

**Thales Training & Simulation (Merlin) Limited**

Annual report and financial statements

For the year ended 31 December 2019

Registered number: 4004490



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## Company information

### **Directors**

J Standen (resigned 15 April 2019)

D Rawlins (appointed 18 April 2019)

P Jayne

S McCann

### **Company secretary**

M W P Seabrook

### **Registered office**

350 Longwater Avenue

Green Park

Reading

RG2 6GF

### **Auditor**

Mazars LLP

Chartered Accountants and Statutory Auditor

Tower Bridge House

St Katharine's Way

London

E1W 1DD

## Directors' report

The Directors present their annual report and financial statements, together with the auditor's report, for the year ended 31 December 2019.

### Principal activities

The principal activity of the Company was to provide aircrew training services to the Ministry of Defence (MoD) under the FIASTS Public Private Partnership (PPP) contract. Services included instruction and maintenance of aircraft simulators based on an RAF site at Linton-on-Ouse. This contract was terminated in line with the Customer's requirements on 31<sup>st</sup> October 2019. Accordingly, the Company will no longer carry out any activity after the close out of the contract.

### Dividends

An interim dividend of £2,000,000 was declared and paid in 2019 (2018: £Nil). The Directors do not recommend the payment of a final dividend (2018: £NIL).

### Going concern

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

### Brexit and COVID-19 review

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020. However the terms of the future trade and other relationships with European Union are not yet clear, and it is therefore not currently possible to evaluate all the potential implications to the Thales UK group and its trade, customers, suppliers and the wider economy. In order to manage the uncertainties associated with Brexit, the Thales Group has assessed the potential impacts of Brexit and has put in place measures to monitor the on-going impacts.

As regards the recent emergence of the global coronavirus (COVID-19), the full impact is still unknown. It is therefore not currently possible to evaluate all the potential implications to the Thales UK group and its trade, customers, suppliers and the wider economy.

However, in the Directors' view, the potential impacts of both Brexit and COVID-19 for the Company are limited by the fact that the Company does not trade in its own right. These matters are addressed further in the Going Concern policy on page 14.

At the time of signing these financial statements, the Directors have not identified any impacts of Brexit or of COVID-19 which might require a material change to the current activities of the Company, nor which would require any adjustments to the financial amounts presented in the financial statements at 31 December 2019.

## Directors' report (continued)

### Environmental information

The Thales Group in the UK has implemented an Environmental Policy to conduct our current and future business in a way that protects the environment. This is achieved through development and implementation of environmental management systems against which we report environmental performance regularly to the Thales Holdings UK plc board. It is a Thales requirement that operating companies are certified to the International Standard for Environmental Management Systems ISO 14001 to which we have been certified. Current environmental programmes include reducing our carbon footprint and implementing a Green Purchasing programme.

### Directors

The Directors who served during the year were as follows:

#### Name

J Standen (resigned 15 April 2019)

D Rawlins (appointed 15 April 2019)

P Jayne

S McCann

### 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.

### Donations

No political donations were made during the year or in the prior year.

### Disclosure of information to the auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of the auditor, the Directors have taken all the steps they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditor

In accordance with section 489 of the Companies Act 2006, the Company has appointed Mazars as its auditor.

On behalf of the Board



Paul Jayne, Director

27 April 2020

350 Longwater Avenue  
Green Park  
Reading, RG2 6GF

## Strategic report

### Business review

As set out in the directors' report, the Company's main contract and source of revenues ended on 31 October 2019, and it is anticipated that the Company will cease to operate training services after 2019.

The revenue for the year ended 31 December 2019 was £3,035,000 (2018: £3,406,000), generating profit before tax of £608,000 (2018: £892,000).

### Section 172(1) Statement

The Directors have taken account of new reporting requirements as required by the *The Companies (Miscellaneous Reporting) Regulations 2018* (the Regulations) which apply for 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 17 for ultimate parent company details).

