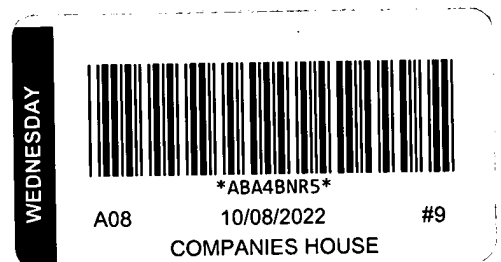


Thales Ground Transportation Systems Limited

Annual report and accounts
for the year ended 31 December 2021

Registered number: 03132438



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Company information

Registered number: 03132438

Directors

H L Depree
M Garrity
P Maynard
A Bell
J Jackson

Company Secretary

M W P Seabrook

Registered Office

350 Longwater Avenue
Green Park
Reading
Berkshire
RG2 6GF

Auditor

Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London
EC4M 7AU

Strategic report

For the year ended 31 December 2021

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.

Section 172(1) Statement

The Directors have taken account of the new reporting requirements as required by *The Companies (Miscellaneous Reporting) Regulations 2018* (the Regulations) which apply to companies which meet certain criteria in respect of reporting periods commencing on or after 1 January 2019. In this regard, the Directors consider that the Company is within the scope of the criteria which determine whether or not an entity is required to provide a Section 172(1) report in its annual report and financial statements on the basis that it meets the criterion of being a subsidiary of a company the shares of which are quoted on a regulated financial market (see note 28 for ultimate parent company details), and the Company meets the criteria to be classed as a Large Company under the Companies Act.

The relationship with the key stakeholders has been managed as follows:

Regular performance reviews are held with customers with which the Company has on-going contracts, and specific delivery requirements are reviewed as part of this process.

The Company maintains contact with its suppliers and major sub-contractors through a mixture of regular and ad-hoc reviews to monitor progress and identify issues relating to its projects.

In a similar way, monthly reviews are held with the senior management of Thales UK Ltd, the Company's shareholder, to identify any issues and to report the performance of the Company.

Employees are regularly engaged through a combination of team briefings and individual consultations.

The Directors carry out their statutory duties under Section 172 of The Companies Act 2006 to promote the interests of the Company in accordance with the Corporate Governance arrangements of Thales UK Group, and in this regard, minutes of statutory meetings and key decisions of the Directors are recorded and retained by the Company Secretary.

Key decisions taken by the Board in 2021 are set out below.

During the year the Board affirmed the plan to acquire the assets, liabilities and trading activities of its subsidiary company, Thales GTS UK Limited.

Accordingly, on 31 August 2021, the Company completed the acquisition of the assets, liabilities and trade of Thales GTS UK Limited. The acquisition price was £15,199,000, based on the book value of the net assets and liabilities acquired at the date of the transaction. Following the acquisition, the Company impaired the carrying value of its investment in Thales GTS UK Limited by £20,000,000 (Note 12) to recognise the reduction in the amount now recoverable in relation to this investment.

Additionally, on 31 August 2021, in preparation for the acquisition, the Company issued 30,000,000 new ordinary shares of £1 each fully paid to its parent company, Thales UK Limited, to further strengthen its balance sheet (Note 25).

Strategic report (continued)

For the year ended 31 December 2021

Business review and future developments

Revenue for the year was £120.4m (2020: £82.9m) including £26.5m of revenue generated by the activities acquired by the Company from Thales GTS UK Limited on 31 August 2021 (Note 4). Gross margin in the year was £24.5m (2020: £14.3m) boosted by improved trading and £0.6m from the acquired business activities. A loss after tax was reported for the year of £13.4m (2020: Loss after tax £6.8m), which was impacted by the £20m impairment charge recognised in relation to the Company's investment in Thales GTS UK Limited as a result of the acquisition on 31 August 2021 (Note 12).

The Company's key financial and other performance indicators during the year were as follows:

	2021*	2020	2019	2018	2017	2016
	£000	£000	£000	£000	£000	£000
Revenue	120,431	82,874	77,570	72,150	68,595	72,358
(Loss) / Profit after tax	(13,421)	(6,819)	7,380	(1,454)	11,665	(947)
Total shareholders' funds / (deficit)	53,071	(8,012)	(56,136)	(36,489)	(44,082)	(94,647)
Average headcount	478	394	462	528	541	606

Note* 2021 figures above include activity from 1 September 2021 in relation to the acquisition by the Company on 31 August 2021 of the assets, liabilities and trade of its subsidiary, Thales GTS UK Limited (Note 4).

Research and development activities

The Company undertakes research and development in the technologies it currently deploys for customers as well as technologies which it considers may be beneficial in delivering future transportation communication and control solutions for customers. During the year, the Company incurred total research and development expenditure of £1.8m (2020: £3.4m).

Future developments

The Board is focusing on developing opportunities in existing and related markets for the merged business.

On 4 August 2021, Thales SA, the Company's ultimate parent, made a press release stating that:

"Thales (Euronext Paris: HO) and Hitachi Rail announce today that they are entering into exclusive negotiations on the sale of Thales's Ground Transportation Systems Global Business Unit ("Ground Transportation Systems" or "GTS")."

The press release added that

"The completion of the transaction will require the carve-out of the business in several countries, and is subject to usual conditions including regulatory and antitrust clearances. It is expected to close by the end of calendar year 2022 / early in calendar year 2023."

The full press release is available at the following address:

<https://www.thalesgroup.com/en/group/journalist/press-release/thales-enters-agreement-view-selling-its-ground-transportation>

Strategic report (continued)

For the year ended 31 December 2021

From an operational perspective, the time during which the Group negotiations and discussions with Hitachi and other stakeholders are held will remain a period of focus on business as usual for the Company to deliver on the business' existing and on-going commitments, to Customers, Thales Group, Employees and other stakeholders.

Post balance sheet events

On 10 February 2022, Thales SA and Hitachi signed the legally binding Sale and Purchase agreement to transfer ownership of the Thales GTS business to Hitachi with the intention that the transaction will close by the end of 2022, once approvals are obtained from all the regulatory authorities.

On 24 February 2022, Russia launched an invasion of Ukraine, which has led to an on-going military conflict between the two countries. In response to this action by Russia, the UK Government and many other national governments have imposed specific sanctions on Russia and Belarus, and on a number of individuals, which, inter alia, prevent certain trading and other business activities with Russia, Belarus, and the sanctioned individuals in the current circumstances.

In this regard, the Company has reviewed its operations to confirm that it has in place the necessary controls to ensure compliance with the UK Government sanctions. Additionally, the Company has assessed the potential impact on its operational activities due to these sanctions and considers that any changes resulting from compliance with these sanctions are likely to have a minimal impact on its operational activities, taking due account of mitigation actions where appropriate.

COVID-19 risk

The Directors have noted the on-going nature of the health crisis which has been caused by the COVID-19 pandemic since early 2020. Whilst it is clear that COVID-19 continued to have a significant impact for many people and organisations across the world in 2021, and continues to have an impact in 2022, the Directors consider the potential risk impacts for the Company are significantly limited by the measures the Company has taken to ensure that all office and operational sites remain as safe as possible with specific actions in place to minimise the risk of COVID-19 infections on site.

Financial risk management objectives and policies

The Company's principal financial instruments, other than derivatives, comprise bank loans and overdrafts when required, and cash and short-term deposits. The main purpose of these financial instruments is to ensure the provision and management of funding 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.

Strategic report (continued)

For the year ended 31 December 2021

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 2.

Foreign currency risk

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 forecast transactions. 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.

Credit risk

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

Approved by the Board on 4 August 2022 and signed on its behalf by



J Jackson, Director

350 Longwater Avenue
Green Park
Reading
Berkshire
RG2 6GF

Directors' report

For the year ended 31 December 2021

The Directors present their annual report and financial statements, together with the auditor's report, for the year ended 31 December 2021.

