

# **Thales Rail Signalling Solutions Limited**

Annual report and accounts  
for the year ended 31 December 2007

Registered number 5805963



	Page
Directors' report	1
Directors' responsibilities	6
Independent auditors' report	7 - 8
Income statement	9
Balance sheet	10 - 11
Cash flow statement	12
Notes to accounts	13 - 38

## Directors' report

The directors present their annual report and financial statements, together with the auditors' report, for the year ended 31 December 2007

### Principal activities

The principal activities of the business are the sales, distribution and maintenance of transport communications equipment manufactured by members of the Thales SA group of companies

### Business review

On the 5<sup>th</sup> January 2007, Alcatel Transport Solutions UK Limited was ultimately sold by Alcatel SA to Thales SA and the company was renamed Thales Rail Signalling Solutions Limited

Revenue for the year was up to £98.9m from £7.2m in the 8 months to December 2006. Operating loss decreased from £7.2m to £3.8m. The loss after tax decreased from £7.2m to £4.4m. The company's net liabilities have improved from £11.1m to £0.1m.

The majority of the revenue was from a major contract, which provides rail signalling solutions as part of the upgrade on several London underground lines. 2007 was also the first full year of trading and the increased scale of works in relation to this contract has seen revenues increase and an improved loss from the previous year.

No significant investment was made on research and development in the year.

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

	2007 £000s	2006 £000s	Change %
Turnover	98,871	7,243	1265%
Loss from Operations	3,844	7,184	-46%
Loss after Tax	4,376	7,191	-39%
Total Equity	(44)	(11,068)	100%
Average Headcount	140	119	18%

Details of significant events since the balance sheet date are contained in note 22 to the accounts.

The Directors expect the general level of activity to increase in regards to revenues and headcount over the next 12 months due to the increase scale of works of this major contract and also growth of the core rail signalling business within the UK. In addition to this further improvement of the operating loss is expected. As a result the directors believe that the accounts should be prepared on a going concern basis.

### Dividends

The directors do not recommend the payment of a dividend (2006 - Nil)

## Directors' report (continued)

### **Financial risk management objectives and policies**

The Company's principal financial instruments, other than derivatives, comprise bank loans and overdraft, and 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.

The Company also enters into derivative transactions, in the form of forward currency contracts. The purpose is to manage currency risks arising from the Company's operations and its sources of finance.

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

The main risks arising from the Company's financial instruments are foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Company's accounting policies in relation to derivatives are set out in Note 14.

### **Foreign currency risk**

The Company also has transactional currency exposures. The Company uses forward currency contracts to eliminate the currency exposures. The forward currency contracts must be in the same currency as the hedged item. It is the Company's policy not to enter into forward contracts until a firm commitment is in place.

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

### **Credit risk**

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

The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. This may also involve the negotiation of third party guarantees of customer creditworthiness. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

### **Commodity price risk**

The Company's exposure to price risk is minimal.

### **Cashflow interest rate risk**

The Company's exposure to the risk for changes in market interest rates is minimal.

## Directors' report (continued)

### Liquidity risk

The Company's exposure to liquidity risk is minimal

### Capital management

The primary objective of the Company's capital management is to support its business and maximise shareholder value taking into consideration the financial policy of the Group

The Company manages its capital structure in line with Group policies. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006

### Environmental Information

Thales UK have 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 Thales Holding UK plc board. It is a Thales requirement that operating companies are certified to the International Standard for Environmental Management Systems ISO 14001 to which we are currently working towards certification. 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

D Laroche	-	appointed 16 <sup>th</sup> June 2006
P Batley	-	appointed 5 <sup>th</sup> January 2007
J Walker	-	appointed 5 <sup>th</sup> January 2007
S Jones	-	appointed 2 <sup>nd</sup> July 2007
M Hearn	-	appointed 3 <sup>rd</sup> September 2008
M Halinaty	-	appointed 5 <sup>th</sup> January 2007, resigned 2 <sup>nd</sup> July 2007
T Ahmed	-	resigned 5 <sup>th</sup> January 2007
JC Normand	-	resigned 5 <sup>th</sup> January 2007
L Sadiq	-	resigned 5 <sup>th</sup> January 2007
R Strubbe	-	resigned 5 <sup>th</sup> January 2007

## Directors' report (continued)

### **Supplier payment policy**

It is the company's normal practice to make payments to suppliers promptly provided that the supplier has performed in accordance with the relevant terms and conditions

Creditors days at 31 December 2007, based on the aggregate of the amounts that were owed to trade creditors at that date and the aggregate of the amounts that the Company was invoiced by suppliers during the year, amounted to 100 days (2006 - 52 days)

### **Employee matters**

People are the Company's greatest assets. With growing competition, attracting and retaining quality workers from the local community is key. Therefore it makes good business sense to incorporate attractive employment policies and principles with the view to creating a skilled, happy, diverse, proud and motivated workforce. This is what the company tries to achieve.