Under the Regulations, the Directors are required to report on certain specified matters, notably including the way in which it engages in the relationships it has with other parties who are key stakeholders to the Company's business. In this regard, the Directors have identified that key stakeholder relationships exist with its customer, the UK MOD, its shareholder and fellow subsidiaries of the Thales Group in the UK, suppliers, and crucially its employees who conduct the Company's activities.

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

The Company's sole customer was the UK MOD under a 17 year long PPP contract which ended during the year. Under the contract, quarterly customer meetings were held where the business reported any issues encountered together with performance and commercial updates.

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

Regular contact was maintained with the major sub-contractors, and they were notified of the contract termination in a timely manner.

Employees were kept informed of the contract evolution and progression to termination, and arrangements were made in an orderly way for the employees to either leave the business at the end of the year, or where appropriate, be re-deployed in the business.

The Directors note that the Company ceased to operate on 26 November 2019, and as such, the above methods of stakeholder engagement have been scaled down to the level appropriate to winding up the Company's affairs in an orderly manner.

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.

## Strategic report (continued)

### Key performance indicators

The customer has the right to deduct service credits in relation to various parts of the service being unavailable as prescribed within the contract. The Company has therefore put in place a set of KPIs in order to monitor performance and minimise any service credit claims that may arise. There were no service credits incurred in 2019 (2018: £Nil).

In light of the termination of the Company's contract with the MoD, there will not be any performance measures applicable after 2019.

### Financial risk management objectives and policies

The Company's principal financial instruments, other than derivatives, comprise cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

### Credit risk

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

The Company trades mainly with the UK MoD and has a minimal level of trade with other third parties. The Company recognises that this constitutes a significant concentration of credit risk to one party but believes that as the MoD is a government agency, this is not a significant risk.

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 on-going 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 comprises 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.

On behalf of the Board



Paul Jayne, Director  
27 April 2020

350 Longwater Avenue  
Green Park  
Reading  
RG2 6GF

## Directors' responsibilities statement

The Directors are responsible for preparing the directors' report, the strategic report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; 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 Training & Simulation (Merlin) Limited for the year ended 31 December 2019

### Opinion

We have audited the financial statements of Thales Training & Simulation (Merlin) Limited for the year ended 31 December 2019 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes 1 to 18 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### 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 below. 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.

### Emphasis of matter – impact of the outbreak of COVID-19 on the financial statements

In forming our opinion on the company financial statements, which is not modified, we draw your attention to the directors' view on the impact of the COVID-19 as disclosed on page 2, and the consideration in the going concern basis of preparation on page 14 and non-adjusting post balance sheet events on page 26.

Since the balance sheet date there has been a global pandemic from the outbreak of COVID-19, the potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across in world, including the UK.

The full impact of following the recent emergence of the COVID-19 is still unknown. It is therefore not currently possible to evaluate all the potential implications to the company's trade, customers, suppliers and the wider economy.

## Independent auditor's report to the members of Thales Training & Simulation (Merlin) Limited for the year ended 31 December 2019 (continued)

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### 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.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### 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 directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the 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 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 by the parent company, 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.

# Independent auditor's report to the members of Thales Training & Simulation (Merlin) Limited for the year ended 31 December 2019 (continued)

## Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 6, 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 these financial statements.

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

## Use of our 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.



Jonathan Seaman (Senior Statutory Auditor)  
For and on behalf of Mazars LLP  
Chartered Accountants and Statutory Auditor  
Tower Bridge House  
St Katharine's Way  
London  
E1W 1DD

27 April 2020

Statement of comprehensive income  
for the year ended 31 December 2019

	Note	2019 £000	2018 £000
<b>Dis-continued operations</b>			
Revenue	3	3,035	3,406
Cost of sales		(1,763)	(1,977)
<b>Gross profit</b>		1,272	1,429
Administrative expenses		(664)	(537)
Finance income		-	-
<b>Profit before taxation</b>		608	892
Income tax expense	6	-	-
<b>Profit for the year</b>		608	892
<b>Total comprehensive income for the year</b>		608	892

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

Statement of financial position  
as at 31 December 2019  
Company registration number 4004490