Matters covered in the Strategic Report

As permitted by paragraph 1A of Schedule 7 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic report on pages 2 - 5. These matters relate to the review and analysis of the business, development and financial performance, future prospects, research and development, post balance sheet events, and principal risks and uncertainties.

Principal activities

The principal activities of the Company continued to comprise the provision of project, installation and maintenance services associated with telecommunications equipment, along with information and control systems, and data management systems, principally within the UK rail market and highway market.

Dividends

The Directors do not recommend the payment of a dividend (2020: £nil).

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 Strategic Report on pages 2- 5. In addition, the notes to the financial statements 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 financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has sufficient resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered future projections of profitability, liquidity, nature of long term contracts with a number of customers, suppliers and the wider economy.

Therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' report (continued)
For the year ended 31 December 2021

Directors

The Directors who served during the year were as follows:

H L Depree
M Garrity
P Maynard
A Bell
J Jackson

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 2021, based on the aggregate of the amounts that were owed to trade payables at that date and the aggregate of the amounts that the Company was invoiced by suppliers during the year, amounted to 10 days (2020: 20 days).

Employee matters

People are the Company's greatest assets. 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.

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 that may be experienced by the disabled and takes account sympathetically of individual circumstances.

Employee consultation

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

Directors' report (continued)

For the year ended 31 December 2021

Environmental information

Thales UK operates a comprehensive environmental policy complying with legislation, standards and best practice. We operate in a way that seeks to protect the environment, preserve biodiversity and respect natural sites. We are reducing our footprint by minimising our resources, seeking less environmentally harmful alternatives where we can, recycling and preventing pollution wherever possible. In addition, we monitor power and water consumption on all our sites and have programmes in place to reduce consumption, as well as CO2 emissions, and move to a more sustainable business in line with the UN sustainable development goals.

The Company respects environmental legislation and standards applicable in the UK, and contributes towards the Thales Group strategy for a low carbon future. Further details of the Thales Group strategy for a low-carbon future can be found at the following address:

<https://www.thalesgroup.com/en/global/corporate-responsibility/environment/strategy-low-carbon-future>

In this strategic report the Company has provided certain information regarding energy use and emissions which is required to be reported by large UK companies under legislation introduced in 2019 by the Department for Business, Energy and Industrial Strategy (BEIS), titled the *Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018* which came into force on 1 April 2019, and apply to reporting periods commencing on or after that date. The reporting obligations introduced under this legislation, generally referred to as the Streamlined Energy and Carbon Reporting (SECR) require large UK companies to disclose for the reporting period certain energy use and Greenhouse (GHG) gas emissions, along with the methodology applied in calculating emissions as well as stating energy efficiency measures taken in the year.

The mandatory disclosures comprise:

Scope 1 - Direct emissions

Fuel use from transport (where the journey begins or ends in the UK); and
Combustion of natural gas

And

Scope 2 - Indirect emissions

Electricity purchased and used for operations (not including energy sold on)

Voluntary disclosures comprise:

Wider scope 1 emissions - including other fuel use, refrigerants & manufacturing emissions

Scope 3 emissions - upstream and downstream energy use

Directors' report (continued)

For the year ended 31 December 2021

The following table states the emissions of the Company as required by the mandatory disclosures, stating emissions in tonnes of CO₂ and CO₂ per full time employee (FTE).

	2021	Year on year change (%)	2020
Scope 1 – Direct Emissions – Tonnes CO ₂	573.7	142.5%	236.6
Scope 2 – Indirect Emissions – Tonnes CO ₂	-	-100.0%	43.7
Total Scope 1 & 2 – Tonnes CO₂	573.7	104.7%	280.3
Intensity of Emissions - Total Scope 1 & 2 – Tonnes CO₂/FTE	1.20	68.7%	0.71
FTE (Note 9)	478	21.3%	394

As indicated in the table above, the Company's total emissions in Tonnes CO₂ increased in the year from 280.3 Tonnes CO₂ to 573.7 Tonnes CO₂. Emissions per FTE increased in the year to 1.20 Tonnes CO₂/FTE from 0.71 Tonnes CO₂/FTE, an increase of 68.7% year on year.

As described in the strategic report, on 31 August 2021 the Company completed the acquisition of the assets, liabilities and trade of its subsidiary Thales GTS UK Limited. The above emissions therefore incorporate 4 months of operations pertaining to the acquired trade, as well as the increase to average FTE.

The main reasons for the increase in Scope 1 & reduction in Scope 2 GHG emissions are summarised below:

Scope 1 – Following the disruption to normal operations in 2020 during the COVID-19 pandemic, there was a return to normal ways of working during 2021. This resulted in an increase in company car travel, and therefore, this has resulted in an increase in Scope 1 CO₂ emissions.

Scope 2 – The Company negotiated electricity supplies from a certified renewable energy source to meet its full demand. The renewable energy contract was implemented on 1st September 2020, and therefore all electricity consumed during 2021 was from renewable sources.

Directors' report (continued)

For the year ended 31 December 2021

Energy Efficiency Measures

Thales UK has initiated a Carbon Net Zero Plan, setting out the areas of focus for energy efficiency with the objective of reaching Net Zero carbon emissions by 2030. The initial target contained in the plan, of reducing Scope 1 & 2 GHG emissions by 25% for 2023 compared with the baseline year of 2018 has now been achieved and surpassed.

Further reductions will be achieved by transitioning the Company's car fleet to zero emissions by 2026 and its light commercial vehicle fleet by 2030.

Further, in the first half of 2021, we conducted detailed energy surveys at our major sites and have identified significant opportunities to reduce energy consumption and reduce CO2 output. The major initiative stemming from this survey is to replace existing gas boilers with air/ground source heat pumps. Coupled with other measures, this will enable the Company to achieve its net zero target from Scope 1 emissions.

The Company's Carbon Net Zero Plan continues to be a dynamic and evolving plan, and it is anticipated that further measures will be identified to improve our overall energy efficiency and carbon impact as the plan out to 2030 matures.

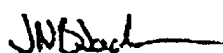
Disclosure of information to the auditors

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 Directors 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 Mazars LLP will therefore continue in office.

Approved by the Board on 4 August 2022 and signed on its behalf by



J Jackson, Director
350 Longwater Avenue
Green Park
Reading
Berkshire
RG2 6GF

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK 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 the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 members of Thales Ground Transportation Systems Limited

Opinion

We have audited the financial statements of Thales Ground Transportation Systems Limited ('the Company') for the year ended 31 December 2021 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Thales Ground Transportation Systems Limited

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to the UK tax legislation, Environmental Law - Streamlined Energy and Carbon Reporting (SECR) anti-bribery, corruption and fraud, money laundering, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements, such as the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates.

Independent auditor's report to the members of Thales Ground Transportation Systems Limited

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

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.



Robert Neate (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London
EC4M 7AU

4 August 2022

Statement of total comprehensive income
for the year ended 31 December 2021

	Note	2021* £000	2020 £000
Continuing operations			
Revenue	5	120,431	82,874
Cost of sales		(95,887)	(68,581)
Gross profit		24,544	14,293
Investment income	7	2,881	749
Impairment of investments	12 / 13	(22,068)	(212)
Administrative expenses		(2,409)	(1,657)
Other expenses		(12,899)	(10,895)
Pension cost	9	(3,410)	(3,051)
Finance cost	8	(2,176)	(2,988)
Loss on ordinary activities before taxation	6	(15,537)	(3,761)
Tax credit / (charge)	11	2,116	(3,058)
Loss for the financial year		(13,421)	(6,819)
Other comprehensive income:			
Items that cannot be reclassified to profit or loss			
Re-measurement gain / (loss) on defined benefit pension plan		44,400	(64,982)
		44,400	(64,982)
Items that can be reclassified to profit or loss			
Net movement on cash flow hedges		104	(75)
Other comprehensive income / (loss) for the year net of tax		44,504	(65,057)
Total comprehensive income / (loss) for the year		31,083	(71,876)

All operations are classed as continuing.

