 2009	-	-	1,880	(200)	17,038	18,718

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 This has now been included in the "other" reserve

Other reserves are in respect of share-based payments plus the former capital reserve

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

Statement of cash flows

for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
OPERATING ACTIVITIES			
Profit from operations		3,510	1,551
Adjustments for,			
Depreciation of property, plant & equipment		341	458
Finance costs		(553)	149
Impairment costs		239	170
(Increase) in retirement benefit surplus		(12)	(808)
Amortisation of intangible assets		233	233
Increase/(Decrease) in provisions		368	(419)
Share-based payments		23	25
Operating cash flows before movement in working capital		4,149	1,359
(Increase)/Decrease in inventories		(716)	3,487
Construction contracts work-in-progress		1,772	3,059
Decrease)/(Increase) in receivables		2,285	(4,857)
(Decrease) in payables		(1,915)	(449)
Cash generated from operations		5,575	2,599
Income taxes (paid)/received		(274)	578
Net cash from operating activities		5,301	3,177
INVESTING ACTIVITIES			
Interest received		87	505
Purchases of property, plant and equipment		(119)	(552)
Proceeds on disposal of property, plant and equipment		409	-
Net cash used in investing activities		377	(47)
FINANCING ACTIVITIES			
Dividends paid		-	(2,000)
Net cash (used in)financing activities		-	(2,000)
Net increase in cash & cash equivalents		5,678	1,130
Cash & cash equivalents at beginning of year	15	11,371	10,241
Cash & cash equivalents at end of year	15	17,049	11,371

General Information
The address of the registered office is given on page 6 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

Going concern basis
After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Adoption of new and revised standards
The following new and amended International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) interpretations have been adopted in the financial statements,

- 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 7 Financial Instruments Disclosures – Amendments enhancing disclosures about fair value and liquidity risk – *Effective for periods beginning on or after 1 January 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 January 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*

- IFRIC 13 Customer loyalty programmes – *Effective for periods beginning on or after 1 July 2008*

- IFRIC 18 Transfers of assets from customers – *Effective for transfers received on or after 1 July 2009*

  The adoption of the above standards and interpretations has had no impact on the results or net assets of the Company other than as described below

New standards and interpretations not yet 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 – Revised and restructured – *Effective for annual periods beginning on or after 1 July 2009*

- IFRS 1 First-time adoption of International Financial Reporting Standards – Amendments relating to oil and gas assets and determining whether an arrangement contains a lease – *Effective for annual periods beginning on or after 1 January 2010*

- IFRS 2 Share-based payment – Amendments relating to group cash-settled share-based payment transactions – *Effective for annual periods beginning on or after 1 January 2010*

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

- IFRS 9 Financial instruments – Classification and measurement – *Effective for annual periods beginning on or after 1 January 2013*

- IAS 24 Related party disclosures – Revised definition of related parties – *Effective for annual periods beginning on or after 1 January 2011*

- 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 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 classification of rights issues – *Effective for annual periods beginning on or after 1 February 2010*

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

- IFRIC 17 Distributions of non-cash assets to owners - *Effective for annual periods beginning on or after 1 July 2009*

- IFRIC 19 Extinguishing financial liabilities with equity instruments – *Effective for annual periods beginning on or after 1 July 2010*

The Directors do not consider that the adoption of the amendments resulting from the April 2009 Annual Improvements project will result in a material impact on the financial information of the Company These amendments are effective for accounting periods beginning on or after 1 January 2010, with the exception of the amendments to IFRS 2 and IAS 38 which are 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

Property, plant and equipment

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
Buildings, 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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised

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

Impairment of property, plant and equipment and intangible assets excluding goodwill
At each statement of financial position 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 statement of financial income 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

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

Trade payables

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

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 are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and credited to the statement of comprehensive income 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

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

- Tax rates enacted or substantively enacted by the statement of financial position date are used to determine deferred income tax

- 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

- The carrying amount of the deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probably that future taxable profits will allow the deferred tax asset to be recovered

