Thales ATM Limited

Annual report and accounts
for the year ended 31 December 2002

Registered number: 3229755

Contents

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 2002.

Principal activities

The principal activities of the company comprise the design, development, manufacture and supply of products, systems and services relating to the communication, navigation and surveillance in the field of Air Traffic Management.

The Directors expect the general level of activity to remain at the present levels.

The company continues to invest in research and development. This has resulted in a number of new products being launched recently which are expected to make significant contributions to the growth of the business. The directors regard investment in this area as a prerequisite for success in the medium to long term future.

Results and dividends

The audited accounts for the year ended 31 December 2002 are set out on pages 7 to 24. The loss for the year after taxation was £13,513,000(year ended 31 December 2001 - £12,247,000).

The directors do not recommend the payment of a dividend (year ended 31 December 2001 – £nil).

Directors

The following directors served during the whole of the year from 1 January 2002 unless otherwise stated:

Name

M. Lunn

M. Mathieu

R. Moore (Resigned 30/04/2003)

M. Orman

J. Kilazoglou (Appointed10/07/2003)

Directors' interests

According to the register of directors' interests, no director had any beneficial interests in the shares of the company or held the right to subscribe for shares during the period.

Mr. M. Mathieu is a director of the parent company and his share interests are disclosed in the accounts of that company.

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. The majority of the company's trade creditors are paid within 30 days of the invoice date, unless other payment terms have been agreed.

Creditors days at 31 December 2002, based on the aggregate of the amounts which were owed to external trade creditors at that date and the aggregate of the amounts which the company was invoiced by suppliers during the year, amounted to 65 (2001 - 58). The creditors days at 31 December 2001 for the inter-company suppliers amounted to 125 (2001 - 581).

Disabled employees

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

Employee consultation

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

Auditors

The directors will place a resolution before the annual general meeting to reappoint Mazars as auditors for the ensuing year.

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

By order of the Board

J. Kilazoglou

Director

Date : 2003/11/14

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those 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 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 proper accounting records which 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

To the Members of Thales Subsidiary Limited

We have audited the financial statements of Thales ATM Limited for the year ended 31 December 2002 which comprise the Profit and Loss Account, the Balance Sheet and the related Notes numbered 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As discussed in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of the company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Mazars

Mazars
Registered Auditors

14 November 2003
London

Profit and loss account

For the year ended 31 December 2002

	Note	Continuing Total 2002 £000	Total 2001 £000
Turnover	1	62,167	59,819
Operating loss	2	(10,755)	(7,746)
Cost of fundamental restructuring	3	(437)	(2,555)
Loss on ordinary activities before investment income, interest and taxation		(11,192)	(10,301)
Interest payable and similar charges	4	(2,231)	(1,708)
Loss on ordinary activities before taxation	5	(13,423)	(12,009)
Tax on profit on ordinary activities	8	(90)	(238)
Loss on ordinary activities after taxation		(13,513)	(12,247)
Retained loss for the year		(13,513)	(12,247)

The accompanying notes are an integral part of this profit and loss account.

There are no recognised gains or losses in either year other than the loss for the year.

Balance sheet

31 December 2002

	Notes	2002	2001
		£000	£000
Fixed assets			
Tangible assets	9	1,419	7,457
		1,419	7,457
Current assets			
Stocks	10	19,176	18,966
Debtors - due within one year	11	23,218	21,172
		42,394	40,138
Creditors: Amounts falling due within one year	12	(81,402)	(71,783)
Net current liabilities		(39,008)	(31,645)
Total assets less current liabilities		(37,589)	(24,188)
Provisions for liabilities and charges	13	(4,158)	(4,046)
Net assets		(41,747)	(28,234)
Capital and reserves			
Called-up share capital	14	21,519	21,519
Profit and loss account	15	(63,266)	(49,753)
Shareholders' deficit – equity		(41,747)	(28,234)

The accounts on pages 7 to 24 were approved by the board of directors on 14-11-03 2003 and signed on its behalf by:

Director

J. Kilazoglou

2003/11/14

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

Statement of accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation and change in accounting policy

Financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

In preparing the financial statements for the current year, the group has adopted FRS 19 'Deferred Tax'. The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided for on a partial provisions basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement.

The company has taken advantage of the exemption from preparing consolidated accounts afforded by Section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of Thales SA which prepares consolidated accounts which are publicly available. The company is also, on this basis, exempt from the requirement of FRS 1 to present a cash flow statement.