Note* 2021 figures above include activity from 1 September 2021 in relation to the acquisition by the Company on 31 August 2021 of the assets, liabilities and trade of its subsidiary, Thales GTS UK Limited (Note 4).

The notes on pages 19 to 56 form an integral part of these financial statements.

Statement of financial position
at 31 December 2021

Company registered number: 03132438

	Note	2021 £000	2020 £000
ASSETS			
Fixed assets			
Investments	12	14,304	34,304
Other non-current financial assets	13	1,247	3,315
Intangible development costs	14	253	749
Tangible assets	15	3,718	3,072
Deferred tax asset	24	6,438	2,899
		<u>25,960</u>	<u>44,339</u>
Current assets			
Stock	16	2,153	2,437
Trade and other debtors	17	45,890	27,894
Derivative financial instruments		24	-
Cash and cash equivalents	18	205,483	141,159
		<u>253,550</u>	<u>171,490</u>
Total assets		<u>279,510</u>	<u>215,829</u>
EQUITY AND LIABILITIES			
Share capital	25	229,650	199,650
Cash flow Hedge		29	(75)
Pension reserve	23	(142,800)	(187,200)
Retained earnings		(33,808)	(20,387)
SHAREHOLDERS' EQUITY / (DEFICIT)		<u>53,071</u>	<u>(8,012)</u>
Non-current liabilities			
Amounts due under finance leases after one year	20	2,432	2,187
Long term borrowings	19	27,000	27,000
Retirement benefit obligation	23	108,800	152,700
		<u>138,232</u>	<u>181,887</u>


Statement of financial position (continued)
at 31 December 2021

Company registered number: 03132438

	Note	2021	2020
		£000	£000
Current liabilities			
Trade and other creditors	19	20,500	18,657
Amounts due under finance leases within one year	20	973	944
Provisions	21	2,353	3,747
Other liabilities	22	64,381	18,606
		<u>88,207</u>	<u>41,954</u>
Total equity and liabilities		<u>279,510</u>	<u>215,829</u>

The notes on pages 19 to 56 form an integral part of these financial statements.

The accounts on pages 15 to 56 were approved by the board of Directors and authorised for issue on 4 August 2022. They were signed on its behalf by:



J Jackson, Director

Statement of changes in equity
at 31 December 2021

	Share Capital £000	Pension Reserve £000	Other components of equity £000	Retained Earnings £000	Total £000
At 1 January 2020	79,650	(122,218)	-	(13,568)	(56,136)
Loss for the year	-	-	-	(6,819)	(6,819)
Income tax relating to the components of other comprehensive income	-	-	-	-	-
Cash flow hedges net movement	-	-	(75)	-	(75)
Pension experience losses	-	(64,982)	-	-	(64,982)
Total comprehensive loss	-	(64,982)	(75)	(6,819)	(71,876)
Issue of new share capital (note 25)	120,000	-	-	-	120,000
At 31 December 2020	199,650	(187,200)	(75)	(20,387)	(8,012)
Loss for the year	-	-	-	(13,421)	(13,421)
Income tax relating to the components of other comprehensive income	-	-	(10)	-	(10)
Cash flow hedges net movement	-	-	114	-	114
Pension experience gains	-	44,400	-	-	44,400
Total comprehensive income / (loss)	-	44,400	104	(13,421)	31,083
Issue of new share capital (note 25)	30,000	-	-	-	30,000
At 31 December 2021	229,650	(142,800)	29	(33,808)	53,071

The Pension reserve relates to the deficit on the Company's defined benefit pension scheme and reflects the net obligation at 31 December and the attributable accumulated actuarial gains and losses in accordance with the Company's actuary's assessment of the assets and obligations of the scheme.

Retained earnings include all current and prior period retained profits and losses.

The notes on pages 19 to 56 form an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2021

1. Corporate Information

Thales Ground Transportation Systems Limited is a private company limited by shares incorporated and domiciled in England & Wales. The address of the registered office is given on page 1. The nature of the Company's operations and principal activities are set out in the Directors' Report. Information on its ultimate parent is presented in note 28.

The financial statements for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Directors on 4 August 2022.

2. Accounting Policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. 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.

These financial statements contain information about Thales Ground Transportation Systems Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Thales SA, which prepares publicly available consolidated financial statements.

The recognition, measurement and disclosure requirements (except for certain disclosure exemptions detailed below) of International Financial Reporting Standards as adopted by the EU (EU – adopted IFRSs) have been applied to these financial statements and, where necessary, amendments have been made in order to comply with the Companies Act 2006 and The Large and Medium – sized Companies and Groups Regulations 2008/410. The financial statements have been prepared on the historical cost basis, except for financial instruments which are measured in terms of IFRS 9.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2021, and have been consistently applied to all periods presented.

The Company has taken advantage of the following disclosure exemptions available under FRS 101:

(a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based Payment*, because:

(i) the share based payment arrangement concerns the instruments of another group entity;

(b) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of *IFRS 3 Business Combinations*;

(c) the requirements of paragraph 33 (c) of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

(d) the requirements of IFRS 7 *Financial Instruments: Disclosures*;

(e) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*;

(f) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

(i) paragraph 79(a)(iv) of IAS 1 *Presentation of Financial Statements*;;

(ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;

(iii) paragraph 118(e) of IAS 38 *Intangible Assets*;

(g) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 *Presentation of Financial Statements*;

(h) the requirements of IAS 7 *Statement of Cash Flows*;

(i) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;

(j) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;

(k) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ;

(l) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*;

(m) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 *Revenue from Contracts with Customers*; and

(n) the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 *Leases*.

For the disclosure exemptions listed above, the equivalent disclosures are included in the consolidated financial statements of the ultimate parent Company, Thales SA, which are publicly available.

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

Going concern basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2- 5. In addition, the notes to the financial statements 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 financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has sufficient resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered future projections of profitability, liquidity, nature of long term contracts with a number of customers, suppliers and the wider economy.

Therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Tangible assets

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.

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 at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line/reducing balance basis over its expected useful life, as follows:

Computer equipment	3 – 7 years
Furniture, fixtures and fittings	3 – 10 years
Data transmission, networks and related equipment	3– 12 years

Residual value is calculated on prices prevailing at the date of acquisition 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 de-recognition 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 total comprehensive income when the asset is derecognised.

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

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.

Right of use assets represent the rights acquired under lease agreements, and are subject to an annual amortisation charge in the statement of total comprehensive income which will amortise on a straight line basis the initial value recognised for each right of use asset over the shorter of its economic life and the lease period, less any guaranteed termination sum to be received by the Company on expiry of the lease term.

Further detail on right of use assets is provided in the accounting policy below on Leases.

Impairment of tangible assets

At each reporting date the Company reviews the carrying amounts of its property, plant and equipment 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.

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

Impairment of other non-financial assets

The Company assesses annually whether there is any indication that any of the assets have been impaired. If such indication exists the assets recoverable amount is estimated and compared to its carrying value. Where it is impossible to estimate the recoverable amount of an individual asset, we use the recoverable amount of the cash generating unit to which the asset is now allocated.

If the recoverable amount of the asset is less than its carrying value the impairment loss is recognised immediately in the profit and loss unless the asset is carried at a revalued amount in which case the impairment loss is recognised as a revaluation decrease. Intangible assets are stated at their historical cost and amortised over their expected useful lives, which usually varies from 3 to 5 years. However, for intangible assets that have an indefinite life, and intangible assets not yet available for use, the recoverable amount is estimated annually at the end of each reporting period.

Financial instruments

(i) Initial recognition

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.

All financial assets and financial liabilities are initially recognised on the date that the Company becomes a party to the contractual provisions of the instrument at fair value plus, in the case of financial assets and financial liabilities not held at fair value through profit or loss, directly attributable transaction costs.