- 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 difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

- Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority

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 statement of financial position date

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

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 statement of financial position 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 statement of financial position 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 statement of comprehensive income

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 statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position 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 statement of financial position 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 the statement of comprehensive income over the vesting period of the rights Recognition in the statement of comprehensive income 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

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the Company to make estimates and assumptions that affect the application of policies and reported amounts Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances Actual results may differ from these estimates The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets recognised in the financial statements are listed below,

Deferred Tax Recognition

Deferred tax assets are recognised for all unused tax losses to the extent that it is probably that taxable profit will be available against which the losses can be utilised Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits Further details on deferred tax asset recognition are disclosed in Note 20

Post-retirement benefits

The determination of the pension cost and retirement benefit obligation of the Company's share of the Thales UK group's defined benefit pension schemes is dependent upon the selection of certain assumptions which include the discount rate, inflation rate, salary growth, mortality and expected return on scheme assets Differences arising from actual experiences will be reflected in future years

Long-term contracts

Long-term contract arrangements are accounted for in accordance with IAS 11 This requires judgements to estimate future expected costs to be incurred

Notes to accounts (continued)
for the year ended 31 December 2009

2 Revenue

An analysis of the Group's revenue is as follows

	2009 £000	2008 £000
Sale of goods	21,590	17,440
Revenue from construction contracts	8,490	9,311
Services	12,501	8,455
Revenue per income statement	42,581	35,206
Investment income	87	505
Revenue as defined in IAS18	42,668	35,711

3 Profit from operations

Profit from operations is stated after charging/(crediting)

	2009 £000	2008 £000
Net foreign exchange losses	77	89
Research and development costs	669	1,329
Pension project savings	-	(618)
Depreciation of property, plant and equipment	341	458
Amortisation of internally generated intangible assets included in other operating expenses	233	233
Cost of inventories recognised as an expense	32,898	27,681
Staff costs (note 7)	11,128	9,676
Auditors' remuneration for audit services	49	64

Amounts payable to Ernst & Young LLP and their associates by the Company in respect of non-audit services were £2,500 (2008 - £2,000) This was for providing a certificate of sales for the Ministry of Defence

Notes to accounts (continued)
for the year ended 31 December 2009

4 Investment Income

	2009 £000	2008 £000
Interest on bank deposits	87	505
	87	505

5 Other gains and losses

	2009 £000	2008 £000
Hedge ineffectiveness on cash flow hedges	-	-
	-	-

6 Finance costs

	2009 £000	2008 £000
Interest on pension fund liabilities (net)	(553)	149
Total borrowing costs	(553)	149

7 Staff costs

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

	2009 Number	2008 Number
Programmes	22	19
Technical	11	76
Production and Materials	145	76
Sales, Commercial and Marketing	18	15
Management/Administration	34	31
	230	217

	2009 £000	2008 £000
Their aggregate remuneration comprised		
Wages and salaries	9,052	8,248
Social security costs	966	884
Other pension costs (see note 19)	1,087	519
Share-based payment expense (see note 23)	23	25
	11,128	9,676

Directors' Emoluments

Remuneration	2009 £000	2008 £000
Emoluments	264	256
Total emoluments	264	256
The emoluments of directors disclosed above include the following amounts paid to the highest paid director	157	149
As at 31 December the following amounts relating to the highest paid director were accrued under a defined benefit pension scheme Accrued pension entitlement	30	27

	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	2
Exercised share options	-	-
Received entitlement to shares under long term incentive schemes	-	-

8 Income tax expense

	2009 £000	2008 £000
Current tax:		
UK Corporation tax	824	(202)
Adjustments in respect of prior years	476	(234)
Total current tax	1,300	(436)
Deferred tax		
Origination and reversal of temporary differences charge/(credit)	(558)	270
Total deferred tax	(558)	270
Total tax charge / (credit) on profit on ordinary activities	742	(166)

Corporation tax is calculated at 28% (2008 – 28 5%) of the estimated assessable profit for the year