### **Disabled employees**

The Company's attitude concerning the employment of disabled persons is the same as that relating to all other staff in matters of recruitment, continuity of employment, training, development and promotion. Nevertheless the Company is very conscious of the difficulties experienced by the disabled and takes account sympathetically of individual circumstances. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is provided.

## Directors' report (continued)

### Disclosure of information to the auditors

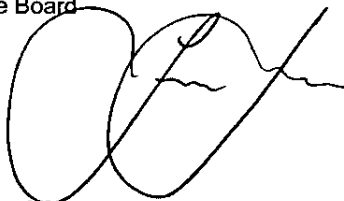
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of the auditor, the director has taken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

### Auditors

In accordance with section 384 of the Companies Act 1985, the company has elected not to re-appoint its auditors annually and Mazars LLP will therefore continue in office.

By order of the Board

S Jones  
Director

A handwritten signature in black ink, consisting of a large, stylized 'S' followed by a horizontal line and a diagonal stroke.

Dated 31 day of October 2008

Thales Rail Signalling Solutions Limited  
2 Dashwood Lang Road  
The Bourne Business Park  
Addlestone  
Near Weybridge  
Surrey KT15 2NX

## Statement of Directors' responsibilities

United Kingdom company law requires the directors to prepare accounts 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 accounts, 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 accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, 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 Rail Signalling Solutions Limited

We have audited the financial statements of Thales Rail Signalling Solutions Limited for the year ended 31 December 2007, which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted for use in the European Union.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 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, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.

Independent auditors' report to the shareholders of Thales Subsidiary Limited (continued)

Without qualifying our opinion, we draw your attention to note 1 to the financial statements. The company has a contract with its main customer in the UK. The contract provides certain mechanisms to address in the normal course of business those aspects of delivering the contract works where the scope, cost and timing of works are anticipated to vary due to factors which are expected to be within the control of the parties of the contract, as well as certain factors which are regarded as being outside their control. Such factors have occurred during the course of 2007 and subsequently in 2008.

As a result, it has been necessary for the Company to make certain assumptions about the financial impact of the eventual outcome of the application of those factors which it regards as being subject to resolution with the mechanisms provided in the contract and related discussions.

*Mazars LLP*

**Mazars LLP**  
Chartered Accountants  
and Registered Auditors  
Tower Bridge House  
St Katharine's Way  
London  
E1W 1DD

*31 October 2008*

# Income Statement

For the year ended 31 December 2007

	Note	Year ended 31.12.2007 £000	Year ended 31.12.2006 as restated £000
<b>Continuing operations</b>			
Revenue	2	98,871	7,243
Cost of sales		(95,177)	(13,692)
<b>Gross profit</b>		3,694	(6,449)
Administrative expenses		(3,577)	(524)
Other Operating expenses		(3,961)	(211)
<b>Loss from operations</b>	3	(3,844)	(7,184)
Investment income	4	256	8
Finance costs	5	(2,658)	(11)
<b>Loss before taxation</b>		(6,246)	(7,187)
Tax credit	7	1,870	(4)
<b>Loss for the period</b>		(4,376)	(7,191)

The accompanying notes are an integral part of this income statement

All operations are classed as continuing

## Statement of Recognised income and expense

	Year ended 31.12.2007 £000	Year ended 31 12.2006 as restated £000
<b>Cash flow hedges</b>		
- Fair value gains/(losses) in year	21,544	(5,600)
- Tax on fair value gains/(losses)	(6,144)	1,680
<b>Net income/(loss) recognised directly in equity</b>	15,400	(3,920)
Loss for the year	(4,376)	(7,191)
<b>Total recognised income/(loss) for the year</b>	<b>11,024</b>	<b>(11,111)</b>