On 5 November 2003 the Directors obtained written confirmation of the intention of the ultimate parent to provide ongoing financial support to Thales ATM Limited and are confident that the company will be able to continue to trade and meet its liabilities as they fall due for the foreseeable future.

Research and development

Development expenditure which is related to special long term contracts is included in the anticipated cost of the contract. All other research and development expenditure funded by the company is written off as incurred.

Tangible fixed assets

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

Freehold buildings	40 years
Plant and machinery	2-10 years
Fixtures and fittings	2-10 years

Where the Directors consider there has been an impairment in the value of a fixed asset, it is written down to its estimated market value.

Residual value is calculated on prices prevailing at the date of acquisition.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Stocks

Stocks 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. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate. Uninvoiced research and development fully funded by customers is carried forward as work in progress.

Long term contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, in the basis of all available evidence at the balance sheet, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Profit is recognised on long term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract.

Pension costs

The company participates in a group defined benefit pension scheme which is funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. The company's contributions are affected by the deficit in the scheme. However it is not possible to identify the company's share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis, and the scheme is accounted for as a defined contribution scheme.

The latest available information about the existence of the deficit in the scheme and the implications of that deficit for the company are detailed in the notes to the accounts.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or, at the contracted rate of the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Cash flow statements

In accordance with Financial Reporting Standard No. 1 (Revised), the company is exempt from preparing a cash flow statement as its ultimate parent undertaking, Thales S.A., has included a cash flow statement in its financial statements which are publicly available.

Derivative financial instruments

The company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The company does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the company's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets only when the hedged transaction has itself been reflected in the company's accounts. If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

1 Segment information

Classes of business:

In the directors' opinion there was only one class of business during the year, namely Air Traffic Management services.

	Year ended 31 December 2002 £000	2001 £000
Geographical analysis of turnover:		
United Kingdom	7,928	18,985
Other European countries	30,491	22,555
Africa	3,251	41
The Americas	2,268	2,846
Asia, Middle East and Australasia	18,229	15,392
	62,167	59,819

2 Operating loss

	Total 2002 £000	Total 2001 £000
Turnover	62,167	59,819
Cost of sales	(65,804)	(60,929)
Gross (loss)/profit	(3,637)	(1,110)
Selling and distribution	(2,958)	(4,723)
Administrative expenses	(1,895)	(1,765)
Other operating expenses	(2,265)	(148)
Operating loss	(10,755)	(7,746)

3 Exceptional items reported after operating loss

The costs of a fundamental restructuring of continuing operations arose in respect of the optimisation of the workforce in terms of required skills and the improvement of the working office environment, which has had a material effect on the nature and focus of the company's operations.

As the company has no taxable profits, there was no effect on the taxation charge for the year.

4 Interest payable and similar charges

Investment income

	2002 £000	2001 £000
Other interest receivable and similar income	379	192

Interest payable and similar charges

	2002 £000	2001 £000
Bank loans and overdrafts	2,286	1,712
Interest payable to fellow group companies	144	178
Other loans	180	10
	2,610	1,900

Finance charges (net)

Interest payable and similar charges	2,610	1,900
Less: Investment income	379	192
	2,231	1,708

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging (crediting):

	2002 £000	2001 £000
Depreciation and amounts written off tangible fixed assets – owned	850	1,285
Operating lease rentals		
- plant and machinery	713	447
- other	253	304
Auditors' remuneration for audit services	56	43
Staff costs (note 6)	13,238	15,723
Foreign currency losses	88	123
Directors' emoluments (note 7)	236	245

6 Staff costs

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

	2002 Number	2001 Number
Production	241	302
Sales & Administration	72	96
	313	398

Their aggregate remuneration comprised:	2002 £000	2001 £000
Wages and salaries	12,108	13,594
Social security costs	1,252	1,451
Other pension costs (see note 18)	(122)	678
	13,238	15,723

At 31 December 2002 the following amounts were outstanding from non-director officers:

	£000	Number of Officers
Loans	9	8

7 Directors' remuneration and transactions

Remuneration

The remuneration of the directors was as follows:

	2002 £000	2001 £000
Emoluments	213	224
Company contributions to defined benefit pension schemes	23	21
	236	245

Pensions

The number of directors who were members of pension schemes was as follows:

	2002	2001
Defined benefit schemes	2	2
	2	2

Highest-paid director

The above amounts for remuneration include the following in respect of the highest paid director

	2002	2001
Emoluments and long-term incentive schemes	108	112
Company contributions to defined benefit pension schemes	12	11
	120	123

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2002 was £ 3,863 (2001 - £ 2,305 as restated).