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

	2009 £000	2008 £000
Profit on ordinary activities before tax	3,044	2,205
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28%	852	628
Tax effect of		
Expenses not deductible for tax purposes	21	25
R&D uplift	(212)	(349)
Prior year adjustment to deferred tax	-	(227)
Difference between statutory tax rate and weighted average tax rate for the period	-	(9)
Adjustments to prior year (current tax)	476	(234)
Adjustments to prior year (deferred tax)	(395)	-
Total tax charge	742	(166)

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

	2009 £000	2008 £000
Net loss/(gain) on revaluation of cash flow hedges	1,147	(1,293)
Deferred tax expense reported in equity	1,147	(1,293)

9 Dividends

	2009 £000	2008 £000
Amounts recognised as distributions to equity holders in the period		
- Final dividend for the year ended 31 December 2009 of Nil (2008 - £20,000) per share	-	2,000
Proposed final dividend for the year ended 31 December 2009 of nil	-	-

10 Other intangible assets

	Patents & trademarks £000
Cost	
At 1 January 2008	1,165
Additions	-
At 31 December 2008	1,165
Additions	-
At 31 December 2009	1,165
Amortisation	
At 1 January 2008	19
Charge for the year	233
At 31 December 2008	252
Charge for the year	233
At 31 December 2009	485
Carrying amount	
At 31 December 2009	680
At 31 December 2008	913
At 1 January 2008	1,146

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 2009

11 Property, plant and equipment

	Leasehold Improvements £000	Plant and machinery £000	Fixtures & Fittings £000	Total £000
Cost or valuation				
At 1 January 2008	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
Additions	95	7	17	119
Disposals	(607)	(176)	(141)	(924)
At 31 December 2009	5,313	1,650	1,476	8,439
Accumulated depreciation and impairment				
At 1 January 2008	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
Charge for the year	180	147	14	341
Disposals	(117)	(91)	(68)	(276)
At 31 December 2009	4,451	1,452	1,433	7,336
Carrying amount				
At 31 December 2009	862	198	43	1,103
At 31 December 2008	1,437	423	113	1,973
At 1 January 2008	1,328	582	139	2,049

During 2009 the company vacated part of Mountbatten House This resulted in a write-off of £239k for leasehold improvements previously capitalised

12 Inventories

	2009 £000	2008 £000
Work-in-progress	2,462	1,746
	2,462	1,746

13 Trade and other receivables

	2009 £000	2008 £000
Trade and other receivables		
Amounts receivable from the sale of goods	10,596	12,881
Less Provision for the impairment of receivables	-	-
Amounts receivable from the sale of goods - net	10,596	12,881
Amounts receivable from construction contract customers (note 14)	368	2,050
	10,964	14,931

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
2009					
Amounts receivable from the sale of goods	10,596	10,130	460	6	-
2008					
Amounts receivable from the sale of goods	12,881	9,321	3,458	102	-

14 Construction Contracts

	2009 £000	2008 £000
Contracts in progress at balance sheet date		
Amounts due from contract customers included in trade and other receivables	368	2,050
Amounts due to contract customers included in trade and other payables	(100)	(10)
	268	2,040

	2009 £000	2008 £000
Contract costs incurred plus recognised profits less recognised losses to date	125,001	118,399
Less progress billings	(121,733)	(116,359)
	268	2,040

At 31 December 2009, retentions held by customers for contract work amounted to £ Nil (2008 £Nil) Advances received from customers for contract work amounted to £5,709,000 (2008 £1,447,000)

At 31 December 2009 amounts of £ Nil (2008 £ Nil) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months

15 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

16 Trade and other payables

	2009 £000	2008 £000
Trade creditors and accruals	13,436	14,530
Amounts due to construction contract customers (note 14)	100	10
	13,536	14,540

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

The average credit period taken for trade purchases is 42 days (2008 33 days)