**Balance sheet**  
at 31 December 2007

	<b>Note</b>	<b>Year ended 31 12.2007 £000</b>	<b>Year ended 31 12 2006 as restated £000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Deferred tax asset	16	2	1,680
Property, plant & equipment	8	32	63
		<u>34</u>	<u>1,743</u>
<b>Current assets</b>			
Trade and other receivables	9	25,513	10,071
Current tax receivables		1,864	-
Derivative financial instruments	14	16,718	69
Cash and cash equivalents	11	18,149	5,666
		<u>62,244</u>	<u>15,806</u>
<b>Total assets</b>		<u>62,278</u>	<u>17,549</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	(25,236)	(21,047)
Provisions	13	(800)	-
Derivative financial instruments	14	-	(5,669)
Other liabilities		(31,822)	(1,897)
		<u>(57,858)</u>	<u>(28,613)</u>
<b>Net current assets/(liabilities)</b>		<u>4,420</u>	<u>(11,064)</u>
<b>Non-current liabilities</b>			
Deferred tax liability	16	(4,464)	(4)
		<u>(4,464)</u>	<u>(4)</u>
<b>Total liabilities</b>		<u>(62,322)</u>	<u>(28,617)</u>
<b>Net liabilities</b>		<u>(44)</u>	<u>(11,068)</u>

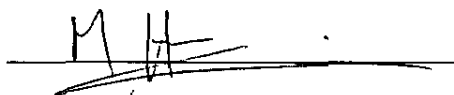
Balance sheet (continued)  
at 31 December 2007

	Note	Year ended 31 12 2007 £000	Year ended 31 12 2006 £000 <i>as restated</i>
<b>EQUITY</b>			
Share capital	17	-	-
Share premium account	18	43	43
Hedging and translation reserves	18	15,944	(5,600)
Other reserves	18	(4,464)	1,680
Retained earnings	18	(11,567)	(7,191)
<b>Total equity</b>		<u>(44)</u>	<u>(11,068)</u>

The accounts on pages 9 to 38 were approved by the board of directors and authorised for issue on **31 OCT 2008**

They were signed on its behalf by

M Hearn  
Director



The accompanying notes are an integral part of this balance sheet

**Cash flow statement**  
for the year ended 31 December 2007

	Note	Year ended 31 12 2007 £000	Year ended 31.12 2006 as restated £000
<b>OPERATING ACTIVITIES</b>			
Loss from operations		(3,844)	(7,184)
Adjustments for			
Depreciation of property, plant & equipment		33	3
Increase in provisions		800	-
Fair value gains on forward contracts – cash flow hedges		(775)	-
<b>Operating cash flows before movement in working capital</b>		<b>(3,786)</b>	<b>(7,181)</b>
Increase in receivables		(17,306)	(10,071)
Increase in payables		35,979	22,944
<b>Cash generated from operations</b>		<b>14,887</b>	<b>5,692</b>
Interest paid		(2,658)	(11)
<b>Net cash from operating activities</b>		<b>12,229</b>	<b>5,681</b>
<b>INVESTING ACTIVITIES</b>			
Interest received		256	8
Purchases of property, plant and equipment		(2)	(66)
Share premium		-	43
<b>Net cash used in investing activities</b>		<b>254</b>	<b>(15)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Net cash (used in)/from financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase in cash &amp; cash equivalents</b>		<b>12,483</b>	<b>5,666</b>
<b>Cash &amp; cash equivalents at beginning of year</b>	11	<b>5,666</b>	<b>-</b>
Effect of foreign exchange rate changes		-	-
<b>Cash &amp; cash equivalents at end of year</b>	11	<b>18,149</b>	<b>5,666</b>

**Notes to accounts**  
for the year ended 31 December 2007

**General Information**

The Company is incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 5. The nature of the Company's operations and principal activities are set out in the directors' report.

The financial statements are presented in pounds sterling, the currency in which the majority of the Company's transactions are denominated.

**1 Accounting Policies**

**Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards, (IFRS's). The financial statements have also been prepared in accordance with IFRS's adopted for use in the European Union.

The financial statements have been prepared on the historical cost basis.

The accounting policies adopted are consistent with those of the previous year, except for the adoption of the following accounting standards:

- IFRS 7 Financial Instruments Disclosures
- IAS 1 Capital disclosures

The requirements of IAS 1 have been fulfilled by adding the required disclosures in the Directors' report.

The principal accounting policies adopted are set out below.

**Notes to accounts (continued)**  
for the year ended 31 December 2007

**Property, plant and equipment**

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

Plant and machinery	3 – 5 years
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Residual value is calculated on prices prevailing at the date of acquisition or revaluation and is revised annually.

Interest costs incurred in bringing assets to a state where they are ready to be used are capitalised as part of the costs of the asset.