Derivatives embedded in host finance liability contracts are accounted for separately from the host when their risks and characteristics are not closely related to the host.

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

Financial instruments (continued)

Subsequent measurement

Derivatives

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 forecast transactions.

The use of financial derivatives is in line with Group policy which provides 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 re-measured 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.

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

Financial instruments (continued)

Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are subsequently measured at cost. Impairment losses are recognised if cost exceeds recoverable amount.

Trade and similar receivables

Trade receivables are subsequently measured at transaction amount (which approximates to fair value). Where material, a separate loss allowance is recognised based on lifetime expected credit losses.

Other debt instruments

Other debt instruments held within a business model, whose objective is to collect contractual cash flows, on specified dates that are solely payments of principal and interest on the principal amount outstanding. Such financial instruments are subsequently measured at amortised cost using the effective interest rate method. Where material a loss allowance is calculated based on (i) 12-month expected credit for such debt assets that have not experienced a significant increase in credit risk since initial recognition, or (ii) lifetime expected credit losses which have experienced a significant increase in credit risk since initial recognition.

Debt instruments held within a mixed business model of held to collect and sell, and whose contractual cash flows are solely payments of principal and interest are measured at fair value. Amounts recognised in profit and loss are the same as those measured at amortised cost, with the difference between amortised cost measurement and fair value recognised in other comprehensive income.

All other debt instruments are accounted for at fair value through profit or loss.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

(ii) Derecognition

Financial assets are derecognised when the contractual rights to the cash flows expire (e.g. debtor pays or the asset is sold outright) or the asset is transferred in a manner that qualifies for derecognition.

Financial liabilities are derecognised when extinguished, i.e. the obligation specified in the contract is discharged, cancelled or expires.

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

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.

Bank borrowings

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

Trade creditors

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

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.

Stocks

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 upon 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.

Contract assets and liabilities

The cumulated amount of revenue accounted for, less progress payments and accounts receivable (presented on a dedicated line of the statement of financial position) is determined on a contract-by-contract basis. If this amount is positive, the balance is recognised under "contract assets" in the statement of financial position. If it is negative, the balance is recognised under "contract liabilities".

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

Taxation

The tax charge comprises current and deferred tax. Income tax expense is recognised in the statement of total comprehensive income 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 statement of financial position 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

The Company has in place lease agreements in respect of property and vehicles.

Leases are accounted for in accordance with the requirements of IFRS 16. Where the Company has a contract with another party which meets the qualifying criteria as set out in IFRS 16, the Company recognises in its statement of financial position a right of use asset and a corresponding lease liability to the third party (the lessor).

The lease liability represents the Company's obligation to make future lease payments to the lessor, including the amount of any optional increases or reductions in lease period which the Directors consider to be reasonably certain, less any lease incentives receivable. The lease liability incurs interest at a rate which is determined based on the inherent rate of interest in the lease, or if this cannot be determined, at a lease specific incremental borrowing rate, and the interest incurred using this rate is charged in the statement of total comprehensive income, and the amount of any lease payments made by the Company to the lessor, after adding interest to the lease liability, is used to amortise the carrying value of the lease liability in the statement of financial position.

Future lease commitments to be paid are disclosed in the financial statements and notes after making a deduction for interest which will arise in future accounting periods, such that the lease principal which remains outstanding at each reporting date is allocated between amounts due within less than twelve months and amounts due after more than twelve months. These are then presented in the statement of financial position under Current Liabilities and Non-current Liabilities, respectively. Leases of low-value assets or short-term leases are immediately expensed in profit or loss.

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

Combination of businesses under common control

In order to promote the efficient operation of the Company's business activities, the Company may acquire the operating assets and liabilities of a subsidiary or other related business, as well as the associated trading activities. In this situation, the on-going conduct of the transferred business is managed and reported in the future by the Company.

As there are no changes to the shareholder group at the time of such transactions, these transactions do not classify as a business combination as defined under IFRS 3 'Business Combinations', but as a combination of businesses under common control. The value of assets and liabilities transferred is recognised at the balance sheet carrying value to determine the consideration receivable by the transferor from the Company. The acquired assets and assumed liabilities are recognised at the value of the consideration. The financial position and results of the acquired businesses are reflected in the Company's financial statements only from the date on which the combination occurs.

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

Revenue recognition

Unbundling of multiple performance obligations within a single contract

Some contracts include the supply to the customer of distinct goods and services (for instance contracts combining building of assets, followed by operation and maintenance). In such situations, the contract must be segmented into several components ("performance obligations"), each component being accounted for separately, with its own revenue recognition method and margin rate.

The contract price is allocated to each performance obligation in proportion to the specific selling price of the underlying goods and services. This allocation should reflect the share of the price to which Thales expects to be entitled in exchange for the supply of these goods or services. The contract price is the total financial consideration which the Company expects to be paid for undertaking the performance obligations in the contract with the customer. Further details are set out below.

Options notified by the customer for the supply of distinct additional goods or services are generally accounted for separately from the initial contract.

Evaluation of revenue allocated to performance obligations

Variable considerations included in the selling price are taken into account only to the extent that it is highly probable that a significant reversal in the amount of revenue already recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Penalties for late delivery or for the improper execution of a performance obligation are recognised as a deduction from revenue.

If the financing component is deemed significant, the selling price is adjusted to reflect a "cash" selling price for the goods and services provided. A financing component exists when parties have agreed to set up a financing arrangement to the advantage of one of them, through contractual terms.

Revenue includes income from claims only when it is highly probable that such claims will be accepted by the customer.

Contractual amendments negotiated with customers are included in the selling price only when they become legally enforceable.

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

Recognition of revenue over time or at a point in time

Revenue associated with each performance obligation identified within a contract is recognised when the obligation is satisfied, i.e. when the control of the promised goods or services is transferred to the customer.

To demonstrate that the transfer of goods is progressive and recognise revenue over time, the following cumulative criteria are required:

- The goods sold have no alternative use, and
- The Company has an irrevocable right to payment (corresponding to costs incurred, plus a reasonable profit margin) for the work performed to date, in the event of termination for reasons other than Thales' failure to perform as promised.

Revenue from the sale of goods with an alternative use, and/or for which the Company has no enforceable right to payment in case of termination for convenience by the customer, is recognised when the goods are delivered to the customer. This essentially concerns equipment (mainly in civil avionics) and spare parts.

Revenue from service contracts is generally recognised over time, as the customer simultaneously receives and consumes the benefits of these services provided by Thales.

Percentage of completion method

The percentage of completion method generally used by the Company is expense-based: revenue is recognised based on costs incurred to date in relation to all the costs expected upon completion.

Margin recognition

Expected losses on contracts are fully recognised as soon as they are identified, pursuant to the provisions of IAS 37 on onerous contracts.

Retirement benefit costs

In accordance with UK legislation and practice in the countries in which it operates, the Group grants its employees post-employment benefits (including pensions, retirement awards, medical care) and other long-term benefits (including long-service benefits, long-service awards on departure).

For defined contribution schemes and state plans, contributions paid are in full discharge of the liability and are recognised as an expense for the period.

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

Retirement benefit costs (continued)

The Company also participates in defined benefit pension schemes, one of which, the Thales Shared Cost Section of the Railway Pension scheme, is sponsored by Thales Ground Transportation Systems Limited. Obligations under defined benefit plans are measured by independent actuaries using the projected unit credit method on the basis of estimated salaries at the date of retirement. The calculations mainly take into account assumptions concerning financial discounting, inflation, mortality, and staff turnover rates.

Changes in actuarial assumptions and experience adjustments – corresponding to the effects of differences between previous actuarial assumptions and what has actually occurred – give rise to actuarial gains and losses.