17 Provisions

	Warranty/Loss £000
At 1 January 2009	1,173
Additional provision in the year	1,394
Utilisation of provision	(1,026)
At 31 December 2009	1,541
Included in current liabilities	1,541
Included in non-current liabilities	-
	1,541

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

18 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

	2009 Carrying amount £000	Fair value £000	2008 Carrying amount £000	Fair value £000
Financial Assets				
Cash	17,049	17,049	11,371	11,371
Trade and other receivables	10,964	10,964	14,931	14,931
Derivative financial instruments	97	97	558	558
Financial Liabilities				
Trade and other payables	13,514	13,514	14,540	14,540
Derivative financial instruments	403	403	5,761	5,761

The carrying amount of the assets above represents the Company's maximum exposure to credit risk

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 statement of financial position date, the total notional amount of outstanding forward foreign exchange contracts to which the Company is committed are as follows

	2009 £000	2008 £000
Forward foreign exchange contracts	5,845	18,868

In addition, the Company had options to sell currency equivalent to an amount of approximately £1,785,000 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 2009, the fair value of the Company's currency derivatives is estimated to be approximately £(306,000) (2008 £(5,203,000)) These amounts are based on quoted market prices for equivalent instruments at the statement of financial position date, comprising £97,000 assets (2008 £558,000) and £403,000 liabilities

Notes to accounts (continued)

for the year ended 31 December 2009

(2008 £ 5,761,000) The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £(247,000) (2008 £(4,346,000)) has been deferred in equity

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

	Timing of cash flows					
	Within one year £000	Between one and two years £000	Between two and five years £000	More than five £000	Total £000	Net carrying amount as shown in the statement of financial position £000
At 31 December 2009						
Derivative assets -						
Gross cash inflows	4,785	291	-	-	5,076	
Gross cash outflows	(4,785)	(291)	-	-	(5,076)	
	-	-	-	-	-	97
Derivative liabilities -						
Gross cash inflows	562	206	-	-	768	
Gross cash outflows	(562)	(206)	-	-	(768)	
	-	-	-	-	-	403
At 31 December 2008						
Derivative assets -						
Gross cash inflows	2,418	120	149	-	2,687	
Gross cash outflows	(2,418)	(120)	(149)	-	(2,687)	
	-	-	-	-	-	558
Derivative liabilities -						
Gross cash inflows	15,261	921	-	-	16,182	
Gross cash outflows	(15,261)	(921)	-	-	(16,182)	
	-	-	-	-	-	5,761

Maturity of financial liabilities

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

	Timing of cash flows				
	Within one)	Between one and two years	Between two and five years	More than five	
	£000	£000	£000	£000	£000
At 31 December 2009					
Trade creditors	3,505	-	-	-	3,505
Other payables	10,031	-	-	-	10,031
Derivative financial instruments	398	5	-	-	403
	13,934	5	-	-	13,939
At 31 December 2008					
Trade creditors	5,379	-	-	-	5,379
Other payables	9,161	-	-	-	9,161
Derivative financial instruments	5,303	458	-	-	5,761
	19,843	458	-	-	20,301

Maturity of financial assets

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

	Timing of cash flows				
	Within one year	Between one and two years	Between two and five years	More than five	
	£000	£000	£000	£000	£000
At 31 December 2009					
Cash	17,049	-	-	-	17,049
Trade receivables	8,023	-	-	-	8,023
Other receivables	2,941	-	-	-	2,941
Derivative financial instruments	97	-	-	-	97
	28,110	-	-	-	28,110
At 31 December 2008					
Cash	11,371	-	-	-	11,371
Trade receivables	9,116	-	-	-	9,116
Other receivables	5,815	-	-	-	5,815
Derivative financial instruments	558	-	-	-	558
	26,860	-	-	-	26,860

The Company's funding strategy is to ensure a mix of funding sources offering flexibility and cost effectiveness to match it's 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 2008				
Impact on income statement gain/(loss)	114	(114)	-	-
Impact on equity increase/(decrease)	-	-	(1,548)	1,407
At 31 December 2009				
Impact on income statement gain/(loss)	136	(136)	-	-
Impact on equity increase/(decrease)	-	-	(388)	353

