Thales UK PLC

Annual report and accounts
for the year ended 31 December 2004

Registered number: 3945443

Contents

Directors' report

For the year ended 31 December 2004

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 2004.

Principal activity

The principal activity of the company is to act as a non-trading, intermediate, parent company within the Thales group of companies.

The subsidiary undertakings held by the company are listed in note 6 to the accounts. Consolidated accounts are not presented as the company takes advantage of the exemption afforded by Section 228 of the Companies Act 1985.

Business review

The company did not trade during the year or preceding period. No change is currently envisaged to the company's activities.

During the year an impairment review was carried out as a result of which the value of the company's investments remained unchanged at 31 December 2004 (2003 - £91,195,000).

Results and dividends

The audited accounts for the year ended 31 December 2004 are set out on pages 6 to 18. The profit for the year after taxation was £5,419,000 (2003 - £3,270,000).

The directors do not recommend the payment of a dividend (2003 - £Nil).

Directors

The directors who served during the year were as follows:

	Appointed	Resigned
Lord Freeman		
Lord Clark		26 July 2004
Alex Dorrian		
Sir Michael Graydon		26 July 2004
John Howe		
John Hughes		26 July 2004
Alexandre de Juniac		1 July 2004
Jean-Paul Perrier		
Sir Roger Wheeler		26 July 2004
Lawrence Cavaiola	1 January 2004	
Timothy Robinson	26 July 2004	

William Paul Moffatt was appointed, and Jean-Yves Haagen resigned, as Company Secretary on 1 September 2004.

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.

The directors did hold shares in the French parent company Thales SA as at 31 December 2004 and 31 December 2003 but have taken advantage of SI 1985/802 not to disclose details in the accounts.

Donations

No charitable or political donations were made during the year (2003 – £Nil).

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the annual general meeting.

By order of the Board

W P Moffatt
Secretary

2 Dashwood Lang Road
Addlestone
Surrey
KT15 2NX

29th April 2005

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the 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 UK PLC

We have audited the financial statements of Thales UK PLC for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet and the related notes numbered 1 to 15. 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 judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, 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 at 31 December 2004 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditors
London

29 April 2005

Profit and loss account

For the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Amount written-off investments	6	-	(91,195)
Operating loss being loss on ordinary activities before finance income		-	(91,195)
Finance income (net)	2	5,170	94,235
Profit on ordinary activities before taxation	3	5,170	3,040
Tax on profit on ordinary activities	5	249	230
Profit for the financial year	10	5,419	3,270

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

There are no recognised gains or losses in either period other than the profit/(loss) for that period.

Balance sheet
31 December 2004

	Notes	2004 £000	2003 £000
Fixed assets			
Investments	6	2,468,097	2,447,120
Current assets			
Debtors due within one year	7	9,272	65,231
Cash at bank and in hand		271	37
		9,543	65,268
Creditors: Amounts falling due within one year	8	(848,355)	(888,522)
Net current liabilities		(838,812)	(823,254)
Total assets less current liabilities		1,629,285	1,623,866
Net assets		1,629,285	1,623,866
Capital and reserves			
Called-up share capital	9	726,848	726,848
Share premium account	10	873,559	873,559
Profit and loss account	10	28,878	23,459
Shareholders' funds	11	1,629,285	1,623,866

The accounts on pages 6 to 18 were approved by the board of directors on 29th April 2005 and signed on its behalf by:

Alex Dorrian
Director

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

1. Statement of accounting policies

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

Basis of preparation and change in accounting policy
The accounts have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. They have been prepared on a going concern basis, which the directors consider appropriate in the light of confirmation received from Thales SA, the parent company, that it will continue to provide financial support to the company over the next twelve months to enable it to continue in business.

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. incorporated in France 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.

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

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.

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 when, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when 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.

Pension costs

The company participates in a group defined benefit scheme which is funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. The cost of defined benefit pension schemes is assessed by professionally qualified actuaries and recognised on a systematic basis over employees' service lives.

