

**Thales Missile Electronics Limited**

Annual report and accounts  
for the year ended 31 December 2013

Registered number: **3004769**

TUESDAY



\*L3HI6T62\*

L14

30/09/2014

#62

COMPANIES HOUSE

## Contents

	Page
Strategic Report	1
Directors' Report	3
Directors' responsibilities	5
Independent auditor's report	6
Statement of comprehensive income	8
Statement of financial position	9
Statement of changes in equity	11
Statement of cash flows	12
Notes to accounts	13

## Strategic Report

The Directors present their Strategic Report which outlines the key issues which the Directors consider to be significant in relation to the Company's current and future activities.

### 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.

At the end of the financial year, the Company transferred all operating assets and liabilities to its immediate parent company, Thales UK Limited, along with the associated trading activities as part of a wider consolidation plan involving a number of fellow subsidiaries of Thales UK Limited. Consequently, it is intended that the on-going conduct of the transferred business will be managed and reported in the future by Thales UK Limited. The transfer of the business referred to above is described in further detail in the note 4 to these financial statements.

### Business review

Revenue this year is £29m (2012: £40m). The turnover tends to be cyclical depending on the stage of the contract (ie development/production stages). The business remains profitable throughout the latest financial year.

	2013	2012
	£000	£000
Turnover	29,007	39,925
Operating Profit	5,497	6,208
Profit after tax	6,655	4,769
Net Assets	5,607	31,071
	<u>          </u>	<u>          </u>
Number of Employees (No)	187	192

In 2013, the Company continued to invest in research and development with spend of £949,000 (2012: £718,000). In addition the Company has capitalised development costs of £334,000 which are recoverable against a business case. 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.

### Key Performance Indicators (KPI's)

Prior to the transfer of trading activity to Thales UK Limited, the Directors measured the performance of the Company against certain primary measures, notably the profitability of each major contract or group of similar activities which were managed in a similar manner and could therefore be aggregated for monitoring purposes. The performance of contracts and deliveries were also managed by tracking the evolution of cost over time and the progression of work undertaken against an ultimate delivery schedule. Certain activities were conducted on a Thales Group divisional basis, and this was also taken in to account in monitoring the performance of the business.

### Financial risk management objectives and policies

During the year the Company's principal financial instruments, other than derivatives, comprised cash and short-term deposits. The main purpose of these financial instruments was to raise finance for the Company's operations. The

## Strategic Report (continued)

Company had various other financial assets and liabilities such as trade receivables and trade payables, which arose directly from its operations.

The Company also entered into derivative transactions, in the form of forward currency contracts. The purpose was 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 were 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 2.

### Foreign currency risk

The Company also had transactional currency exposures. Such exposure arose from sales or purchases by the Company in currencies other than the unit's functional currency. Approximately 13% of the Company's sales were denominated in currencies other than the functional currency of the operating unit making the sale, whilst 1% of costs related to those sales were denominated in the unit's functional currency. The Company used forward currency contracts to eliminate the currency exposures on any individual transactions in excess of €100,000 for which payment was anticipated more than one month after the Company had 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 was the Company's policy not to enter into forward contracts until a firm commitment was in place.

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

### Credit risk

The Company's principal financial assets are receivables from its parent undertakings. The Company's maximum exposure to credit risk is the carrying amount detailed in note 14.

On behalf of the Board

  
G M E Blangueron

Director

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

26th September 2014:

## Directors Report

The Directors present their annual report and financial statements, together with the auditor's report, for the year ended 31 December 2013.

### Dividends

The Directors recommended the payment of a dividend of £32,000,000 (2012 - £Nil).

### Environmental information

The Thales Group in the UK has 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 reported 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

The Directors who served during the year were as follows:

A C K Cresswell (Resigned 1 April 2013)  
E A McCrorie (Resigned 1 October 2013)  
G M E Blanguernon (Appointed 1 September 2013)  
S M Boulton  
M E Broughton (Appointed 1 April 2013)

### 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.

### 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.

## Director's Report (continued)

### Donations

No political donations were made during the year (2012: £Nil).