19 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 £172,000 (2008 £144,000) 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 Scheme The Company's share of assets and liabilities in the scheme is 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 Statement of comprehensive income and the funded status and amounts recognised in the statement of financial position for the plan

	2009 £000	2008 £000
Net benefit expense		
Current service cost	(366)	(375)
Total service charge	(366)	(375)
Interest cost	(1,372)	(1,603)
Expected return on plan assets	1,062	1,864
Amortisation of unrecognised gains & losses	(243)	2
Total charge	(919)	(112)
Actual return on plan assets	2,308	(3,437)

Notes to accounts (continued)
for the year ended 31 December 2009

	2009 £000	2008 £000
Benefit asset		
Present value of defined obligations	(17,568)	(14,470)
Fair value of plan assets	14,249	11,833
Funded status	(3,319)	(2,637)
Unrecognised actuarial losses	4,889	4,195
Net amount recognised	1,570	1,558

Changes in the present value of the defined benefit obligation are as follows		
Opening present value of obligations	(14,470)	(14,517)
Current service cost	(366)	(375)
Interest cost	(1,372)	(1,603)
Plan participants' contributions	(129)	(147)
Actuarial (losses)/gains on obligation	(2,129)	980
Benefits paid	898	1,192
Closing present value of obligations	(17,568)	(14,470)

Changes in the fair value of Plan Assets are as follows		
Opening fair value of plan assets	11,833	15,379
Expected return on plan assets	1,062	1,864
Employers' contributions	877	936
Plan participants' contributions	129	147
Benefits paid	(898)	(1,192)
Actuarial gains/(losses) on plan assets	1,246	(5,301)
Closing fair value of plan assets	14,249	11,833

The Thales Group expects to contribute £71m to its defined benefit pension plans in 2010

	Year ended 31 December 2009	Year ended 31 December 2008
The major categories of plan assets as a percentage of the fair value of total plan assets are as follows		
Equities	52%	48%
Gilts and corporate bonds	47%	50%
Property	1%	1%
Cash	0%	1%
The expected rates of return on each category of plan assets are as follows		
Equities	7 6%	7 0%
Gilts	4 1%	3 5%
Corporate bonds	5 0%	6 7%
Property	6 1%	5 5%
Cash	0 1%	1 6%

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	5 85%	6 5%
Expected rate of return on assets	6 3%	6 4%
Future salary increases	4 3%	3 9%
Future price inflation	3 3%	2 9%
Future 5% LPI pension increases	3 1%	2 7%
Future 2 5% LPI pension increases	2 3%	2 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

Notes to accounts (continued)
for the year ended 31 December 2009

A 0 5% point change in the assumed discount rate would have the following effects on the defined benefit obligations

	Year ended 31 December 2009
	£000
Increase	(152)
Decrease	171

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

Amounts for the current and previous four periods are as follows

	2005	2006	2007	2008	2009
	£000	£000	£000	£000	£000
Defined benefit obligation	(7,159)	(17,013)	(14,517)	(14,470)	(17,568)
Plan assets	5,232	15,453	15,379	11,833	14,249
(Deficit)/surplus	(1,927)	(1,560)	862	(2,637)	(3,319)
Experience adjustments on plan assets	829	635	(1,838)	(5,301)	1,246
Experience adjustments on plan liabilities	-	-	(616)	(567)	845

20 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 2008	944	-	-	-	-	-	944
Charged to statement of comprehensive income	(39)	-	-	-	1	-	(38)
Charged to equity	-	-	-	1,216	-	-	1,216
As at 31 December 2008	905	-	-	1,216	1	-	2,122
Charged to statement of comprehensive income	562	-	-	-	(1)	-	561
Charged to equity	-	-	-	(1,147)	-	-	(1,147)
As at 31 December 2009	1,467	-	-	69	-	-	1,536