For post-employment benefits, actuarial gains and losses are fully recognised in Other comprehensive income, and not subsequently taken to profit and loss. Where appropriate, adjustments from the ceiling to net assets relating to overfunded plans follow the same method.

For other long-term benefits, actuarial gains and losses are recognised immediately in the financial result (note 23).

Past service cost and reductions/settlements of plans are fully recognised in the profit and loss accounts in the period in which they occurred, within the operating income.

Net interest expense, determined based on the discount rate of obligations, is recognised in the financial result.

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 (see above for details of the Company's accounting policies in respect of such derivative financial instruments).

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

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

Significant accounting judgements, estimates and assumptions

Critical judgements in applying the Company's accounting policies

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

Key sources of estimation uncertainty

Deferred tax

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 24.

Notes to the financial statements (continued)

for the year ended 31 December 2021

2. Accounting policies (continued)

Recognition of revenue over time

A very significant part of the company's revenue and current operating income stems from contracts recognised according to the percentage of completion method. These contracts often span several financial years. In the accounting closing process, the recognition of revenue and operating margin relating to these contracts depends mainly:

- on estimates of revenue and margin at completion, including provisions for technical and commercial risks;
- on costs incurred to date compared to the total costs expected at completion.

Monitoring of costs incurred to date and estimates of figures at completion are based, for each contract, on the company's internal systems and procedures, with project managers playing a key role. These estimates are reviewed regularly by the Operations and Finance departments, under the supervision of the Company's corporate management, particularly at each period-end reporting.

Carrying value of investments in subsidiaries and associates

Management periodically review the carrying value of investments and consider the need for impairment. The key indicators that are taken into consideration include the performance and underlying assets of the entities in question.

Right of use assets

Right of Use Assets are recognised as required by IFRS 16. The value attributed to each Right of Use Asset is calculated by reference to relevant assumptions regarding the expected future costs of continuing to occupy specific leased sites, and it is assumed that current levels of site occupation, duration and the costs of carrying out projected dilapidations work prior to handing leased properties back to the landlord on lease termination will be in line with current estimates. It is assumed that the current interest rate assumptions will continue to apply. A significant change in projected outcomes versus the assumptions currently made might require a revised value for the Right of Use Assets to be recognised.

3. New standards, amendments and IFRIC interpretations

The accounting policies adopted for the year are consistent with those applied for the year ended 31 December 2020. None of the standards, interpretations and amendments which are effective for accounting periods beginning after 1 January 2021, and which have not been adopted early, are expected to have a material effect on the financial statements.

Notes to the financial statements (continued)

for the year ended 31 December 2021

4. Financial impacts of combination of businesses under common control

On 31 August 2021, the Company acquired the assets, liabilities and trade of its subsidiary, Thales GTS UK Limited. Consequently, the transferred business will be managed and reported in the future by Thales Ground Transportation Systems Limited.

As there were no changes to the shareholder group at the time of this transaction, this transaction did not classify as a business combination as defined under IFRS 3 'Business Combinations', but as a combination of businesses under common control. The value of assets and liabilities transferred was recognised at the balance sheet carrying value at the transfer date to determine the consideration payable by the Company to Thales GTS UK Limited. The financial position and results of the transferred business will be reflected in the Company's financial statements from the date on which the combination occurred.

Details of the financial impacts of this intra-group transfer are set out below.

	Note	2020 £000
Fixed assets		
Tangible assets	15	234
		<u>234</u>
Current assets		
Trade and other receivables		19,284
Amount receivable from Thales Holdings UK Plc		27,460
		<u>46,744</u>
Total assets		<u>46,978</u>
Creditors: amounts falling due within one year		
Creditors		<u>(31,779)</u>
Net assets		<u>15,199</u>
		<u>15,199</u>
Net assets transferred at 31 August 2021 to the Company from Thales GTS UK Limited		<u>15,199</u>
		<u>15,199</u>
Represented by amount payable by the Company to Thales GTS UK Limited	22	<u>15,199</u>

Notes to the financial statements (continued)

for the year ended 31 December 2021

The impact of the acquired business in the Company's reported financial performance for the year to 31 December 2021 is summarised in the following table which summarises the Income Statement of the acquired business to show the portion of its activities in the year which relates to the period from 1 January 2021 to 31 August 2021 (pre-acquisition), and the portion of its activities which relates to the period from 1 September 2021 to 31 December 2021 (post-acquisition).

The pre-acquisition activity shown below is reported in the audited financial statements of Thales GTS UK Limited for the year ended 31 December 2021, whilst the post-acquisition activity, along with the acquired assets and liabilities, is reported in the Company's audited financial statements for the year ended 31 December 2021.

	1 January 2021 to 31 August 2021	1 September to 31 December 2021	1 January to 31 December 2021
	£000	£000	£000
Revenue	60,825	26,478	87,303
Cost of sales	(55,234)	(25,678)	(80,912)
Gross profit	5,591	800	6,391
Other costs	(3,977)	(2,027)	(6,004)
Profit / (Loss) before tax	1,614	(1,227)	387
Tax expense	-	(307)	(307)
Profit / (Loss) for the period	1,614	(1,534)	80

Notes to the financial statements (continued)

for the year ended 31 December 2021

5. Revenue

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

	2021 £000	2020 £000
Revenue from contracts with customers	120,431	82,874
Revenue per statement of total comprehensive income	120,431	82,874
Investment income (note 7)	2,881	749
Total revenue	<u>123,312</u>	<u>83,623</u>

All revenue is derived from activities within the UK transportation market.

6. Profit on ordinary activities before taxation

Profit/(loss) before taxation is stated after charging/(crediting):

	2021 £000	2020 £000
R&D costs	1,811	3,375
R&D tax credit	(1,152)	(670)
Depreciation of property, plant and equipment (note 15)	166	1,152
Amortisation of right of use assets (note 15)	1,110	967
Amortisation of intangible assets (note 14)	240	182
Staff costs (note 9)	38,761	37,790
Impairment of investment (note 12 & note 13)	22,068	212
Auditors' remuneration for audit services	<u>50</u>	<u>50</u>

Amounts payable by the Company to Mazars LLP and their associates in respect of non-audit services were £nil (2020: £nil).

Notes to the financial statements (continued)

for the year ended 31 December 2021

7. Investment Income

	2021 £000	2020 £000
Dividends from investments	2,881	675
Interest from investments	-	74
	<u>2,881</u>	<u>749</u>

8. Finance cost

	2021 £000	2020 £000
Interest on leases	89	80
Interest charge on intra group loan	202	142
Bank charges	1	1
	<u>292</u>	<u>223</u>
Total borrowing costs	292	223
Net pension interest costs (note 23)	2,000	1,800
Exchange (gain)/ loss	(116)	965
	<u>2,176</u>	<u>2,988</u>
Total finance expense	2,176	2,988

Notes to the financial statements (continued)

for the year ended 31 December 2021

9. Staff costs

The average monthly number of employees (including executive Directors) is set out below.

The table below has been prepared to include employees who were transferred into the business on 31 August 2021, when the Company acquired the assets, liabilities and trade of its subsidiary Thales GTS UK Limited (Note 4), resulting in an increase to the average monthly number of employees. Prior to this period, these employees were recorded in the financial statements of Thales GTS UK Limited for the year ended 31 December 2021.

	2021 Number	2020 Number
Production	418	343
Sales	20	21
Administration	40	30
	<u>478</u>	<u>394</u>

	2021 £000	2020 £000
Their aggregate remuneration comprised:		
Wages and salaries	31,043	30,580
Social security costs	4,308	4,159
Other pension costs	3,410	3,051
	<u>38,761</u>	<u>37,790</u>

The following table shows the average monthly number of employees excluding the impact of the acquisition of the assets, liabilities and trade of Thales GTS UK Limited on 31 August 2021.