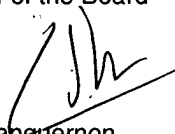
### Disclosure of information to the auditors

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 Directors have taken all the steps they are obliged to take as a Director in order to make themselves 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.

On behalf of the Board



G M E Blanguernon

Director

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

26th September 2014

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, 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 have elected 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 Company's financial position and financial performance.

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 2013 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 27. 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 5, 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 and express an opinion on 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.

In addition, we read the financial and non-financial information in the Strategic Report, the Directors' Report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing audit. If we become aware of any apparent material misstatements we consider the implications of our report.

### **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 2013 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the shareholders of Thales Missile Electronics Limited  
(continued)

**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.



J I Gordon (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP (Statutory Auditor)

London

29 September 2014

Statement of comprehensive income  
for the year ended 31 December 2013

	Note	2013 £000	2012 £000
<b>Continuing operations</b>			
Revenue	5	29,007	39,925
Cost of sales		(19,613)	(26,890)
<b>Gross profit</b>		9,394	13,035
Administrative expenses		(3,897)	(6,193)
Other Operating expenses		-	(634)
<b>Operating profit</b>		5,497	6,208
Finance income	7	1,090	215
Finance costs	8	-	(448)
<b>Profit before tax</b>		6,587	5,975
Income tax credit	10	68	(1,206)
<b>Profit for the year</b>		6,655	4,769
<b>Other comprehensive income for the year</b>			
<i>Items that may be reclassified into profit or loss</i>			
Movement on revaluation of cash flow hedges		(155)	192
Tax related to movement on revaluation of cash flow hedges		36	(45)
<b>Total other comprehensive income for the year</b>		(119)	147
<b>Total comprehensive income for the year net of tax attributable to the company</b>		6,536	4,916

All amounts disclosed above relate to discontinued activities following the transfer to Thales UK Limited on 31 December 2013.

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

Statement of financial position  
as at 31 December 2013

Company Registered Number: 3004769

	Note	2013 £000	2012 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant & equipment	12	-	1,195
Deferred tax asset	21	-	1,243
		<u>-</u>	<u>2,438</u>
<b>Current assets</b>			
Inventories	13	-	2,732
Trade and other receivables	14	5,607	7,201
Cash and cash equivalents	16	-	43,146
Derivative financial instruments	19	-	235
		<u>5,607</u>	<u>53,314</u>
<b>Total assets</b>		<u>5,607</u>	<u>55,752</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	-	(21,499)
Current tax liabilities		-	(2,000)
Provisions	18	-	(1,120)
Derivative financial instruments	19	-	(62)
		<u>-</u>	<u>(24,681)</u>
<b>Net current assets</b>		<u>5,607</u>	<u>28,633</u>
<b>Total liabilities</b>		<u>-</u>	<u>(24,681)</u>
<b>Net assets</b>		<u>5,607</u>	<u>31,071</u>
<b>EQUITY</b>			
Share capital	22	-	-
Capital reserves		1,901	1,747
Other reserves		-	154
Hedging reserves		-	119
Retained earnings		<u>3,706</u>	<u>29,051</u>
<b>Total equity</b>		<u>5,607</u>	<u>31,071</u>
<b>Total equity and liabilities</b>		<u>5,607</u>	<u>55,752</u>

Statement of financial position (continued)  
for the year ended 31 December 2013

Company Registered Number: 3004769

The accounts on pages 8 to 40 were approved by the board of directors and authorised for issue on 26th September 2014. They were signed on its behalf by:



G M E Blanguernon

Director

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

Statement of changes in equity  
for the year ended 31 December 2013

Attributable to equity holders of the Company

	Share capital £000 (Note 22)	Other reserves £000	Hedging reserves £000	Retained earnings £000	Total equity £000
<b>At 1 January 2012</b>	-	1,899	(28)	24,282	26,153
Profit for the year	-	-	-	4,769	4,769
Net movement on cash flow hedges	-	-	147	-	147
Total comprehensive income	-	-	147	4,769	4,916
Share options granted in the year	-	2	-	-	2
<b>At 31 December 2012</b>	-	1,901	119	29,051	31,071
Profit for the year	-	-	-	6,655	6,655
Net movement on cash flow hedges	-	-	(119)	-	(119)
Total comprehensive income	-	-	(119)	-	(119)
Dividends	-	-	-	(32,000)	(32,000)
<b>At 31 December 2013</b>	-	1,901	-	3,706	5,607

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 2013

	Notes	2013 £000	2012 £000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before tax from discontinued operations		6,587	5,975
Non-cash adjustments to reconcile profit before tax to net cash flows;			
Depreciation of property, plant & equipment	12	282	181
Finance income	7	(1,090)	(215)
Finance costs	8	-	448
Decrease in retirement benefit obligations	20	-	680
Increase/(decrease) in provisions	18	2,408	(2,251)
Share-based payments		-	2
Working capital adjustments:			
Decrease/(increase) in inventories	13	1,687	(550)
Increase in construction contracts work-in-progress	15	(22)	(590)
Decrease in receivables	14	1,905	3,318
Decrease in payables	17	(9,445)	(432)
		2,312	6,566
Income taxes paid		(1,823)	(1,205)
<b>Net cash from operating activities</b>		<b>489</b>	<b>5,361</b>
<b>INVESTING ACTIVITIES</b>			
Interest received	7	225	215
Purchases of property, plant and equipment	12	(181)	(195)
Purchases of intangible assets	11	(334)	-
Net cash transferred to Thales UK Limited		(11,345)	-
<b>Net cash used in investing activities</b>		<b>(11,635)</b>	<b>20</b>
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(32,000)	-
		(43,146)	5,381
<b>Net increase in cash &amp; cash equivalents</b>			
Cash & cash equivalents at beginning of year	16	43,146	37,765
Cash & cash equivalents at end of year	16	-	43,146

## Notes to accounts

for the year ended 31 December 2013

### 1. Corporate Information

The financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 26th September 2014. The Company is a limited company incorporated and domiciled in England & Wales. The address of the registered office is given on page 4. The nature of the Company's operations and principal activities are set out in the Strategic Report. Information on its ultimate parent is presented in note 27.

### 2. Accounting Policies

#### Basis of preparation

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 financial statements have been prepared on a historical cost basis (except for derivative financial instruments and available for sale financial assets that have been measured at fair value). The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The financial statements are presented in pounds sterling, the currency in which the majority of the Company's transactions are denominated, and all values are rounded to the nearest thousand, (£000), except when otherwise indicated.

The principal accounting policies adopted are set out below:

#### Going Concern Basis of Accounting

At the end of the financial year ended 31 December 2013, the Company transferred all operating assets and liabilities to its immediate parent company, Thales UK Limited, along with the associated trading activities as part of a wider consolidation plan involving a number of fellow subsidiaries of Thales UK Limited.

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

#### 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

## 2. Accounting Policies (continued)

### Intangible fixed assets (continued)

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

Land, buildings fixtures and equipment are stated at cost, 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 Improvements	10 years/ 10% per annum/term of lease
Plant and machinery	5 years/ 20% per annum
Fixtures & fittings	5 years/ 20% 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 statement of comprehensive income 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

At each reporting 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).

## **2. Accounting Policies (continued)**

### **Impairment of property, plant and equipment and intangible assets (continued)**

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 position 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.

#### **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.

#### **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.

### **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.

## 2. Accounting Policies (continued)

### 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.

## 2. Accounting Policies (continued)

### 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 statement of comprehensive income as the related expenditure is incurred.

### Research and development government credits

The Company claims research and development government credits in the UK. These are judged to have characteristics more akin to grants than income taxes and are offset against the relevant expenditure. Credits are recognised to the extent there is reasonable assurance they will be received.

### 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/technical milestone 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.