8 Tax on profit on ordinary activities

(a) The tax charge comprises:

	2002 £000	2001 £000
Foreign tax	90	238
Total current tax (see (b) below)	90	238
Tax on profit on ordinary activities	90	238

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2001 - 30%). The differences are reconciled below:

	2002 £	2001 £
Profit on ordinary activities before tax	(13,423)	(12,009)
Profit on ordinary activities multiplied by standard rate of corporation tax In the UK of 30% (2001 – 30%)	(4,027)	(3,602)
Expenses not deductible for tax purposes (including goodwill amortisation)	(422)	373
Capital allowances for period in excess of depreciation	(211)	(32)
Utilisation/Creation of tax losses	0	3261
Tax overprovided in previous years	0	0
Group Relief	4,660	
Foreign Tax	90	238
Total current tax (note 8(a))	90	238

(c) Factors that may affect future tax charges

The company has tax losses arising in the UK of [£51,311] (2001 - £49,260) that are available indefinitely for offset against future taxable profits of those companies in which the losses arose. Deferred tax assets of [£15,393] (2001- £14,778) have not been recognised in respect of these losses as they may not be used to offset taxable profits.

8 Tax on profit on ordinary activities (continued)

No provision for deferred taxation is necessary. The full potential tax asset arising is analysed as follows:

	2002 £	2001 £
Accelerated Capital allowances	1,168	982
Other timing differences	305	746
Tax losses available	15,393	14,778
	16,866	16,506

9 Tangible fixed assets

	Freehold land and buildings £000	Plant and Machinery £000	Fixtures and Fittings £000	Total £000
Cost or valuation				
At 1 January 2002	7,940	11,173	3,400	22,513
Additions		313	676	989
Disposals	(7,940)	(2,784)	(1,252)	(11,976)
At 31 December 2002	-	8,702	2,824	11,526
Depreciation				
At 1 January 2002	(1,853)	(10,226)	(2,975)	(15,054)
Charge for the year	(95)	(700)	(55)	(850)
Disposals	1,948	2,784	1,065	5,797
At 31 December 2002	-	(8,142)	(1,965)	(10,107)
Net book value				
At 31 December 2002	-	560	859	1,419
At 31 December 2001	6,087	945	425	7,457

Freehold land, amounting to £- (2001 - £1.4 million) has not been depreciated.

10 Stocks

	2002 £000	2001 £000
Raw materials and consumables	245	304
Work-in-progress	195	340
Finished goods and goods for resale	658	695
	1,100	1,339
Long-term contract balances:		
Net cost less foreseeable losses	29,773	33,135
Less applicable payments on account	(11,697)	(15,508)
	18,076	17,627
	19,176	18,966

There is no material difference between the balance sheet value of stocks and their replacement cost.

11 Debtors

	2002 £000	As restated 2001 £000
Amounts falling due within one year:		
Trade debtors	7,053	4,544
Amounts recoverable on contracts	10,547	9,080
Amounts owed by group undertakings	912	3,700
Amounts owed by associate companies	-	-
VAT / other taxes	2,526	2,437
Other debtors	219	232
Prepayments and accrued income	1,961	1179
	23,218	21,172

12 Creditors: Amounts falling due within one year

	2002 £000	2001 £000
Bank loans and overdrafts	36,932	32,001
Other loans	18,975	3,731
Payments received on account	5,287	9,000
Trade creditors	1,000	1,999
Amounts owed to group undertakings	11,412	17,276
Amounts owed to associate companies	-	-
Other taxation and social security	1,368	58
Accruals and deferred income	6,428	7,718
	81,402	71,783

Other loans represent loans owed to group undertakings. Amounts owed to the parent undertaking, £3,975k (2001 - £3,731k) are unsecured and carry an interest of Euribor 12 months + 0.25%. Amounts owed to other group undertakings, £15,000k (2001 - £ -) are unsecured and carry an interest of 5% per annum.

13 Provisions for liabilities and charges

	Warranty Provision £000	Losses on Long term Contracts £000	Other Business Provision £000	Restructuring Provision £000	Total £000
At 1 January 2002	1,441	118	332	2,155	4,046
Charged to profit and Loss account	870	9,507	339	437	11,153
Released unused	(937)	(1,913)	(145)	-	(2,995)
Utilised in year	(146)	(12,741)	-	(2,101)	(14,988)
Transfers against WIP	-	6,942	-	-	6,942
At 31 December 2002	1,228	1,913	526	491	4,158

The warranty provision relates to anticipated costs to be borne by the company in respect of rectification and support of products already delivered to customers.