**Impairment of property, plant and equipment and intangible assets excluding goodwill**

At each balance sheet date the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Financial instruments**

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.



**Notes to accounts (continued)**  
for the year ended 31 December 2007

**Trade receivables**

Trade receivables are carried at 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.

**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.

**Bank borrowings**

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

**Trade payables**

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

**Derivative financial instruments and hedge accounting**

The Company's activities expose it primarily to the financial risks of changes in foreign exchange rates. The Company uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Company's risk management strategy.

The Company does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in profit or loss. The Company's policy with respect to hedging the foreign currency risk of a firm commitment is to designate it as a cash flow hedge. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial

## Notes to accounts (continued)

for the year ended 31 December 2007

measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in profit or loss in the same period in which the hedged item affects profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

### Construction contracts

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenue and expenses. The Company uses the percentage of completion method to determine the appropriate amount of revenue and costs to recognise in a given period. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

In determining costs incurred up to the year end, any costs relating to future activity on a contract are excluded and are shown as contract work in progress. The aggregate of the cost incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end.

Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from the customers on construction contracts, under receivables and prepayments. Where the progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under trade and other payables.

**Notes to accounts (continued)**  
for the year ended 31 December 2007

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible

- Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of certain non-current assets and derivative contracts, provisions for pensions and other post retirement benefits and tax losses carried forward, and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base
- Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax
- Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised
- Deferred income tax is provided on temporary difference arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

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

**Notes to accounts (continued)**  
for the year ended 31 December 2007

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*Lessee activities*

Assets held under finance leases are recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets in which case they are capitalised in accordance with the Company's policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

**Revenue recognition**

Revenue represents the fair value of consideration received or receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

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

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

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established.

**Retirement benefit costs**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Company's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

**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 balance sheet date, monetary items denominated in foreign currencies are retranslated at

**Notes to accounts (continued)**  
for the year ended 31 December 2007

the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward contracts and options (see above for details of the Company's accounting policies in respect of such derivative financial instruments).

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Provisions**

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

## Notes to accounts (continued)

for the year ended 31 December 2007

### Share-based payments

Share options granted by the company's parent to its employees are accounted for in accordance with the requirements of IFRS 2

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The Group uses a binomial model to measure the amount of the benefit to employees receiving the options granted. The fair value of such options is determined at the date of grant. The amounts thus obtained are taken to income statement over the vesting period of the rights. Recognition in the income statement is linear over the vesting period of each scheme. No expense is recognised for options that do not ultimately vest, with the exception of options where vesting is conditional upon a market condition. This expense is included in income from operations and a corresponding credit is recognised increasing retained earnings. It thus has no effect on the overall amount of shareholders' funds.

### Critical accounting judgements and key sources of estimation uncertainty

*Critical judgements in applying the Company's accounting policies*

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

*Key sources of estimation uncertainty*

The Company has a contract with its main customer in the UK. The contract provides certain mechanisms to address in the normal course of business those aspects of delivering the contract works where the scope, cost and timing of works are anticipated to vary due to factors which are expected to be within the control of the parties of the contract, as well as certain factors which are regarded as being outside their control. Such factors have occurred during the course of 2007 and subsequently in 2008.

As a result it has been necessary for the Company to make certain working assumptions about the financial impact of the eventual outcome of the application of those factors which it regards as being subject to resolution within the mechanisms provided in the contract and related discussions. Consequently, the directors believe that there has been no change in the margin on this contract during the year.

The Directors, on the basis of their current knowledge, having made full disclosure, to the Company's Auditors and other advisers, are of the opinion that the assumptions are reasonable and appropriate and therefore the accounts have been prepared on that basis.

## Notes to accounts (continued)

for the year ended 31 December 2007

### 2 Revenue

An analysis of the Group's revenue is as follows

	<b>Year ended 31 12 2007</b>	<b>Year ended 31 12 2006 as restated</b>
	£000	£000
Sale of goods	11,021	-
Revenue from construction contracts	- 87,850	7,243
Revenue per income statement	98,871	7,243
Investment income (note 4)	256	8
Revenue as defined in IAS18	99,127	7,251

### 3 Result from operations

Loss from operations is stated after charging/(crediting)

	<b>Year ended 31 12 2007</b>	<b>Year ended 31 12 2006 as restated</b>
	£000	£000
Net foreign exchange losses	-	203
Depreciation of property, plant and equipment	33	3
Staff costs (note 6)	10,686	649
Auditors' remuneration for audit services	95	82