## 2. Accounting Policies (continued)

### Taxation

The tax charge comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity. Current tax is the expected tax payable on the profit for the year and any adjustments in respect of previous years using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised on an undiscounted basis using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax is provided using rates of tax that have been enacted or substantively enacted at the balance sheet date or the date that the temporary differences are expected to reverse. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### 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.

#### *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 statement of financial position 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.

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 reporting date.

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

## 2. Accounting Policies (continued)

### Revenue Recognition (continued)

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

### Retirement benefit costs

The Company participates in certain retirement benefit schemes which are managed by Thales UK Limited for the benefit of employees and former employees of the Thales Group in the UK.

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.

The Company participates in the Thales UK Pension Scheme (TUPS) which is a defined benefit retirement benefit scheme. The annual cost of contributions associated with employees who are members of this scheme is borne by the Company as an expense in the statement of comprehensive income and there is no impact retained in the statement of financial position. The impact for 2013 in these financial statements is shown in note 20.

Full details and disclosures of the Thales UK Pension Scheme are reported in the financial statements of Thales UK Limited.

### 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 reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting 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 (please refer to page 18 for details of the Company's accounting policies in respect of such derivative financial instruments).

### 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 reporting date, and are discounted to present value where the effect is material.

Notes to accounts (continued)  
for the year ended 31 December 2013

**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. Thales 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 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 probable 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 21.

*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 2013

**3. Application of new and revised International Financial Reporting Standards (IFRSs)**

**New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2013;

- Presentation of Financial Statements (IAS 1- amended)
- Fair Value Measurement (IFRS 13)
- Financial Instruments: Disclosure (IFRS 7 - amended)

**New standards issued but not yet effective**

Further standards have been issued but were not yet effective up to the date of the Company's financial statements. Following the transfer of the Company's assets and liabilities to Thales UK Limited on 31 December 2013, the Directors do not expect these future changes to affect the Company's financial statements.

**4. Business transfer**

On 31 December 2013, the Company participated in a plan to consolidate certain operating activities conducted by Thales Group subsidiaries in the UK into Thales UK Limited, a company which is also the immediate parent of the Company.

Under this plan, the Company transferred all operating assets and liabilities to Thales UK Limited, along with the associated trading activities (the Transfer). Consequently, it is intended that the on-going conduct of the transferred business will be managed and reported in the future by Thales UK Limited. In exchange for the net assets transferred, the Company recognised an amount receivable from Thales UK Limited. This amount represents the net book value of the separable net assets and liabilities transferred to Thales UK Limited.

The following table summarises the separable net assets and liabilities transferred to Thales UK Limited on 31 December 2013:

Notes to accounts (continued)  
for the year ended 31 December 2013

**Assets & liabilities transferred to Thales UK Limited at 31 December 2013**

	Note	2013 £000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Other intangible assets	11	334
Property, plant & equipment	12	1,094
Deferred tax asset	21	1,169
		<u>2,597</u>
<b>Current assets</b>		
Inventories		1,045
Trade and other receivables		5,476
Corporation tax receivables		249
Cash and cash equivalents		11,345
Derivative financial instruments		977
		<u>19,092</u>
<b>Total assets</b>		<u>21,689</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables		(12,450)
Provisions	18	(3,528)
Derivative financial instruments		(104)
<b>Total liabilities</b>		<u>(16,082)</u>
<b>Net assets transferred at 31 December 2013 to Thales UK Limited</b>		<u>5,607</u>
<b>Represented by amount receivable from Thales UK Limited</b>		<u>5,607</u>

Notes to accounts (continued)  
for the year ended 31 December 2013

**5. Revenue**

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

	2013 £000	2012 £000
Sale of goods	4,632	7,917
Revenue from construction contracts	12,370	10,208
Rendering of services	12,005	21,800
Revenue per statement of comprehensive income	29,007	39,925
Finance income	1,090	215
Revenue as defined in IAS18	30,097	40,140

**6. Operating profit**

Operating profit is stated after charging/(crediting):