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 of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

2. Finance Income (net)

Investment income

	2004 £000	2003 £000
Dividends received	6,000	95,000
Other interest receivable and similar income	4	1
	6,004	95,001

Interest payable and similar charges

Floating rate guaranteed unsecured loan notes 2005	834	766

Finance income/(expenditure) (net)

Interest payable and similar charges	(834)	(766)
Less: Investment income	6,004	95,001
	5,170	94,235

3. Profit on ordinary activities before taxation

The auditors' remuneration has been borne by other group companies. No amounts were payable to Ernst & Young LLP for non-audit services during the current or previous year.

4. Directors' remuneration and transactions

Remuneration

All directors remuneration is paid by a fellow group company and is not recharged.

The remuneration of the directors was as follows:

	2004 £000	2003 £000
Emoluments	1,784	1,328

Pensions

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

	2004	2003
Defined benefit schemes	2	3

The company had no employees other than directors.

4. Directors' remuneration and transactions (continued)

Highest-paid director

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

	2004 £000	2003 £000
Emoluments and long-term incentive schemes	523	545
Company contributions to money purchase schemes	13	12
	536	557

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2004 was £19,550 (2003 - £ 15,675).

5. Tax on profit on ordinary activities

a) The tax credit comprises:

	2004 £000	2003 £000
UK Corporation tax	(249)	(230)
Tax credit on profit on ordinary activities	(249)	(230)

There is no deferred tax provided or unprovided in the year (2003- £Nil)

b) Factors affecting current tax charge:

The tax assessed on the profit (2003 – profit) on ordinary activities for the year is lower than (2003 – lower than) the standard rate of corporation tax in the UK of 30% (2003 - 30%). The differences are reconciled below:

	2004 £000	2003 £000
Profit on ordinary activities before tax	5,170	3,040
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 – 30%)	1,551	912
Permanent differences	(1,800)	(1,142)
Total current tax (note 5(a))	(249)	(230)

6. Fixed asset investments

Subsidiary undertakings

The company has investments in the following subsidiary undertakings. Some of these subsidiaries are intermediate investment holding companies and details of the principal investments held by each subsidiary can be found in each subsidiary's accounts. To avoid a statement of excessive length, details of investments that are not significant have been omitted. All companies are incorporated in England & Wales.

	Principal activity	Holding	%
Thales Electronics Plc	Holding company	Ordinary shares	100
Thales UK Holdings Limited (formerly Thomson UK Holdings Limited)	Holding company	Ordinary shares	100
Thales Overseas Holdings Limited	Holding company	Ordinary shares	100
Thales I.T.& S. Holdings Limited	Holding company	Ordinary shares	100
Thales Defence Holdings Limited	Holding company	Ordinary shares	100
Thales Avionics Limited	Avionics	Ordinary shares	100
Thales Training & Simulation Limited	Simulators	Ordinary shares	100
Thales Defence Limited	*Defence manufacturer*	*Ordinary shares*	*100*
Thales ATM Limited	Air traffic management	Ordinary shares	100

	£000
Cost	
At 1 January 2004	2,618,315
Additions	30,000
Disposals	(9,023)
At 31 December 2004	2,639,292
Amounts written off	
At 1 January 2004	171,195
Written-off during the year	-
At 31 December 2004	171,195
Net book value	
At 31 December 2004	2,468,097
At 31 December 2003	2,447,120

Fixed asset investments are carried at cost less any provision for impairment in value. During the year, an impairment review carried out by the directors resulted in no change to the company's investments. (2003 – Impairment of £91,195,000). The cumulative provision at 31 December 2004 for impairment in value is £171,195,000 (2003 - £171,195,000). In the opinion of the Directors the investments are not worth less than the amount stated above.