Amounts payable to Mazars LLP and their associates by the Company in respect of non-audit services were £Nil (2006 - £Nil)

Notes to accounts (continued)  
for the year ended 31 December 2007

**4 Investment Income**

	Year ended 31 12 2007	Year ended 13.12 2006 as restated
	£000	£000
Interest on bank deposits	11	8
Other	245	-
	<u>256</u>	<u>8</u>

**5 Finance costs**

	Year ended 31 12 2007	Year ended 31 12 2006 as restated
	£000	£000
Interest on bank loans and overdrafts	4	-
Other	49	(11)
	<u>53</u>	<u>-</u>
Total borrowing costs	53	-
Exchange loss	1,908	-
Cost of foreign currency derivatives	697	-
	<u>2,658</u>	<u>(11)</u>



Notes to accounts (continued)  
for the year ended 31 December 2007

**6 Staff costs**

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

	Year ended 31 12 2007	Year ended 31 12 2006 as restated
	Number	Number
Production	117	96
Sales	2	5
Administration	21	18
	<u>140</u>	<u>119</u>

	Year ended 31 12 2007	Year ended 31 12 2006 as restated
	£000	£000
Their aggregate remuneration comprised		
Wages and salaries	9,605	558
Social security costs	789	61
Other pension costs (see note 15)	292	30
	<u>10,686</u>	<u>649</u>

Notes to accounts (continued)  
for the year ended 31 December 2007

**Directors' Emoluments**

Remuneration	Year ended 31 12 2007 £000	Year ended 31 12 2006 as restated £000
Emoluments	210	-
Contributions to money purchase pension schemes	6	-
Total emoluments	<u>216</u>	<u>-</u>
	Year ended 31 12 2007 £000	Year ended 31 12 2006 as restated £000
The emoluments of directors disclosed above include the following amounts paid to the highest paid director		
Emoluments	118	-
Contributions to money purchase pension schemes	6	-
	<u>Number</u>	<u>Number</u>
During the period the following number of directors		
Accrued benefits under money purchase pension schemes	<u>1</u>	<u>-</u>

Notes to accounts (continued)  
for the year ended 31 December 2007

**7 Income tax expense**

	Year ended 31 12 2007	Year ended 31 12 2006 as restated
	£000	£000
<b>Current tax:</b>		
UK Corporation tax	(1,864)	-
Adjustments in respect of prior years	-	-
<b>Total current tax</b>	<u>(1,864)</u>	<u>-</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences (credit)/charge	(6)	4
Adjustments in respect of prior years	-	-
<b>Total deferred tax</b>	<u>(6)</u>	<u>4</u>
<b>Total tax (credit)/charge on loss on ordinary activities</b>	<u>(1,870)</u>	<u>4</u>

Corporation tax is calculated at 30% (2006 - 30%) of the estimated assessable profit for the year

On 21 March 2007, the Chancellor announced that with effect from April 2008 the standard rate of UK Corporation tax will reduce from 30% to 28%. The reduced tax rate was included in the Finance Bill 2007. The Finance Bill passed through the House of Commons on 17 June 2007 and is therefore considered substantially enacted by the Balance Sheet date. As a result the deferred tax balances have been calculated at 28%.

The tax charge/(credit) for the year can be reconciled to the income statement as follows

	Year ended 31 12 2007	Year ended 31 12 2006 as restated
	£000	£000
Loss on ordinary activities before tax	<u>(6,247)</u>	<u>(7,187)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(1,874)	(2,156)
<b>Tax effect of</b>		
Expenses not deductible for tax purposes	4	-
Timing differences not recognised (prior year)	-	2,156
<b>Total tax credit</b>	<u>(1,870)</u>	<u>-</u>

## Notes to accounts (continued)

for the year ended 31 December 2007

In addition to the amount charged to the income statement deferred tax has been charged directly to equity as detailed below,

	Year ended 31 12 2007 £000	Year ended 31 12 2006 as restated £000
Net loss/(gain) on revaluation of cash flow hedges	4,464	(1,680)
<b>Deferred tax charge/(credit) reported in equity</b>	<b>4,464</b>	<b>(1,680)</b>

### 8 Property, plant and equipment

	Plant and machinery £000	Total as restated £000
<b>Cost or valuation</b>		
As at 1 January 2006	-	-
Transfer	107	107
At 31 December 2006	107	107
At 1 January 2007	107	107
Additions	2	2
At 31 December 2007	109	109
<b>Accumulated depreciation and impairment</b>		
As at 1 January 2006	-	-
Transfer	41	41
Charge for the year	3	3
At 31 December 2006	44	44
At 1 January 2007	44	44
Charge for the year	33	33
At 31 December 2007	77	77
<b>Carrying amount</b>		
At 31 December 2007	32	32
At 31 December 2006	63	63