	2013 £000	2012 £000
Net foreign exchange losses/(gains)	30	(6)
Research and development costs	949	718
Research and development tax credit	(249)	-
Operating lease expenses (note 25)	99	123
Cost of inventories recognised as an expense	19,862	26,890
Staff costs (note 9)	9,657	9,453
Warranty provisions	1,086	(131)
Auditors' remuneration - for audit services	40	40
- non-audit services	-	-

Notes to accounts (continued)  
for the year ended 31 December 2013

**7. Finance income**

	2013 £000	2012 £000
Interest on bank deposits	225	215
Hedging reserve charged to P & L	865	
	<u>1,090</u>	<u>215</u>

**8. Finance costs**

	2013 £000	2012 £000
Pension finance charge	-	(448)
Total finance costs	<u>-</u>	<u>(448)</u>

**9. Staff costs**

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

	2013 Number	2012 Number
Programmes	18	19
Technical	15	14
Production and Materials	122	124
Sales, Commercial and Marketing	12	12
Management/Administration	20	23
	<u>187</u>	<u>192</u>

	2013 £000	2012 £000
Their aggregate remuneration comprised:		
Wages and salaries	7,976	7,889
Social security costs	838	861
Post employment benefits costs (see note 20)	843	701
Share-based payment expense	-	2
	<u>9,657</u>	<u>9,453</u>

Notes to accounts (continued)  
for the year ended 31 December 2013

**9. Staff costs (continued)**

**Directors' remuneration**

Remuneration	2013 £000	2012 £000
Remuneration of directors	190	113
Pension scheme contributions	35	24

Number Number

During the period the following number of Directors:

Accrued benefits under Money Purchase schemes	2	-
Accrued benefits under Defined Benefit pension schemes	3	2
Exercised share options	3	0
Received entitlement to shares under long term incentive schemes	3	1

**10. Income tax expense**

	2013 £000	2012 £000
<b>Current tax:</b>		
UK Corporation tax	-	1,591
Adjustments in respect of prior years	(178)	(168)
<b>Total current tax</b>	<u>(178)</u>	<u>1,423</u>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	110	(217)
<b>Total deferred tax</b>	<u>110</u>	<u>(217)</u>
<b>Total tax charge/ (credit) for the year</b>	<u>(68)</u>	<u>1,206</u>

Notes to accounts (continued)  
for the year ended 31 December 2013

**10. Income tax expense (continued)**

The tax charge for the year can be reconciled to the statement of comprehensive income as follows:

	2013 £000	2012 £000
Profit before tax	<u>6,587</u>	<u>5,975</u>
Profit multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	1,531	1,464
Effects of:		
Expenses not deductible for tax purposes	7	8
Research & development tax credit	(57)	(202)
Deferred tax rate change impact movement	176	105
Adjustments to prior year (current tax)	(178)	(168)
Group relief received for nil payment	<u>(1,547)</u>	<u>-</u>
<b>Total tax charge for the year</b>	<u>(68)</u>	<u>1,206</u>

In addition to the amount charged/(credited) to the income statement, deferred tax has been charged/(credited) directly to equity as detailed below:

	2013 £000	2012 £000
Net (gain)/ loss on revaluation of cash flow hedges	<u>(36)</u>	<u>45</u>
<b>Deferred tax expense reported in equity</b>	<u>(36)</u>	<u>45</u>

The rate of corporation tax reduced from 26% to 24%, effective from 1 April 2012, and to 23%, effective from 1 April 2013. A reduction to 21%, effective from 1 April 2014 and a reduction to 20%, effective from 1 April 2015, were included in the Finance Act 2013, which was enacted on 17 July 2013. The deferred tax balances as at 31 December 2013 have been calculated at a rate of 20% as this is the rate at which deferred tax is expected to reverse.