	2021 Number	2020 Number
Production	324	343
Sales	18	21
Administration	34	30
	<u>376</u>	<u>394</u>

Notes to the financial statements (continued)
for the year ended 31 December 2021

10. Directors' emoluments

Remuneration	2021 £000	2020 £000
Remuneration of directors	611	452
Pension scheme contributions	92	69
Total emoluments	703	521

Number of directors accruing benefits under the following schemes:

	2021 Number	2020 Number
Money purchase schemes	4	4
Defined benefit schemes	1	1
The number of directors who exercised share options	-	-
The number of directors who received share based units under the long term incentive scheme	3	4

Details of the highest paid director

	2021 £000	2020 £000
Remuneration of director	160	141
Pension scheme contributions	22	17

The highest paid director received share based units under the Thales Group long term incentive scheme.

There was no exercise of share options during the year by the highest paid director.

The directors are deemed to be the key management personnel.

The information provided above incorporates the remuneration of Directors attributable to the period after 31 August 2021 to 31 December 2021 in relation to the activities acquired by the Company from its subsidiary, Thales GTS UK Limited.

Notes to the financial statements (continued)

for the year ended 31 December 2021

11. Taxation

	2021 £000	2020 £000
Current tax:		
UK Corporation tax	573	128
Adjustments in respect of prior years	41	(305)
Foreign Tax	12	-
Total current tax	626	(177)
Deferred tax:		
Origination and reversal of temporary differences charge	(1,665)	1,699
Adjustments in respect of prior year	(1,077)	1,536
Total deferred tax	(2,742)	3,235
Total tax (credit) / charge for the year	(2,116)	3,058
	2021 £000	2020 £000
Loss before tax	(15,537)	(3,761)
Loss multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	(2,952)	(715)
Tax effect of:		
Expenses not deductible for tax purposes	4,207	50
Dividends	-	(128)
Movement in unrecognised deferred tax	(1,611)	2,004
Deferred tax rate change impact movement	(1,157)	-
Adjustments to prior year (current tax)	41	(305)
Adjustments to prior year (deferred tax)	(1,077)	1,536
Foreign Tax	12	-
Double Tax Relief	(12)	-
Group relief surrendered for nil payment	-	489
R&D write-off	433	127
Total tax (credit) / charge for the year	(2,116)	3,058

Following the March budget 2021 it was decided to maintain the corporation tax rate at 19% for the year 1 April 2021 and also 1 April 2022. Finance Act 2021 provided for an increase of the current corporation tax rate to 25% from 1 April 2023. The higher rate has been substantially enacted following the third reading of the Finance Bill 2021 on 24th of May 2021 and it has received Royal Assent in June 2021.

The deferred tax balances as at 31 December 2021 have been calculated at 25% as this is the rate that has been substantially enacted at the Balance Sheet Date

Notes to the financial statements (continued)

for the year ended 31 December 2021

12. Investments

a) Investment in subsidiaries

The Company has an investment in the following subsidiary undertaking:

Subsidiary company	Registered address	Holding	Principal activity
Thales GTS UK Limited	350 Longwater Avenue Green Park Reading Berkshire RG2 6GF	100%	Rail Signalling

	Total £000
Cost	
At 1 January 2021	34,304
Additions / disposals in year	-
At 31 December 2021	<u>34,304</u>
Amounts written off	
At 1 January 2021	-
Impairment in year	(20,000)
At 31 December 2021	<u>(20,000)</u>
Net book value	
At 1 January 2021	<u>34,304</u>
At 31 December 2021	<u>14,304</u>

The Company acquired the shares of Thales GTS UK Limited for a cash consideration of £34.3m in 2010.

Thales GTS UK Limited is regarded as a subsidiary undertaking because the Company exercises controlling interest over this investment, directing its financial and operating policies. The Directors have undertaken a review of the balance as of 31 December 2021, as set out below.

As indicated in the Strategic Report on page 2, on 31 August 2021, the Company completed the acquisition of the assets, liabilities and trade of Thales GTS UK Limited. The acquisition price was £15,199,000, based on the book value of the net assets and liabilities acquired through the transaction.

Following the acquisition on 31 August 2021, the balance sheet of Thales GTS UK Limited showed net assets of £15,199,000 representing the amount receivable by Thales GTS UK Limited from the Company in respect of the business transfer.

Accordingly, on 31 August 2021, the Company recognised an impairment of £20,000,000 in the carrying value of its investment in Thales GTS UK Limited, such that the net book value of its investment, after this impairment, is £14,304,000, in order that the net book of the investment after this impairment will be at least recovered by the value of the attributable reserves of Thales GTS UK Limited after the acquisition.

Notes to the financial statements (continued)

for the year ended 31 December 2021

b) Investment in jointly controlled entities

A joint venture company (JVCo), Network Information Services Limited (NISL), a company incorporated in England and Wales was formed in June 2011 by Thales Ground Transportation Systems Limited and Mouchel Limited, each holding a 50% interest. Thales and Mouchel each hold one ordinary share of £1 in the JVCo.

NISL was formed for the sole purpose of providing the customer, the Secretary of State for Transport in Her Majesty's Government of the United Kingdom of Great Britain and Northern Ireland, with a national traffic information service. The key risk attached to the Company's interest in the joint venture is related to the value of the Company's interest, which depends on the performance of the undertaking. The Directors consider that there has been no change in the risks associated with the Company's interest in the joint venture in the 2021 financial year. There are no significant restrictions or additional commitments associated with the joint venture.

The carrying value of the interest as of 31 December 2021 is £5,000. The Company's interest in the equity of NISL and its share of the JVCo earnings is included in the consolidated financial statements of the Company's ultimate parent, Thales SA.

Notes to the financial statements (continued)

for the year ended 31 December 2021

13. Other non-current financial assets

	2021 £000	2020 £000
Other participating interest	1,247	3,315
Other investments and loans	-	-
	<u>1,247</u>	<u>3,315</u>

	Other participating interest £000	Other investments and loans £000	Total £000
Cost			
At 1 January 2021	3,527	10,565	14,092
Additions / disposals in year	-	-	-
At 31 December 2021	<u>3,527</u>	<u>10,565</u>	<u>14,092</u>
Amounts written off			
At 1 January 2021	(212)	(10,565)	(10,777)
Additions / disposals in year	(2,068)	-	(2,068)
At 31 December 2021	<u>(2,280)</u>	<u>(10,565)</u>	<u>(12,850)</u>
Net book value			
At 1 January 2021	<u>3,315</u>	<u>-</u>	<u>3,315</u>
At 31 December 2021	<u>1,247</u>	<u>-</u>	<u>1,247</u>

Other participating interest relates to the investment in 33% of the ordinary shares of Citylink Telecommunications Holdings Limited (CTHL), a UK Company with its registered office at 10 Fleet Place, London, EC4M 7QS. CTHL is the parent Company of Citylink Telecommunications Limited, a special purpose vehicle created to provide a new radio and transmission system for London Underground under the Connect contract. This other participating interest is held at cost less any identified impairment losses in the absence of a quoted market price in an active market.

CTHL no longer trades, having completed delivery of its primary contract with its customer, London Underground, in 2019. The Company has reviewed the carrying value of CTHL and decided to reduce the investment in CTHL by a further £2,068k. During the period, CTHL reduced its ordinary share capital from £10,672,819 to £3,764,338 as part of a plan to prepare the company for liquidation in accordance with a resolution by the members on 15 March 2021.

The Company's interest in the equity of CTHL and its share of the investee's earnings is included in the consolidated financial statements of the Company's ultimate parent, Thales SA.

Notes to the financial statements (continued)
for the year ended 31 December 2021

14. Intangible development costs

Cost

At 1 January 2021	3,452
Additions	-
Disposal	(256)
At 31 December 2021	<u>3,196</u>

Amortisation

At 1 January 2021	(2,703)
Charge for the year	(240)
Disposal	-
At 31 December 2021	<u>(2,943)</u>

Net book value

At 31 December 2020	<u>749</u>
At 31 December 2021	<u>253</u>

The above capitalised items relate to research and development costs which have now been realised.