14 Share capital

	2002 £	2001 £
Authorised		
40,000,000 ordinary shares of £1 each	40,000	40,000
Allotted, called-up and fully-paid		
21,519,488 ordinary shares of £1 each	21,519	21,519

15 Reserves

	Profit and loss account £000
At 31 December 2001	(49,753)
Retained loss for the year	(13,513)
At 31 December 2002	(63,266)

16 Reconciliation of movements in shareholders' deficit

	2002 £000	2001 £000
Loss for the financial year	(13,513)	(12,247)
Opening shareholders' funds	(28,234)	(15,987)
Closing shareholders' funds	(41,747)	(28,234)

17 Financial commitments:

a) Capital commitments are as follows:

	2002 £000	2001 £000
Contracted for but not provided for		
- other	44	68

b) The value of forward exchange currency contracts entered into but not expired at the end of 2002 is £58,766,000 (2001 - £67,395,000).

c) Annual commitments under non-cancellable operating leases are as follows:

	2002		2001	
	Land and buildings £000	Other £000	Land and Buildings £000	Other £000
Expiry date				
- within one year	598	26	288	60
- between two and five years	-	277	-	246
	598	309	288	306

18 Pension arrangements

The company has continued to account for pensions in accordance with SSAP 24 and the disclosures given in a) are those required by the standard. FRS 17 "Retirement Benefits" was issued in November 2000 but will not be mandatory for the company until the year ended 31 December 2005. The transitional disclosures, to the extent that they are not given in a) are set out in b) below.

a) Standard Statement of Accounting Practice "Accounting for Pension Costs" (SSAP 24)

The company participates in a number of pension schemes, operated by the Thales Group, which cover the majority of its directors and employees. The schemes are defined benefit arrangements and are operated on a pre-funded basis. Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries.

At 31 December 2002, a prepayment of £1,611,429 is included in prepayments due in more than one year (2001 – prepayment of £700,000). This represents the excess of the amounts funded over the accumulated pensions costs.

The last valuation of the schemes were carried out at 31 March 2001 for the Racal schemes, 6 April 2002 for the Thomson Retirement Benefit Plan and the Thomson Pension Plan; and the results of these valuations and details of the main actuarial assumptions adopted for this purpose are given in the accounts of Thales Plc intermediary UK holding company.

b) Financial Reporting Standard 17 "Retirement Benefits" (FRS 17)

The company participates in a number of funded group defined benefit schemes. It is not possible to identify the company's share of assets and liabilities in the schemes on a consistent and reasonable basis. Therefore, in accordance with FRS17 para 9 (b) (multi-employer exemption), the schemes are accounted for as if they were defined contributions schemes.

The pension cost charge for the year amounted to £493,886 (year ended 31 December 2001 - £295,778).

In order to provide information about the existence of a surplus or deficit on the schemes, a separate valuation of the schemes as at 31 December 2002 using the projected unit basis required by the Standard has been obtained.

The valuation of the group schemes shows the following surplus/(deficit):

Thomson Retirement Benefit Scheme	£(21,100,000)

For the purposes of these financial statements, these figures are illustrative only and do not impact on the results or the balance sheet of the company. It should also be noted that these figures include a substantial proportion of pension assets and liabilities and liabilities relating to other group companies which also participate in the schemes.

The measurement bases required by FRS17 are likely to give rise to significant fluctuations in the reported amounts of the defined benefit pension schemes assets and liabilities from year to year, and do not necessarily give rise to a change in the contributions payable into the schemes, which are recommended by the independent actuaries based on the expected long term rate of return on the schemes assets. It has not been possible to identify the share of the surplus/deficit, which relates solely to Thales ATM Limited.

19 Ultimate controlling party

At the year end, the immediate parent company was Thales ATM S.A.S, and the ultimate parent company was Thales S.A, both companies being incorporated in France. Thales S. A is also both the largest and smallest group which includes the company and for which consolidated financial statements are prepared. Copies of the group financial statements of Thales S.A. are available from 45 rue de Villiers, 92526 Neuilly sur Seine Cedex, France.

On 1 July 2003, the entire share capital of the Thales ATM Limited was sold to Thales S.A.

20 Related party transactions

In accordance with Financial Reporting Standard No 8 "Related Party Disclosures", transactions with other undertakings within, and investee related parties to, the Thales group have not been disclosed in these financial statements.

21 Contingent asset

The company is in the process of negotiating with a customer regarding claims for additional work carried out under a contract. In the opinion of the directors, the claims will probably be settled in the company's favour at a value between £8m and £12m, less costs of presenting the claim. The directors do not expect the claims to be fully settled within the next financial year.