Notes to accounts (continued)  
for the year ended 31 December 2013

**11. Intangible assets**

	Patents & trademarks £000
<b>Cost</b>	
At 1 January 2012	1,165
Additions	-
At 31 December 2012	1,165
Additions	334
Transfer to Thales UK Limited	(1,499)
At 31 December 2013	-
<b>Amortisation and Impairment</b>	
At 1 January 2012	1,165
Charge for the year	-
At 31 December 2012	1,165
Charge for the year	-
Transfer to Thales UK Limited	(1,165)
At 31 December 2013	-
<b>Carrying amount</b>	
At 31 December 2013	-
At 31 December 2012	-
At 1 January 2012	-

Notes to accounts (continued)  
for the year ended 31 December 2013

**12. Property, plant and equipment**

	Leasehold Improvements £000	Plant and machinery £000	Fixtures & Fittings £000	Total £000
<b>Cost or valuation</b>				
At 1 January 2012	4,732	2,472	1,485	8,689
Additions	-	195	-	195
At 31 December 2012	4,732	2,667	1,485	8,884
Additions	-	181	-	181
Transfer to Thales UK Limited	(4,732)	(2,848)	(1,485)	(9,065)
At 31 December 2013	-	-	-	-
<b>Accumulated depreciation and impairment</b>				
At 1 January 2012	4,437	1,627	1,444	7,508
Charge for the year	70	103	8	181
At 31 December 2012	4,507	1,730	1,452	7,689
Charge for the year	70	206	6	282
Transfer to Thales UK Limited	(4,577)	(1,936)	(1,458)	(7,971)
At 31 December 2013	-	-	-	-
<b>Carrying amount</b>				
At 31 December 2013	-	-	-	-
At 31 December 2012	225	937	33	1,195
At 1 January 2012	295	845	41	1,181

Notes to accounts (continued)  
for the year ended 31 December 2013

**13. Inventories**

	2013 £000	2012 £000
Work-in-progress	-	2,732
	<u>-</u>	<u>2,732</u>

**14. Trade and other receivables**

	2013 £000	2012 £000
Amounts receivable from the sale of goods	-	5,799
Amounts receivable from construction contract customers (note 15)	-	1,402
Amounts receivable from group undertakings	5,607	-
	<u>5,607</u>	<u>7,201</u>

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

	Total £000	Neither past due nor impaired £000	Overdue less than 3 months £000	Overdue 3 to 6 months £000	Overdue more than 6 months £000
2013:					
Amounts receivable from the sale of goods	<u>5,607</u>	<u>5,607</u>	<u>-</u>	<u>-</u>	<u>-</u>
2012:					
Amounts receivable from the sale of goods	<u>5,799</u>	<u>5,491</u>	<u>308</u>	<u>-</u>	<u>-</u>

No allowance has been made for bad debts in the year to 31 December 2013.

Notes to accounts (continued)  
for the year ended 31 December 2013

**15. Construction contracts**

	2013 £000	2012 £000
Contracts in progress at date of statement of financial position:		
Amounts due from contract customers included in trade and other receivables	-	1,402
Amounts due to contract customers included in trade and other payables	-	(240)
	<u>-</u>	<u>1,162</u>
Contract costs incurred plus recognised profits less recognised losses to date	-	145,496
Less: progress billings	-	(144,334)
	<u>-</u>	<u>1,162</u>

At 31 December 2013, retentions held by customers for contract work amounted to £nil (2012: £nil). Advances received from customers for contract work amounted to £nil (2012: £3,014,000).

**16. 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.

**17. Trade and other payables**

	2013 £000	2012 £000
Trade payables and accruals	-	21,259
Amounts due to construction contract customers (note 15)	-	240
	<u>-</u>	<u>21,499</u>

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

The average credit period taken for trade purchases is 56 days (2012: 53 days).

Notes to accounts (continued)  
for the year ended 31 December 2013

**18. Provisions**

	Warranty provisions £000	Future cost provisions £000	Total £000
<b>At 1 January 2013</b>	393	727	1,120
Additional provision in the year	1,086	1,322	2,408
Utilisation of provision	-	-	-
Transfer to Thales UK Limited	(1,479)	(2,049)	(3,528)
<b>At 31 December 2013</b>	-	-	-
			2012 £000
Included in current liabilities			1,120
			<u>1,120</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.