	Note	2019 £000	2018 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	8	-	-
		-	-
<b>Current assets</b>			
Trade and other receivables	9	-	2,675
Cash and cash equivalents	10	3,358	2,565
		3,358	5,240
<b>Total assets</b>		3,358	5,240
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	-	(490)
		-	(490)
<b>Net current assets</b>		3,358	4,750
<b>Total liabilities</b>		-	(490)
<b>Net assets</b>		3,358	4,750
<b>Equity</b>			
Share capital	15	2,700	2,700
Retained earnings		658	2,050
<b>Total Shareholders' funds</b>		3,358	4,750

The financial statements on pages 10 to 26 were approved by the Board of Directors and authorised for issue on 27 April 2020.

They were signed on its behalf by:



Paul Jayne, Director

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

**Statement of changes in equity**  
for the year ended at 31 December 2019

	<b>Share capital £000</b>	<b>Retained earnings £000</b>	<b>Total £000</b>
<b>At 1 January 2018</b>	2,700	1,158	3,858
Profit for the year	-	892	892
<b>At 1 January 2019</b>	2,700	2,050	4,750
Profit for the year	-	608	608
Dividend paid (note 7)		(2,000)	(2,000)
<b>At 31 December 2019</b>	<u>2,700</u>	<u>658</u>	<u>3,358</u>

The retained profit relates to the performance of the Company.

The notes on pages 14 to 26 form an integral part of these financial statements.

**Statement of cash flows**  
for the year ended 31 December 2019

	Note	<b>2019</b> £000	<b>2018</b> £000
<b>OPERATING ACTIVITIES</b>			
Profit before tax		608	892
<b>Operating cash flows before movement in working capital</b>		608	892
(Increase)/decrease in receivables	9	2,675	(2,023)
(Decrease)/increase in payables	11	(490)	(2,048)
<b>Cash generated from operations</b>		2,793	(3,179)
<b>Net cash flows from operating activities</b>		2,793	(3,179)
<b>FINANCING ACTIVITIES</b>			
Dividends paid	7	(2,000)	-
<b>Net cash flows from financing activities</b>		(2,000)	-
<b>Net increase/ (decrease) in cash equivalents</b>		793	(3,179)
<b>Cash &amp; cash equivalents at beginning of year</b>	10	2,565	5,744
<b>Cash &amp; cash equivalents at end of year</b>	10	3,358	2,565

## Notes to the financial statements

for the year ended 31 December 2019

### 1. Corporate information

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 27 April 2020. The Company is a limited company 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 17.

### 2. Accounting policies

#### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS regulations. The financial statements have been prepared on a historical cost basis. 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.

#### Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has sufficient resources to continue to meet its liabilities for the foreseeable future and therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Although the contract with the customer was terminated during the year, and the Company's activities for the year are reported as Discontinued Operations in the Statement of Comprehensive Income, the Directors consider that there will be no significant future trading transactions which might impact the positive net equity position reported in the Statement of Financial Position at 31 December 2019. Based on this, the Directors consider that the going concern basis of accounting remains appropriate in preparing the financial statements.

In concluding their assessment that it is appropriate to adopt the going concern basis of accounting in preparing the annual financial statements for the year ended 31 December 2019, the Directors have taken account of the uncertainties related to events which have occurred since that date, notably Brexit and the global emergence of the Corona virus, COVID-19.

As indicated in the Directors' report and in the Directors' view, the potential impacts of both Brexit and COVID-19 for the Company are limited by the fact that the Company no longer trades in its own right, and consequently, neither of these issues is considered by the Directors to make it inappropriate to adopt the going concern basis of accounting in preparing the annual financial statements.

The principal accounting policies adopted are set out below.

#### Intangible assets

Development costs are measured initially at purchase cost and amortised on a straight line basis over its estimated useful life. The amortisation period for development costs incurred is 14 years.