Notes to the financial statements (continued)

for the year ended 31 December 2021

15. Tangible assets

	Right of Use Assets Vehicles £000	Right of Use Assets Buildings £000	Computer equipment, furniture fixtures & fittings £000	Data transmission networks and related equipment £000	Total £000
Cost					
At 1 January 2021	339	4,363	14,563	2,884	22,149
Additions	237	-	267	-	504
Assets transferred	396	1,575	140	864	2,975
Disposals	(396)	-	-	-	(396)
At 31 December 2021	576	5,938	14,970	3,748	25,232
Amortisation and Impairment					
At 1 January 2021	190	1,569	14,536	2,782	19,077
Charge for the year	174	936	17	149	1,276
Assets transferred	279	508	140	630	1,557
Disposals	(396)	-	-	-	(396)
At 31 December 2021	247	3,013	14,693	3,561	21,514
Carrying Amount					
At 1 January 2021	149	2,794	27	102	3,072
At 31 December 2021	329	2,925	277	187	3,718

Right of use assets represent the rights acquired under lease agreements which meet the qualifying criteria of IFRS 16 'Leases', and are stated net of accumulated amortisation and impairment charges..

The transfer in of right of use assets in the year took place on 1 January 2021 when the Company transferred these right of use assets from its subsidiary company, Thales GTS UK Limited, in anticipation of the business transfer which was concluded on 31 August 2021 (Note 4).

The transfer of other tangible assets took place on 31 August 2021 when the company acquired the assets, liabilities and trade of its subsidiary, Thales GTS UK limited. (Note 4).

Notes to the financial statements (continued)

for the year ended 31 December 2021

16. Stock

	2021 £000	2020 £000
Raw materials and consumables	2,473	2,757
Stock provision	(320)	(320)
	<u>2,153</u>	<u>2,437</u>

The amount of write down of inventories recognised in the year was £nil (2020: £nil).

17. Trade and other debtors

	2021 £000	2020 £000
Trade receivables	15,323	9,396
Other receivables	4,634	869
Prepayments and accrued income	420	410
Contract assets	25,513	17,219
	<u>45,890</u>	<u>27,894</u>

An allowance has been made where applicable for estimated irrecoverable amounts from the sale of goods, determined by reference to expected default in the next 12 months. The Directors consider that the carrying amount of trade and other receivables approximates their fair value. Trade receivables of £153k (2020: £104k) fall due after more than one year.

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

		Total	Neither past due or impaired	Days Overdue			
				<30	30-60	60-90	90>
		£000	£000	£000	£000	£000	£000
2021	Trade receivables	15,323	12,889	1,157	636	176	465
2020	Trade receivables	9,396	5,289	2,838	563	177	530

Notes to the financial statements (continued)

for the year ended 31 December 2021

18. 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.

19. Trade and other creditors

	2021 £000	2020 £000
Trade creditors and accruals	2,546	3,683
Amounts owed to group and associate undertakings	17,954	14,974
	<u>20,500</u>	<u>18,657</u>

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

The average credit period taken for trade purchases is 10 days (2020: 20 days).

Long term payables are due and paid in accordance with the terms and conditions of the contract to which they relate.

	2021 £000	2020 £000
Loans from Group undertakings	<u>27,000</u>	<u>27,000</u>
Amount due for settlement after 12 months	<u>27,000</u>	<u>27,000</u>

The loans from Group undertakings bear interest at a rate equal to the Bank base rate plus a 0.25% margin on the sum outstanding. It is repayable upon 13 months' notice given by the lender either in full or in part if such a demand for repayment arises.

Notes to the financial statements (continued)
for the year ended 31 December 2021

20. Lease liabilities

At the year end the Company had the following liability to make future lease payments. These are presented as the aggregate gross amount of payments committed under each lease with an allowance calculated to exclude future interest at the applicable rate for each lease.

At 31 December 2021

	Gross Payments £000	Interest not yet incurred £000	Net obligation £000
Lease payments due in less than 12 months	994	(21)	973
Lease payments due between 12 months and 5 years	2,583	(151)	2,432
Lease payments due after 5 years	-	-	-
Total lease payments due	3,577	(172)	3,405
Amounts shown in Current liabilities			973
Amounts shown in Non-current liabilities			2,432
Total lease payments due			3,405

The total cash outflow during the year in relation to the above leases was £1,277,000.

At 31 December 2020

	Gross Payments £000	Interest not yet incurred £000	Net obligation £000
Lease payments due in less than 12 months	962	(18)	944
Lease payments due between 12 months and 5 years	2,317	(354)	1,963
Lease payments due after 5 years	253	(29)	224
Total lease payments due	3,532	(401)	3,131
Amounts shown in Current liabilities			944
Amounts shown in Non-current liabilities			2,187
Total lease payments due			3,131

The total cash outflow during the year in relation to the above leases was £1,084,000.

Notes to the financial statements (continued)

for the year ended 31 December 2021

21. Provisions

	Restructuring £000	Expected losses £000	Warranty £000	Total £000
At 1 January 2021	-	3,660	87	3,747
Net movement in the provision during the year	905	(2,212)	(87)	(1,394)
At 31 December 2021	<u>905</u>	<u>1,448</u>	<u>-</u>	<u>2,353</u>

The expected losses provision relates to existing contracts where it is anticipated that the remaining cost to fulfil the Company's obligations under these contracts will result in a loss at completion. Costs in excess of the contract value and which result in an expected loss at completion are provided for as soon as the increase in costs is considered to be likely.

The Company has estimated the warranty provision costs based on a weighted risk calculation on its product sales programmes. Factors that could impact the estimated claim including the warranty obligation period have been considered. Although some may be utilised over more than one year, the Company has assumed that the provision will be utilised within one year.

22. Other liabilities

	2021 £000	2020 £000
Contract liabilities	39,600	6,874
Other liabilities	9,582	11,732
Amount payable to Thales GTS UK Limited	15,199	-
	<u>64,381</u>	<u>18,606</u>

The amount payable to Thales GTS UK Limited relates to the acquisition by the Company on 31 August 2021 of the assets, liabilities and trade of its subsidiary Thales GTS UK Limited (note 4).

Notes to the financial statements (continued)
for the year ended 31 December 2021

23. Retirement benefit schemes

The Thales Group grants its employees post-employment benefits (including pensions, retirement awards, medical care) and other long-term benefits (including long-service benefits, long-service awards). The schemes that are set up to cover these benefits include both defined contribution plans and defined benefit plans.

▪ **Defined contribution plans**

These plans guarantee employees benefits that are directly related to aggregate contributions paid, as increased by the yield on investments made. The company's pension expense is thus limited to contributions paid.

▪ **Defined benefit plans**

The Thales Group in the UK operates three defined benefit schemes. Two are sponsored by Thales UK Limited, namely the Thales UK Pension Scheme (TUPs) and the Avimo Pension Scheme. For the schemes disclosed in the Thales UK Limited financial statements, the disclosure includes the considerations of risks and reconciliation of balances relating to the defined benefit scheme, as well as a description of actuarial assumptions and information relating to the amounts, timing and certainty of future cash flows. A third scheme, the Thales Section of the Railway Pension scheme, is sponsored by Thales Ground Transportation Systems Limited and is disclosed in these accounts.

The following tables summarise the components of the net benefit expense recognised in the Statement of total comprehensive income and the funded status and amounts recognised in the statement of financial position for the Railways pension scheme only.