**19. Financial instruments**

**Categories of 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.

As at 31 December 2013 the Company held the following financial instruments measured at fair value:

	2013		2012	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
<b>Financial assets:</b>				
Cash	-	-	43,146	43,146
Trade and other receivables	5,607	5,607	7,201	7,201
Derivative financial instruments	-	-	235	235
<b>Financial liabilities:</b>				
Trade and other payables	-	-	21,499	21,499
Derivative financial instruments	-	-	62	62

Notes to accounts (continued)  
for the year ended 31 December 2013

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

**19. Financial instruments (continued)**

**Fair value hierarchy**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	Total at 31 December 2013 £000	Level 1 £000	Level 2 £000	Level 3 £000
<b>Assets measured at fair value</b>				
Foreign exchange contracts – hedged	-	-	-	-
<b>Liabilities measured at fair value</b>				
Foreign exchange contracts – hedged	-	-	-	-

	Total at 31 December 2012 £000	Level 1 £000	Level 2 £000	Level 3 £000
<b>Assets measured at fair value</b>				
Foreign exchange contracts – hedged	235	-	235	-
<b>Liabilities measured at fair value</b>				
Foreign exchange contracts – hedged	62	-	62	-

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

Notes to accounts (continued)  
for the year ended 31 December 2013

**19. Financial instruments (continued)**

	2013	2012
	£000	£000
Forward foreign exchange contracts:		
Euros	-	1,169
US Dollars	-	10,777
Swiss Francs	-	2,491

The Company had no options to sell currency as a hedge against exchange losses on future sale of goods and no options to purchase currency as a hedge against exchange losses on future purchases of goods. These arrangements are made with Thales treasury to cover the period between tender date and contract award.

At 31 December 2013, the Company had no currency derivatives (2012: £173,000). These amounts are based on quoted market prices for equivalent instruments at the date of the statement of financial position, comprising £nil assets (2012: £235,000) and £nil liabilities (2012: £62,000). The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £nil (2012: £155,000) has been deferred in equity.

The following table details the Company's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows and outflows on derivative instruments that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

	Timing of cash flows				Total £000	Net carrying amount in statement of financial position £000
	Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000		
<b>At 31 December</b>						
<b>2013</b>						
Derivative assets:-						
Gross cash inflows	-	-	-	-	-	
Gross cash outflows	-	-	-	-	-	
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Derivative liabilities:-						
Gross cash inflows	-	-	-	-	-	
Gross cash outflows	-	-	-	-	-	
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	

**19. Financial instruments (continued)**

**Derivative assets:-**

### Maturity of financial liabilities

	Timing of cash flows				
	Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000	Total £000
<b>At 31 December 2013</b>					
Trade payables	-	-	-	-	-
Other payables	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 31 December 2012</b>					
Trade payables	3,093	-	-	-	3,093
Other payables	18,406	-	-	-	18,406
	<u>21,499</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,499</u>

Notes to accounts (continued)  
for the year ended 31 December 2013

**19. Financial instruments (continued)**

**Maturity of financial assets**

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

	Timing of cash flows				Total £000
	Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000	
<b>At 31 December 2013</b>					
Cash	-	-	-	-	-
Trade receivables	-	-	-	-	-
Other receivables	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 31 December 2012</b>					
Cash	43,146	-	-	-	43,146
Trade receivables	3,834	-	-	-	3,834
Other receivables	3,367	-	-	-	3,367
	<u>50,347</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,347</u>
	<u>50,347</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,347</u>

## 19. Financial instruments (continued)

The Company has operated a funding strategy to ensure a mix of funding sources offering flexibility and cost effectiveness to match its requirements.