## Notes to accounts

for the year ended 31 December 2019

### 2. Accounting policies (continued)

#### Financial instruments

##### Financial assets

IFRS 9 introduced a single approach to classification and measurement of financial assets, based on the characteristics of the financial instruments and on the Company's management and intention. Thus:

- Financial assets with expected cash flows that solely correspond to principal and interest payments are measured at amortised costs if managed only to collect these flows:
- In other cases, financial assets are measured at fair value through the income statement, except for equity investments not held for trading and whose changes in value affect optionally the Other Comprehensive Income (OCI).

These principles are reflected as follows on the assets presented in the Company's balance sheet:

- Receivables and financial loans are recognised at amortised cost. They are subject to impairment if an expected loss or an impairment indicator is identified. This impairment, recognised in "other financial income (expense)", may subsequently be reversed through profit and loss if the conditions so justify.
- Other financial assets are estimated at fair value through the profit and loss.
- Cash and cash equivalents include cash at bank and in hand as well as cash equivalents (short-term and liquid investments that are easily converted into a known amount of cash and exposed to negligible risk of a change in value).

##### Financial liabilities

- Borrowings and other financial liabilities are measured at amortised cost using the effective interest rate. Upon initial recognition, premiums, redemption and issuance costs are included in the calculation of the effective interest rate and are recognised in the profit and loss account on an actuarial basis over the life of the loan.

##### Trade receivables

Trade receivables are carried at fair value (in the majority of cases this will equate to original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year-end). Bad debts are written off when identified. Long term receivables are discounted where necessary.

**Notes to the financial statements (continued)**  
for the year ended 31 December 2019

**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.

**Financial liabilities and equity**

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

**Trade payables**

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

**Taxation**

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

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

**Revenue recognition**

Revenue represents the fair value of consideration received or receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. Sales of goods are recognised when goods are delivered and title has passed. Operating revenue from services provided is recognised insofar as the transaction has been completed on the reporting date.

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

## Notes to the financial statements (continued)

for the year ended 31 December 2019

### 2. Accounting policies (continued)

#### Retirement benefit costs

The Company participates in the Thales UK Pension Scheme (TUPS) which is a defined benefit retirement benefit scheme managed by Thales UK Limited for the benefit of employees and former employees of the Thales Group in the UK. The annual cost of contributions associated with employees who are members of this scheme is borne by the Company as an expense in the statement of comprehensive income and there is no impact retained in the statement of financial position. The impact for 2019 in these financial statements is shown in note 13.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

#### 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.

#### 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

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

##### *Deferred tax recognition*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits. Further details on deferred tax asset recognition are disclosed in Note 14.

Notes to the financial statements (continued)  
for the year ended 31 December 2019

**2. Accounting policies (continued)**

**Application of new and revised International Financial Reporting Standards (IFRS's)**

**New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, with the exception of those resulting from the first application of IFRS 15 (Revenue from contracts with customers), IFRS 9 (Financial instruments), and IFRS 16 (Leases). Following due consideration, the Directors concluded that the new and amended International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2019 did not have a material impact on the annual financial statements of the Company. Accordingly, no re-statement of the financial statements for the previous year to reflect the application of these new standards in 2019 was considered necessary by the Directors.

**3. Revenue**

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

	<b>2019</b> £000	<b>2018</b> £000
Rendering of services	3,035	3,406
Revenue per statement of comprehensive income	3,035	3,406
Finance income	-	-
Revenue as defined in IFRS15	3,035	3,406
	<b>2019</b> £000	<b>2018</b> £000
Order book at 1 January	2,913	-
Order intake – non-Group	122	6,319
Revenue – non-Group - as defined in IFRS 15	(3,035)	(3,406)
Order book at 31 December	-	2,913

**4. Profit from operations**

	<b>2019</b> £000	<b>2018</b> £000
Staff costs (note 5)	451	603
Auditor's remuneration for audit services	6	6

Amounts payable to Mazars LLP and their associates by the Company in respect of non-audit services were £Nil (2018: Ernst & Young LLP - £Nil).