Notes to accounts (continued)  
for the year ended 31 December 2007

**9 Trade and other receivables**

	Year ended 31 12 2007	Year ended 31 12 2006 as restated
	£000	£000
Trade and other receivables		
Trade receivable from the sale of goods	5,091	9,619
Other receivable from the sale of goods	3,377	-
Amounts receivable from construction contract customers (note 10)	10,690	217
Prepayments to suppliers	6,355	235
	<u>25,513</u>	<u>10,071</u>

An allowance has been made for estimated irrecoverable amounts from the sale of goods of £144k (2006 £54k) This allowance has been determined by reference to past default experience

The directors consider that the carrying amount of trade and other receivables approximates their fair value

As at 31 December, the ageing trade receivables analysis is as follows

		Total	Neither past due or impaired	Days Overdue				
				<30	30-60	60-90	90-120	120>
2007	Sale of goods	5,091	-	924	2,263	895	678	331
2006	Sale of goods	9,619	1,762	7,814	14	29	-	-

Notes to accounts (continued)  
for the year ended 31 December 2007

**10 Construction Contracts**

	Year ended 31 12 2007	Year ended 31 12 2006 as restated
	£000	£000
Contracts in progress at balance sheet date		
Amounts due from contract customers included in trade and other receivables	10,690	217
	<u>10,690</u>	<u>217</u>
Contract costs incurred plus recognised profits less recognised losses to date	186,968	98,800
Less progress billings	(176,278)	(98,583)
	<u>10,690</u>	<u>217</u>

At 31 December 2007, retentions held by customers for contract work amounted to £ 718k (2006 £217k ) Advances received from customers for contract work amounted to £17,021k (2006 £9,862k)

At 31 December 2007, amounts of £716k (2006 £217k) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months

**Notes to accounts (continued)**  
for the year ended 31 December 2007

**11 Cash and cash equivalents**

Bank balances and cash comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

**12 Trade and other payables**

	<b>Year ended 31 12 2007</b>	<b>Year ended 31 12 2006 as restated</b>
	<b>£000</b>	<b>£000</b>
Trade payables and accruals	25,236	21,047
	<u>25,236</u>	<u>21,047</u>

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

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2007 based on contractual undiscounted payments.

<b>Year ended 31 December 2007</b>	<b>On Demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 – 5 years</b>	<b>&gt; 5 years</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade creditors and accruals	-	24,835	401	-	-

<b>Year ended 31 December 2006</b>	<b>On Demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 – 5 years</b>	<b>&gt; 5 years</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade payables and accruals	-	20,914	133	-	-

Notes to accounts (continued)  
for the year ended 31 December 2007

**13 Provisions**

	Warranty	Total
	£000	£000
<b>At 1 January 2007</b>	-	-
Additional provision in the year	800	800
<b>At 31 December 2007</b>	800	800
Included in current liabilities		800
Included in non-current liabilities		-
		800

The provision relates to post-sale rectification costs on certain types of products, including one that is currently not fully approved for use. Upon successful achievement of the product approval, part of this provision will no longer be needed, however the remainder of the provision will be required to cover any warranty costs for a further 2 years.

**14 Derivative financial instruments**

**Currency derivatives**

The Company utilises currency derivatives to hedge significant future transactions and cash flows. The Company is party to a number of foreign currency forward contracts and options in the management of its exchange rate exposures. The instruments are purchased internally from the Thales Group treasury department and are primarily denominated in the currencies of the Company's principal markets. At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which the Company is committed are as follows:

	Year ended 31 12 2007	Year ended 31 12 2006 as restated
	£000	£000
Forward foreign exchange contracts	146,543	157,424

At 31 December 2007, the fair value of the Company's currency derivatives is estimated to be approximately £16,718k (2006 liability of £5,599k). These amounts are based on quoted market prices for equivalent instruments at the balance sheet date, comprising £16,718k assets (2006 £69k) and £nil liabilities (2006 £5,669k). The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £15,944k (2006 -£5,600k) has been deferred in equity. Amounts of £16,335k (2006 £nil) have been transferred to the income statement in respect of contracts matured during the period.