7. Debtors

Amounts falling due within one year:	2004 £000	2003 £000
Corporation tax recoverable from group undertaking	249	230
Amounts owed by group undertakings	9,023	65,001
	9,272	65,231

8. Creditors: Amounts falling due within one year

	2004 £000	2003 £000
Floating rate guaranteed unsecured loan note 2005	11,371	24,397
Amounts owed to group undertakings	836,893	864,054
Other creditors	91	71
	848,355	888,522

The loan notes were issued by the company during 2000 in connection with the acquisition of shares in Racal Electronics PLC (now Thales Electronics PLC). They are guaranteed by Thales SA and have to be redeemed by 31 December 2005. Interest is payable at the 6 months LIBOR rate less 1%.

9. Called up share capital

	2004 £000	2003 £000
Authorised		
1,000,000,000 ordinary shares of £1 each	1,000,000	1,000,000
Allotted, called-up and fully paid		
726,847,984 ordinary shares of £1 each	726,848	726,848

10. Reserves

	Share premium account £000	Profit and loss account £000	Total £000
At 31 December 2003	873,559	23,459	897,018
Retained profit for the year	-	5,419	5,419
At 31 December 2004	873,559	28,878	902,437

11. Reconciliation of movements in shareholders' funds

	2004 £000	2003 £000
Opening shareholders' funds	1,623,866	1,620,596
Profit for the financial period	5,419	3,270
Closing shareholders' funds	1,629,285	1,623,866

12. Pension Schemes

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

The group operates a number of schemes within the UK for the benefit of employees. The schemes are both defined benefit schemes and defined contribution schemes which are operated by the former Racal and former Thomson-CSF companies.

The principal schemes are defined benefit schemes which are operated on a pre-funded basis. The assets of these schemes are held in separate trustee administered funds. The UK schemes are subject to triennial valuations and annual interim investigations by independent actuaries. The last valuations of the principal schemes were carried out on 31 March 2004 for the former Racal schemes and 6 April 2002 for the Thomson Retirement Benefit Plan and the Thomson Pension Plan using the projected unit method in which the actuarial liability makes allowance for projected pensionable earnings.

Both for the valuation of the principal schemes and for the purposes of the Statement of Standard Accounting Practice No. 24 (SSAP 24), a market based approach has been adopted utilising the main assumptions as follows:

Valuation rate of interest	- pre-retirement	6.8% per annum
	- post-retirement	5.1% per annum
General salary growth		3.8% per annum
Price inflation		2.8% per annum
Indexed Pension increases		2.6% per annum

In addition to the principal schemes, Thales Telecommunications Services Limited is the designated employer of the Thales Shared Cost Section of the Railways Pension Scheme (a defined benefit scheme operated on a pre-funded basis).

The last triennial valuation of this scheme was carried out as at 31 December 2004. For the purposes of SSAP 24 the assumptions applied to the principal schemes have also been applied to the Thales Shared Cost Section of the Railways Pension Scheme.

12. Pension Schemes (continued)

At 31 March 2004 the market value of the assets of the former Racal schemes was £652.6m and the actuarial value was sufficient to cover 66% of the benefits which had accrued to members allowing for assumed increases in earnings.

At 6 April 2002 the market value of the assets of the former Thomson schemes was £173.2m and the actuarial value was sufficient to cover 97% of the benefits which had accrued to members allowing for assumed increases in earnings.

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

The group operates a number of schemes within the UK for the benefit of employees, but this company does not participate in any of the group defined benefit schemes.

For all defined benefit schemes except the Thales Shared Cost Section of the Railways Pension Scheme and the W. Vinten Limited Pension Scheme, it is not possible to identify subsidiary company share of group assets and liabilities in these schemes on a consistent and reasonable basis. Therefore, in accordance with FRS 17 paragraph 9(b) (multi-employer exemption), the schemes will be accounted for in each subsidiary as if they were defined contribution schemes and all transitional disclosures required under FRS 17 are made in the accounts of subsidiary companies on that basis. The FRS 17 disclosures for group defined benefit pension schemes are shown below to the extent that this is possible given that consolidated accounts are not required to be produced.

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 2004 using the projected unit basis required by the Standard has been obtained.