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 2008	-	(204)	-	(77)	-	-	(281)
Charged to statement of comprehensive income	-	(232)	-	-	-	-	(232)
Charged to equity	-	-	-	77	-	-	77
As at 31 December 2008	-	(436)	-	-	-	-	(436)
Charged to statement of comprehensive income	-	(3)	-	-	-	-	(3)
Charged to equity	-	-	-			-	
As at 31 December 2009	-	(439)	-	-	-	-	(439)

21 Share capital

	2009	2008
Authorised		
100 ordinary shares of £1 00 each	100	100
Allotted, called-up and fully-paid		
100 ordinary shares of £1 00 each	100	100

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 2009 and 31 December 2008

22 Reserves

The figures previously disclosed here are now included in the statement of changes in equity

23 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 Historically, these have been issued annually At 31 December 2009, the following options were outstanding

Type of arrangement	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	25 June 2009
Number granted	5,900	4,850	4,750	5,300	520	1,970	2,610
Contractual life	All options are granted for a 10 year period						
Vesting conditions	Fully vested after 4 years						

The estimated fair value of each share option granted in the general employee share option plan is £6 08 (2008 £5 22)

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

Type of arrangement	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	25 June 2009
The model inputs were							
Share price at grant date	€ 25 70	€ 29 50	€ 34 01	€ 36 47	€ 45 13	€ 35 72	€ 31 93
Exercise price	€ 25 70	€ 29 50	€ 34 01	€ 36 47	€ 44 77	€ 38 50	€ 32 88
Expected volatility*	34%	32%	30%	30%	20%	20%	25%
Dividend rate	3 5%	3 5%	2 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%	3 9%
Expected rate of cancellation pre-vesting	2%	2%	2%	2%	2%	2%	2%
Expected rate of departure post-vesting	3%	3%	3%	3%	3%	3%	3%
Early exercise multiple	1 5	1 5	1 5	1 5	1 3	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 5 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

Details of options outstanding during the year are presented below

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at start of year	22,241	£25 93	20,821	£23 21
Granted	2,610	£28 42	1,970	£30 90
Exercised	(300)	£22 87	(400)	£23 68
Forfeited	12	£30 27	(150)	£23 68
Outstanding at end of year	24,563	£28 79	22,241	£25 93
Exercisable at end of year	20,041	£28 28	17,461	£24 84

The weighted average share price at the date of exercise for share options exercised during the period was £29 22 (2008 £31 54) The options outstanding at 31 December 2009 had exercise prices in the range €25 70 to €44 77, and the weighted average remaining contractual life of 5 8 years (2008 6 4 years)

The expense arising from share and share option plans was £23,192 (2008 £25,086)

24 Operating lease arrangements

The Company as lessee

	2009 £000	2008 £000
Minimum lease payments under operating leases charged to expense for the year	314	299

At the statement of financial income date, the Company has outstanding commitments under non-cancellable operating leases, which fall due as follows

	2009 £000	2008 £000
- Within one year	304	187
- In the second to fifth years inclusive	133	145
	437	332

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

25 Events after the reporting period

The following changes were announced in the UK Budget on 22 June 2010 (i) the full rate of corporation tax will reduce to 27% with effect from 1 April 2011, and will decrease by a further 1% each 1 April thereafter until reaching 24% with effect from 1 April 2014, (ii) the rate of annual writing down allowances on qualifying plant and machinery will reduce by 2%, to 18% for the general capital allowance pool and to 8% for the integral features pool, with effect from 1 April 2012 As this legislation was not substantially enacted by the balance sheet date, the figures within these accounts are calculated in accordance with the existing rates The impact of a 1% rate reduction on the deferred tax asset would be £39,000

26 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	
	2009	2008	2009	2008	2009	2008	2009	2008
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Parent company	-	-	3,046	2,150	13	24	74	391
Fellow subsidiaries	5,313	2,184	2,586	2,267	1,789	671	488	766
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 -

	2009	2008
	£000	£000
Short-term employee benefits	893	711
Post-employment benefits	58	153
	951	864