The total pension cost for the defined benefit schemes amounted to £4.0m in 2021 (£3.4m in 2020).

a) Provisions recognised in the statement of financial position - £000

	2021	2020
Net obligation at 1 January	(152,700)	(88,018)
Current service cost	(1400)	(1,100)
Past service cost	-	-
Interest cost	(6,300)	(7,900)
Expected return on plan assets	4,300	6,100
Net interest (note 8)	(2,000)	(1,800)
Fund costs	(600)	(500)
Actuarial gains & losses (Other comprehensive income (loss) of the period)	44,400	(64,982)
Finance costs on pensions and other employee benefits	41,800	(67,282)
Total pensions cost of the period	40,400	(68,382)
Benefits and contributions	3,500	3,700
Net obligation at 31 December	(108,800)	(152,700)

Notes to the financial statements (continued)

for the year ended 31 December 2021

b) Changes in defined benefit obligations and plan assets - £000

31st December	2021	2020
Obligations at 1 January	(475,800)	(399,500)
Current service cost	(1,400)	(1,100)
Past service benefit	-	-
Interest cost	(6,300)	(7,900)
Plan participants' contribution	(300)	(400)
Experience gains (losses)	-	-
Actuarial gains (losses) / financial assumptions	(2,800)	(85,200)
Actuarial gains (losses) / demographic assumptions	10,500	-
Actuarial gains (losses) on long-term benefits	(400)	6,500
Benefits paid by plan assets	13,600	11,800
Benefits paid by employer *	-	-
Obligations at 31 December	(462,900)	(475,800)

Plan assets at 1 January	323,100	311,482
Expected return on plan assets	4,300	6,100
Employer's contribution *	3,500	3,700
Plan participants' contribution	300	400
Benefits paid by plan assets	(13,600)	(11,800)
Fund costs	(600)	(500)
Experience gains (losses)	37,100	13,718
Plan assets at 31 December	354,100	323,100

Net provisions at 31 December	(108,800)	(152,700)
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c) Main actuarial assumptions used

The main actuarial assumptions are the following:

	2021	2020
Discount rate	1.82%	1.34%
Inflation assumptions:		
Future retail price inflation	3.42%	2.94%
Future consumer price inflation	3.02%	2.49%
Salary increases (capped at CPI)	3.02%	2.49%
Life expectancy at retirement age:		
(retiring today/retiring in 20 years)	22.2yrs/23.6yrs	22.1yrs/23.5yrs

The discount rates are obtained by reference to the Iboxx Corporate AA index, which reflects the rate of return of very high-quality corporate bonds, with maturity dates equivalent to the duration of the plans being measured, and in the same currency.

Notes to the financial statements (continued)

for the year ended 31 December 2021

Regulatory framework

The funded UK schemes are subject to UK legislation including the payment of levies to the pension protection fund as set out in the Pension Act 2004.

Funding

Thales is subjected to funding obligations due to defined benefit pension commitments. In accordance with the regulation in force, the funding level of pension commitments of the Thales UK schemes is measured every three years. Following this measurement, a new funding plan and/or the provision of guarantees in favour of the plan is decided, in coordination with the trustees.

The last actuarial valuation of the Thales Ground Transportation Systems Section of the Railways Pension Scheme was carried out as at 31 December 2020 and finalised in August 2021. A recovery plan was agreed with the trustees whereby the Company will continue to pay deficit recovery contributions of £3m per annum until October 2030. In addition, the Thales Ground Transportation Systems Section of the Railways Pension Scheme is supported by a Thales SA parent company guarantee with a value of £68m.

Notes to the financial statements (continued)

for the year ended 31 December 2021

24. 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	Tax Losses	Other	Total
	£000	£000	£000	£000
As at 1 January 2020	4,255	1,879	-	6,134
Charged to the Statement of comprehensive income	(1,356)	(1,879)	-	(3,235)
As at 31 December 2020	2,899	-	-	2,899
Charged to Statement of comprehensive income	2,270	358	113	2,741
Deferred tax transferred in from Thales GTS UK Limited	135	673	-	808
As at 31 December 2021	<u>5,304</u>	<u>1,031</u>	<u>113</u>	<u>6,448</u>

Deferred tax liability	Cash flow hedges	Total
	£000	£000
As at 1 January 2021	-	-
Deferred tax charged to equity	(10)	(10)
As at 31 December 2021	<u>(10)</u>	<u>(10)</u>

Net Deferred tax asset	2021	2020
	£000	£000
Deferred tax asset	6,448	2,899
Deferred tax liability	(10)	-
Net deferred tax asset	<u>6,438</u>	<u>2,899</u>

A deferred tax asset of £34.5m (2020: £35.6m) has not been recognised in relation to tax losses and other temporary differences. These assets may be recovered if sufficient taxable profits are made in future.

There are no significant taxable temporary differences associated with investments in subsidiaries, associated undertakings and joint ventures.

Notes to the financial statements (continued)
for the year ended 31 December 2021

25. Share capital

	2021 £000	2020 £000
<i>Allotted, called-up and fully-paid</i>		
2021: 229,650,001 ordinary shares of £1 each	229,650	
2020: 199,650,001 ordinary shares of £1 each		199,650
	<hr/>	<hr/>

As indicated in the Strategic Report on page 2, on 31 August 2021, the Company completed the acquisition of the assets, liabilities and trade of its subsidiary, Thales GTS UK Limited. Additionally, on 31 August 2021, in preparation for the acquisition, the Company issued 30,000,000 new ordinary shares of £1 each fully paid to its parent company, Thales UK Limited, to further strengthen its balance sheet.

The 30,000,000 of new ordinary shares issued on 31 August 2021 takes the total number of ordinary shares of £1 each allotted, called-up and fully-paid to 229,650,001, taking the Company's issued share capital to £229,650,001 at that date.

Share capital represents the nominal value of the shares that have been allotted. All shares rank equally, and carry the right to vote at meetings of the Company's shareholders as well as the right to receive dividends and share in the residual proceeds of the Company's assets on a winding up.

26. Contingent liabilities

The Company is party to cross guarantees to secure fellow subsidiaries' overdrafts and group banking facilities under a 'mass' bank account arrangement. There are contingent liabilities in the event of any claim for breach or non-performance of the terms of certain contracts against which guarantees have been issued amounting to £nil (2020: £nil). In addition to the above there are, in the normal course of business, advance payment guarantees amounting to £1.5m (2020: £1.5m).

Notes to the financial statements (continued)

for the year ended 31 December 2021

27. Related party transactions

The company has taken advantage of the exemptions under IAS24, as a wholly owned subsidiary, not to disclose its details of transactions with other group companies.

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	
	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000
Citylink Telecommunication Limited	-	-	-	-	-	-
Network Information Systems Limited	300	736	-	-	-	-

CityLink Telecommunications Limited is a wholly owned subsidiary of CityLink Telecommunications Holdings Limited, in which the Company holds a 33% equity investment.

The loans from Group undertakings amounting to £27m bear interest at a rate equal to the Bank base rate plus a 0.25% margin on the sum outstanding. The amount of interest charged and paid in the year was £202k (2020: £202k). The loan is repayable upon 13 months' notice given by the lender either in full or in part if such a demand for repayment arises.

Information with regards to Network Information Services Limited, a joint venture (JVCo) between Thales Ground Transportation Systems Limited and Mouchel Limited, is disclosed in note 12.

Other related party transactions

In addition to the above, Thales UK Limited and Thales Services SAS performed certain administrative services for the Company, for which a management fee of £2,409k (2020: £1,657k) was charged and paid, being an appropriate allocation of costs incurred by relevant administrative departments.

Notes to the financial statements (continued)
for the year ended 31 December 2021

28. Parent and ultimate parent undertakings

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 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 Tour Carpe Diem, 31 Place des Corolles – CS 20001, 92098 Paris La Defense Cedex, France.

29. Events since the reporting date

Apart from the Thales GTS Sale and Purchase Agreement signed with Hitachi on 10 February 2022, as indicated in the Strategic Report on page 4, in the Directors' view, there are no events which have occurred since the balance sheet date which require disclosure in these financial statements, or which require any of the financial amounts as recorded at 31 December 2021 to be adjusted.