**Notes to the financial statements (continued)**  
for the year ended 31 December 2019

**5. Staff costs**

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

	<b>2019</b> Number	<b>2018</b> Number
Production	8	11
Administration	1	1
	<u>9</u>	<u>12</u>

	<b>2019</b> £000	<b>2018</b> £000
Their aggregate remuneration comprised:		
Wages and salaries	381	509
Social security costs	47	70
Other pension costs (see note 13)	23	24
	<u>451</u>	<u>603</u>

**Directors' emoluments**

	<b>2019</b> £000	<b>2018</b> £000
Directors' remuneration	-	-
Pension contributions	-	-
	<u>-</u>	<u>-</u>

	<b>No.</b>	<b>No.</b>
During the period the following number of Directors:		
Accrued benefits under money purchase pension schemes	-	-
Accrued benefits under defined benefit pension schemes	-	-
Exercised share options	-	-
Received entitlement to shares under long term incentive schemes	-	-

Notes to the financial statements (continued)  
for the year ended 31 December 2019

**6. Income tax expense**

	<b>2019</b> £000	<b>2018</b> £000
<b>Current tax:</b>		
UK corporation tax	-	-
<b>Total current tax</b>	-	-
<b>Deferred tax</b>		
Origination and reversal of temporary differences	-	-
Adjustments in respect of prior years	-	-
<b>Total deferred tax</b>	-	-
<b>Total tax charge for the year</b>	-	-

The rate of corporation tax remained unchanged at 19%. A reduction to 17% effective 1 April 2020 was included in the Finance Act 2016 which was substantively enacted on 6 September 2016.

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

	<b>2019</b> £000	<b>2018</b> £000
Profit before tax	608	892
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19 %)	116	169
Tax effects of:		
Adjustments to prior year (deferred tax)	-	-
Deferred tax rate change impact movement	(11)	(2)
Movement in unrecognised deferred tax	(96)	(21)
Group relief surrendered for nil payment	(9)	(146)
<b>Total tax charge for year</b>	-	-

Notes to the financial statements (continued)  
for the year ended 31 December 2019

**7. Dividends**

	<b>2019</b> £000	<b>2018</b> £000
<b>Amounts recognised as distributions to equity holders in the year</b>		
Interim dividends paid for the year ended 31 December 2019 of 74.0741p per share (2018: £Nil).	2,000	-
	<hr/>	<hr/>

**8. Intangible assets**

	<b>Development costs</b> £000
<b>Cost</b>	
At 1 January 2018	232
	<hr/>
At 31 December 2018	232
Disposals	(232)
	<hr/>
At 31 December 2019	-
	<hr/>
<b>Amortisation</b>	
At 1 January 2018	(232)
Charge for the year	-
	<hr/>
At 31 December 2018	(232)
Disposals	232
	<hr/>
At 31 December 2019	-
	<hr/>
<b>Carrying amount</b>	
At 31 December 2019	-
	<hr/>
At 31 December 2018	-
	<hr/>
At 1 January 2018	-
	<hr/>

Notes to the financial statements (continued)  
for the year ended 31 December 2019

**9. Trade and other receivables**

	<b>2019</b>	<b>2018</b>
	£000	£000
Accrued income	-	312
Amounts owed by group undertakings	-	2,000
Prepayments and other receivables	-	363
Trade and other receivables	<u>-</u>	<u>2,675</u>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.  
Trade receivables are non-interest bearing and are normally settled within 30 days.

**10. 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 of £3,358,000 (2018 £2,565,000) approximates their fair value.

**11. Trade and other payables**

	<b>2019</b>	<b>2018</b>
	£000	£000
Trade payables	-	2
Amounts owed to group undertakings	-	232
Other taxes and social security costs	-	89
Accruals and deferred income	-	167
Trade and other payables	<u>-</u>	<u>490</u>

The Directors consider that the carrying amount of trade payables approximates their fair value.  
Trade payables are non-interest bearing and normally settled on a 30 day term.