Notes to accounts (continued)  
for the year ended 31 December 2007

**15 Retirement benefit schemes**

The Company operates a Defined Contribution Scheme. The total cost charge to income in relation to defined contribution schemes amounted to £292k (2006 £30k) representing contributions payable to the schemes by the Company at rates specified in the rules of the plan.

**16 Deferred tax**

The following are the major deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting period.

Deferred Tax Asset	Capital allowances £'000	Retirement benefit obligations £'000	Revaluation of properties £'000	Cash flow hedges £'000	Tax losses £'000	Other £'000	Total £'000
<b>As at 1 January 2006</b>							
Charged to profit and loss account	-	-	-	-	-	-	-
Charged to equity	-	-	-	1,680	-	-	1,680
<b>As at 31 December 2006</b>							
	-	-	-	1,680	-	-	1,680
<b>Charged to profit and loss account</b>							
	2	-	-	-	-	-	2
Charged to equity	-	-	-	(1,680)	-	-	(1,680)
<b>As at 31 December 2007</b>							
	2	-	-	-	-	-	2

Notes to accounts (continued)  
for the year ended 31 December 2007

Deferred Tax Liability	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Revaluation of properties £'000	Cash flow hedges £'000	Deferred development costs £'000	Other £'000	Total £'000
<b>As at 1 January 2006</b>	-	-	-	-	-	-	-
Charged to profit and loss account	(4)	-	-	-	-	-	(4)
Charged to equity	-	-	-	-	-	-	-
<b>As at 31 December 2006</b>	(4)	-	-	-	-	-	(4)
Charged to profit and loss account	4	-	-	-	-	-	4
Charged to equity	-	-	-	(4,464)	-	-	(4,464)
<b>As at 31 December 2007</b>	-	-	-	(4,464)	-	-	(4,464)

**17 Share capital**

	Year ended 31 12 2007 £000	Year ended 31 12 2006 as restated £000
<i>Authorised</i>		
2 ordinary shares of £1 each	-	-
<i>Allotted, called-up and fully-paid</i>		
2 ordinary shares of £1 each	-	-

**18 Reserves**

	Share premium account £000	Other reserves £000	Hedging and translation reserves £000	Retained earnings £000	Total £000
At 31 December 2006 as previously stated	43	-	-	(7,191)	(7,148)
Prior year adjustment	-	1,680	(5,600)	-	(3,920)
At 1 January 2007 as restated	43	1,680	(5,600)	(7,191)	(11,068)
Increase in fair value of hedging derivatives	-	-	21,544	-	21,544
Total income and expense for the year recognised directly in equity	-	(6,144)	-	-	(6,144)
Retained loss for the year	-	-	-	(4,376)	(4,376)
At 31 December 2007	43	(4,464)	15,944	(11,567)	(44)

Notes to accounts (continued)  
for the year ended 31 December 2007

**19 Contingent liabilities**

The Company guarantees of £59,953k in respect of duty deferment guarantees and performance bonds

**20 Share based payments**

The Group grants options in the shares of Thales SA (which are denominated in euros) to employees as part of an employee incentive program. All options granted under this program are equity-settled. Historically, these have been issued annually. At 31 December 2007, the following options were outstanding:

Type of arrangement	General employee share option plan
Date of grant	4 July 2007
Number granted	2,840
Contractual life	10 years
Vesting conditions	Fully vested after 4 years

The estimated fair value of each share option granted in the general employee share option plan is £6.76.  
This estimated fair value was calculated by applying a binomial option pricing model.

The model inputs were:

Share price at grant date	€ 45.13
Exercise price	€ 44.77
Expected volatility	20%
Dividend rate	2.5%
Risk-free interest rate	4.5%

To allow for the effects of early exercise, it was assumed that the employees would exercise the options after vesting date when the share price was 1.3 times the exercise price.

In accordance with IFRS 2, the Group values the costs represented by options attributed to employees. The fair value of these options is determined at their respective attribution date. This amount is taken to profit and loss, spreading over the period of acquisition of benefits.