The financial assumptions used to calculate the scheme liabilities under FRS 17 are:

	31 Dec 2004 (% p.a)	31 Dec 2003 (% p.a.)	31 Dec 2002 (% p.a.)
Rate of increase in salaries	3.8	3.8	3.4
Rate of increase of pensions in payment (LPI)	2.6	2.6	2.2
Discount rate	5.3	5.4	5.5
Inflation assumption	2.8	2.8	2.4

12. Pension Schemes (continued)

The assets in the scheme and the expected rate of return were:

	At year end 31 Dec 2004	At year end 31 Dec 2004 £m	At year end 31 Dec 2003	At year end 31 Dec 2003 £m	At year end 31 Dec 2002	At year end 31 Dec 2002 £m
Equities	7.5%	596.4	8.3%	582.3	8.5%	526.7
Bonds	5.0%	448.2	5.2%	369.4	4.5%	275.8
Property	5.7%	3.8	5.8%	3.3	6.5%	2.9
Cash	4.8%	31.9	4.0%	12.3	4.0%	20.8
Total market value of assets		1,080.3		967.3		826.2
Actuarial value of liability		(1,460.8)		(1,349.3)		(1,192.4)
Recoverable deficit in the scheme		(380.5)		(382.0)		(366.2)
Unrecognised past service credit		(4.1)				
Related deferred tax asset		114.3		114.5		109.8
Net pension liability		(270.3)		(267.5)		(256.4)

12. Pension Schemes (continued)

	Year to 31 Dec 2004 £m	Year to 31 Dec 2003 £m
Analysis of the amount charged to operating profit		
Service cost	25.7	25.8
Past service cost	(2.6)	0.1
Total operating charge	23.1	25.9
Analysis of other amounts charged to profit & loss account		
Loss on curtailment	0.6	1.9
Analysis of net return on pension scheme		
Expected return on pension scheme assets	(68.6)	(59.4)
Interest on pension liabilities	72.5	65.7
Net return	3.9	6.3
Analysis of amount recognised in statement of total recognised gains and losses (STRGL)		
Actual return less expected return on assets	32.7	69.0
Experience gains and losses on liabilities	(29.8)	(5.3)
Changes in assumptions	(26.4)	(88.2)
Actuarial loss recognised in STRGL	(23.5)	(24.5)
Adjustment due to surplus cap	-	-
Net loss recognised	(23.5)	(24.5)
Movement in surplus during the year		
Deficit in scheme at beginning of year	(382.0)	(366.2)
Movement in year:		
(Current service cost)	(25.7)	(25.8)
Contributions	48.5	42.8
(Past service costs)	6.7	-
(Curtailment cost)	(0.6)	(2.0)
Net interest cost	(3.9)	(6.3)
Actuarial loss	(23.5)	(24.5)
Deficit in scheme at end of year	(380.5)	(382.0)

12. Pension Schemes (continued)

History of experience gains and losses	***Financial* year ending 31 Dec 2004**	***Financial* year ending 31 Dec 2003**
Difference between expected and actual return on scheme assets:		
Amount (£m)	32.7	69.0
Percentage of scheme assets	3%	7%
Experience gains and losses on scheme liabilities:		
Amount (£m)	(29.8)	(5.3)
Percentage of scheme liabilities	(2)%	(0)%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£m)	(23.5)	(24.5)
Percentage of scheme liabilities	(2)%	(2)%

13. Contingent liabilities

The company has contingent liabilities totalling £569,000 (2003 - £1,014,000) in respect of guarantees of subsidiary companies, bank loans and overdrafts and bank indemnities.

14. Ultimate controlling party

The immediate parent company and the ultimate parent company is Thales SA, a company incorporated in France. This is also both the largest and smallest group which includes the company and for which consolidated financial statements are prepared. Copies of the group financial statements of Thales SA are available from 45 rue de Villiers, *92526 Neuillv sur Seine Cedex, France.*

15. Related party transactions

In accordance with Financial Reporting Standard 8 "Related Party disclosures", transactions with other undertakings within investee parties related to the Thales group have not been disclosed in these financial statements.