Notes to the financial statements (continued)  
for the year ended 31 December 2019

**12. Financial instruments**

**Categories of financial instruments**

	Loans and receivables £000	Liabilities at amortised cost £000	Total £000
<b>31 December 2019</b>			
<b>Assets</b>			
Trade and other receivables	-	-	-
	<hr/>	<hr/>	<hr/>
	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Liabilities</b>			
Trade and other payables	-	-	-
	<hr/>	<hr/>	<hr/>
	-	-	-
	<hr/>	<hr/>	<hr/>
<b>31 December 2018</b>			
<b>Assets</b>			
Trade and other receivables	2,650	-	2,650
	<hr/>	<hr/>	<hr/>
	2,650	-	2,650
	<hr/>	<hr/>	<hr/>
<b>Liabilities</b>			
Trade and other payables	-	490	490
	<hr/>	<hr/>	<hr/>
	-	490	490
	<hr/>	<hr/>	<hr/>

**Fair value**

The Directors consider that for all financial instruments, assets and liabilities that are carried in the financial statements, the carrying value approximates the fair value. The carrying amount of the assets above represents the Company's maximum exposure to credit risk.

**Fair value hierarchy**

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

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

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

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

Notes to the financial statements (continued)  
for the year ended 31 December 2019

**13. Retirement benefit schemes**

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

**Defined contribution schemes**

The total cost charge to income in relation to defined contribution schemes amounted to £23,000 (2018: £24,000) representing contributions payable to the schemes by the Company at rates specified in the rules of the plan.

**Defined benefit schemes**

The total cost charged to income in relation to defined benefit schemes amounted to £Nil (2018: £Nil).

**14. 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.

	Capital allowances	Total
	£000	£000
Deferred tax asset		
<b>As at 1 January 2019</b>	-	-
Charged to the income statement	-	-
<b>As at 31 December 2019</b>	-	-

**15. Share capital**

	2019 £000	2018 £000
<i>Authorised</i>		
2,700,000 ordinary shares of £1 each	2,700	2,700
<i>Allotted, called-up and fully-paid</i>		
2,700,000 ordinary shares of £1 each	2,700	2,700

Notes to the financial statements (continued)  
for the year ended 31 December 2019

**15. Share capital (continued)**

**Capital management**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

**16. Payments under short term and low value service arrangements**

	2019 £000	2018 £000
Payments under short term and low value service arrangements charged to expense for the year	3	4

**17. Related party transactions**

The immediate parent company is Thales Training and Simulation Limited registered in the UK. The ultimate parent company is Thales SA a company incorporated in France. This is also both the largest and smallest group which includes the company and for which consolidated financial statements are prepared. Copies of the group financial statements of Thales SA are available from Tour Carpe Diem, 31 place des Corolles, 92098 Paris La Défense, France.

**Trading transactions**

During the year, the Company entered into the following trading transactions with related parties:

	Purchases of goods		Amounts owed to related parties	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Parent company	1,379	1,312	-	232

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

## Notes to the financial statements (continued)

for the year ended 31 December 2019

### 17. Related party transactions (continued)

#### Other related party transactions

In addition to the above, Thales UK Limited performed certain administrative services for the Company, for which a management fee of £253,000 (2018: £290,000) was charged and paid, being an appropriate allocation of costs incurred by relevant administrative departments.

There were no balances outstanding by group undertakings at 31<sup>st</sup> December 2019 (2018 – £2,000,000).

### 18. Events since the balance sheet date

In preparing the financial statements for the year ended 31 December 2019, the Directors have considered those events which have occurred since that date which might impact upon the Company's ability to continue to operate its current activities, or which might impact the financial values as stated in the statement of financial position at 31 December 2019.

In this regard, the Directors have identified two issues which, in their view, warrant specific consideration and disclosure in these financial statements.

Firstly, the United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020. However the terms of the future trade and other relationships with the European Union are not yet clear, and it is therefore not currently possible to evaluate all the potential implications to the Thales UK group and its trade, customers, suppliers and the wider economy.

Secondly, the full impact following the recent emergence of the global coronavirus is still unknown. It is therefore not currently possible to evaluate all the potential implications to the Thales UK group and its trade, customers, suppliers and the wider economy.

In the Directors' view, the potential impacts of both Brexit and COVID-19 for the Company are limited by the fact that the Company no longer trades in its own right.