**Notes to accounts (continued)**  
for the year ended 31 December 2007

**20 Share based payments (cont)**

Changes in the fair value of the share options issued since are presented below

	2007	2007
	Number of options	Weighted average exercise price
Outstanding at start of year	-	-
Granted	2,840	£32.83
Exercised	-	-
Outstanding at end of year	2,840	£32.83
Exercisable at end of year	355	£32.83

The options outstanding at 31 December 2007 had an exercise price of €44.77 and a weighted average remaining contractual life of 9.5 years

The expense arising from share and share option plans was £2k

Notes to accounts (continued)  
for the year ended 31 December 2007

**21 Operating lease arrangements**

**The Company as lessee**

	Year ended 31 12 2007	Year ended 31 12 2006 as restated
	£000	£000
Minimum lease payments under operating leases recognised in expenses for the year	613	8

At the balance sheet date, the Company has outstanding commitments under non-cancellable operating leases, which fall due as follows

	Year ended 31 12 2007	Year ended 31 12 2006 as restated
	£000	£000
- Within one year	83	8
- In the second to fifth years inclusive	-	-
- After five years	-	-
	83	8

Operating lease payments represent rentals payable by the Company for its office property

**22 Events after the balance sheet date**

There are no significant events after the balance sheet date

**23 Related party transactions**

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

**Trading transactions**

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

	Sales of goods		Purchases of goods		Amounts owed by related parties		Amounts owed to related parties	
	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended
	31 12 2007	31 12 2006	31 12 2007	31 12 2006	31 12 2007	31 12 2006	31 12 2007	31 12 2006
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fellow subsidiaries	757	-	45,589	-	240	-	13,084	5,483

**Notes to accounts (continued)**  
for the year ended 31 December 2007

Sales of goods to related parties were made at the Company's usual list prices. Purchases were made at market price discounted to reflect the quantity of goods purchased and the relationships between the parties.

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

**Compensation of key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

	<b>Year ended 31 12.2007 £000</b>	<b>Year ended 31 12 2006 £000</b>
Short-term employee benefits	799	-
Post-employment benefits	19	-
	<u>818</u>	<u>-</u>

**Other related party transactions**

In addition to the above, Thales UK Corporate Services and Thales Rail Signalling Solutions SA performed certain administrative services for the Company, for which a management fee of £2,738k (2006: £Nil) was charged and paid, being an appropriate allocation of costs incurred by relevant administrative departments.

**24 Explanation of transition to IFRSs**

This is the first year that the Company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2006 and the date of transition to IFRSs was therefore the date of incorporation, 4 May 2006.

Notes to accounts (continued)  
for the year ended 31 December 2007

Reconciliation of equity at 31 December 2006 (date of last UK GAAP financial statements)

	Note	UK GAAP £000	Effect of transition to IFRSs £000	IFRSs £000
Deferred tax asset		-	1,680	1,680
Property, plant & equipment	63	63	-	63
<b>Total non-current assets</b>		<b>63</b>	<b>1,680</b>	<b>1,743</b>
Trade and other receivables		10,071	-	10,071
Fair value of currency derivatives		-	69	69
Cash and cash equivalents		5,666	-	5,666
<b>Total current assets</b>		<b>15,737</b>	<b>69</b>	<b>15,806</b>
<b>Total assets</b>		<b>15,800</b>	<b>1,749</b>	<b>17,549</b>
Trade and other payables		(21,047)	-	(21,047)
Fair value of currency derivatives		-	(5,669)	(5,669)
Deferred tax liabilities		-	(4)	(4)
Other liabilities		(1,897)	-	(1,897)
<b>Total liabilities</b>		<b>(22,944)</b>	<b>(5,673)</b>	<b>(28,617)</b>
<b>Total assets less total liabilities</b>		<b>(7,144)</b>	<b>(3,924)</b>	<b>(11,068)</b>
Issued capital				
Share Premium		43	-	43
Other reserves		-	1,680	1,680
Hedging reserves		-	(5,600)	(5,600)
Retained earnings		(7,187)	(4)	(7,191)
<b>Total equity</b>		<b>(7,144)</b>	<b>(3,924)</b>	<b>(11,068)</b>

Notes to accounts (continued)  
for the year ended 31 December 2007

**Reconciliation of profit and loss statement for the year ended 31 December 2006 (date of last UK GAAP financial statements)**

	Note	UK GAAP £000	Effect of transition to IFRSs £000	IFRSs £000
<b>Continuing operations</b>				
Revenue	2	7,243	-	7,243
Cost of sales		(13,692)	-	(13,692)
<b>Gross profit</b>		(6,449)	-	(6,449)
Administrative expenses		(524)	-	(524)
Other Operating expenses	2	(211)	-	(211)
<b>Loss from operations</b>		(7,184)	-	(7,184)
Investment income		8	-	8
Finance costs		(11)	-	(11)
<b>Loss before taxation</b>		(7,187)	-	(7,187)
Tax expense		-	(4)	(4)
<b>Loss for the period</b>		(7,187)	(4)	(7,191)

There was no impact on the cash flow statement for 2007