### Sensitivity analysis – foreign currency

In the period prior to the Transfer of the Company's business to Thales UK Limited, the Company was mainly exposed to the currency of the United States Dollars, Euros and Swiss Francs. The table below illustrates the estimated impact on the profit before tax and equity as a result of market movements in foreign exchange of 10% in relation to the Company's financial instruments. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit or equity where the CU strengthens 10% against the relevant currency. For a 10% weakening of the CU against the relevant currency, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	2013	2012
	£000	£000
Impact on profit before tax gain/(loss)	-	-
Impact on equity increase/ +10%	780	453
Impact on equity (decrease) -10%	(856)	(498)

### Sensitivity analysis – interest rates

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Company's:

1. Profit for the year ended 31 December 2013 would increase/decrease by £448,000 (2012: £430,000). This is mainly attributable to interest received on cash balances.
2. Other comprehensive income for the year would decrease/increase by £448,000 (2012: £430,000), mainly as a result of interest received on cash balances.

Notes to accounts (continued)  
for the year ended 31 December 2013

**20. Retirement benefit schemes**

The Thales Group operates a number of retirement benefit schemes within the UK for the benefit of employees and former employees of the Group. As indicated in the Accounting Policy (see Note 1), the full details of the Thales UK Pension Scheme, which is a defined benefit scheme, are reported in the financial statements of Thales UK Limited. The Company recognised the amounts described below in respect of its pension scheme obligations during the year. The schemes include both defined benefit schemes and defined contribution schemes.

**Defined contribution schemes**

The total cost charged to income in relation to defined contribution schemes amounted to £296,000 for 2013 (2012: £185,000) representing contributions payable to the schemes by the Company at rates specified in the rules of the plan.

**Defined benefit schemes**

The total cost charged to income in relation to defined benefit schemes amounted to £547,000 (2012: £516,000)

**21. 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.

<b>Deferred tax asset</b>	<b>Capital allowances £'000</b>	<b>Cash flow hedges £'000</b>	<b>Total £'000</b>
As at 1 January 2013	1,279	-	1,279
Deferred tax charged to the income statement	(110)	-	(110)
Deferred tax charged to equity	-	-	-
Transfer to Thales UK Limited	(1,169)	-	(1,169)
Deferred tax as at 31 December 2013	-	-	-

<b>Deferred tax liability</b>	<b>Cash flow hedges £'000</b>	<b>Total £'000</b>
Deferred tax liability as at 1 January 2013	(36)	-(36)
Deferred tax charged to the income statement	-	-
Deferred tax credited to equity	36	36
Deferred tax as at 31 December 2013	-	-

Notes to accounts (continued)  
for the year ended 31 December 2013

**21. Deferred tax (continued)**

**Net deferred tax asset/liability**

	2013 £000	2012 £000
Deferred tax asset	-	1,279
Deferred tax (liability)	-	(36)
Net Deferred tax asset	<u>-</u>	<u>1,243</u>

**22. Share capital**

	2013 £	2012 £
<i>Authorised</i>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
<i>Allotted, called-up and fully-paid</i>		
100 ordinary shares of £1 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 2013 and 31 December 2012.

**23. Hedging Reserve**

The cash flow hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

All hedging reserves at the point immediately prior to the Transfer were recognised in the Statement of Comprehensive Income.

Notes to accounts (continued)  
for the year ended 31 December 2013

**24. Capital commitments**

At 31 December 2013, there were no amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment.

**25. Operating lease arrangements**

**The Company as lessee**

	2013 £000	2012 £000
Minimum lease payments under operating leases charged to expense for the year	<u>99</u>	<u>123</u>

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

	2013 £000	2012 £000
- Within one year	-	18
- In the second to fifth years inclusive	<u>-</u>	<u>18</u>
	<u>-</u>	<u>36</u>

Operating lease payments represent rentals payable by the Company for certain of its office properties and cars. Leases are negotiated for an average term of 4 years and rentals are fixed for an average of 4 years.

The position identified above at 31 December 2013 forms part of the business transferred to Thales UK Limited.

**26. Events after the reporting period**

There were no significant events since the date of the statement of financial position.

## 27. 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	
	2013	2012	2013	2012	2013	2012	2013	2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Parent Company	-	-	8,132	4,482	5,607	-	-	76
Fellow subsidiaries	587	3,067	6,592	6,216	-	401	-	491

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.