

Thales Rail Signalling Solutions Limited

Annual report and accounts
for the year ended 31 December 2010

Registered number 5805963

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Directors' report

The Directors present their annual report and financial statements, together with the auditors' report, for the year ended 31 December 2010

Principal activities

The principal activities of the Company (Registered number 5805963) are the sales, distribution and maintenance of transport communications equipment. The Company holds a major contract which provides rail signalling solutions as part of the upgrade on several London Underground lines.

Business review

Revenue for the year was down to £125.3m from £153.8m in the previous period. The majority of the revenue was from a major contract. The change in revenue was due to the decrease in the scale of the works in accordance with the delivery programme of the major contract. Operating loss for the year was £25.3m against an operating loss of £6.0m in the previous year. This operating loss is stated after charging a further £8.1m (2009: £9.5m) to the Statement of Comprehensive Income in relation to certain company activities, for which it is currently anticipated that the cost of delivery will exceed the currently agreed associated revenues. At the end of June 2010, Transport for London (TfL) acquired the shares of the main customer. On this date the main customer became a wholly owned subsidiary of TfL. The contract with the main customer is part of the acquisition. As a result, the scope of activities on the main contract was reviewed along with the contract profitability. This resulted in a reduction of profit anticipated for the delivery of the main contract, and accordingly an amount of £15.6m has been charged in these financial statements.

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

	2010	2009	2008
	£000	£000	£000
Turnover	125,342	153,750	83,921
(Loss)/ profit from operations	(25,324)	(6,044)	2,118
(Loss)/ profit after tax	(30,606)	(3,007)	599
Total equity	(18,792)	4,717	8,403
Average headcount	353	288	207

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

Details of significant events since the date of the statement of financial position are contained in note 25 to the accounts.

The Directors expect a reduced level of activity to continue over the next 12 months due to the scale of works in accordance with the delivery programme of the company's main contract. This will be affected by a number of factors including the company's main customer priorities for the delivery of this programme.

Directors' report (continued)

Dividends

The Directors do not recommend the payment of a dividend (2009 - Nil)

Financial risk management objectives and policies

The Company's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, 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 1.

Foreign currency risk

The Company also has transactional currency exposures. Such exposure arises from sales or purchases by the Company in currencies other than the unit's functional currency. 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. 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, and certain derivative instruments, 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.

At 31 December 2010 the Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Directors' report (continued)

Commodity price risk

The Company's exposure to price risk is minimal

Interest rate risk

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

Liquidity risk

The Company prepares regular cash flow forecasts to ensure that there are always necessary funds in place to enable financial liabilities to be met as they fall due

Going concern accounting basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review on page 1. In addition, the notes to the accounts include the Company's objectives, policies and processes for managing its capital and details of its financial instruments and hedging activities. The Company's financial risk management objectives and its exposures to credit and liquidity risk are set out in the preceding paragraphs.

The Company has access to considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have written confirmation that the Company has sufficient financial resources available from the parent to continue in operational existence for the foreseeable future and therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 Holding UK plc board. It is a Thales requirement that operating companies are certified to the International Standard for Environmental Management Systems ISO 14001. Current Environmental Programmes include reducing our Carbon footprint and implementing a Green Purchasing programme.

Directors' report (continued)

Directors

The Directors who served during the year were as follows

Name	Date of appointment
D Laroche	Appointed 16 th June 2006
P Batley	Appointed 5 th January 2007, resigned 1 st March 2011
J Walker	Appointed 5 th January 2007, resigned 1 st April 2010
S Jones	Appointed 2 nd July 2007, resigned 31 st May 2011
M Hearn	Appointed 3 rd September 2008
D Gaiardo	Appointed 19 th November 2008, resigned 1 st April 2010
A McPhee	Appointed 13 th October 2010

Directors' liabilities

The Company has not granted any indemnity against liability to its Directors during the year or at the date of approving the Directors' report

Supplier payment policy

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

Creditors' days at 31 December 2010, based on the aggregate of the amounts which were owed to trade payables at that date and the aggregate of the amounts which the Company was invoiced by suppliers during the year, amounted to 20 days (2009 – 33 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.

Directors' report (continued)

Disabled employees

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

Employee consultation

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

Donations

During the period to 31 December 2010 charitable donations of £nil (2009 £nil) were made.

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

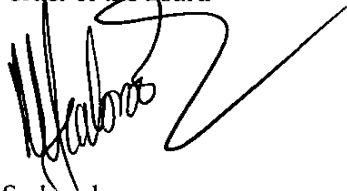
Disclosure of information to the auditors

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, each 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 489 of the Companies Act 2006, the company has not elected to re-appoint its auditors annually and Mazars LLP will therefore continue in office.

By order of the Board



M Seabrook
Company Secretary

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

30 September 2011

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Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' 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 are required 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 judgments 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 auditors' report to the shareholders of Thales Rail Signalling Solutions Limited

We have audited the financial statements of Thales Rail Signalling Solutions Limited for the year ended 31 December 2010 which comprise Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. 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.

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.

Respective responsibilities of Directors and auditors

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.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss 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.

Opinion on other matters prescribed by the Companies Act 2006

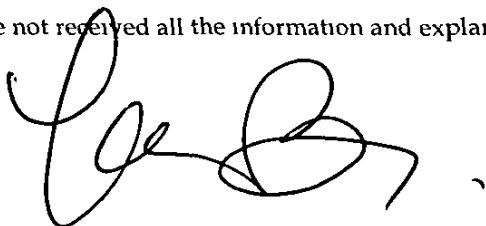
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the shareholders of Thales Rail Signalling Solutions Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Jacqueline Berry (Senior statutory auditor)

for and on behalf of Mazars LLP, Chartered Accountants (Statutory auditor)

Tower Bridge House

St Katharine's Way

London

E1W 1DD

30 September 2011

Statement of comprehensive income
For the year ended 31 December 2010

	Note	2010 £000	2009 £000
Continuing operations			
Revenue	2	125,342	153,750
Cost of sales		(138,312)	(149,741)
Gross (loss)/ profit		(12,970)	4,009
Administrative expenses		(2,471)	(2,759)
Other operating expenses		(9,883)	(7,294)
Loss from operations	3	(25,324)	(6,044)
Investment income	4	31	113
Finance costs	5	(908)	(1,297)
Loss before taxation from continuing operations		(26,201)	(7,228)
Income tax (expense)/ credit	7	(4,405)	4,221
Loss for the year		(30,606)	(3,007)
Other comprehensive income			
Net movement on cash flow hedges		(161)	(956)
Income tax relating to the components of other comprehensive income	7	7,249	267
Other comprehensive income/ (expense) for the year net of tax		7,088	(689)
Total comprehensive expense for the year net of tax		(23,518)	(3,696)

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

Statement of financial position
at 31 December 2010

Company registered number 5805963

	Note	2010 £000	2009 £000
ASSETS			
Non-current assets			
Property, plant and equipment	8	47	80
Deferred tax asset	19	-	2,293
		<u>47</u>	<u>2,373</u>
Current assets			
Trade and other receivables	10	39,574	69,262
Inventories	9	790	391
Cash and cash equivalents	12	1,053	46,411
Current tax receivable		-	2,008
Derivative financial instruments	17	26,925	27,545
		<u>68,342</u>	<u>145,617</u>
Total assets		<u>68,389</u>	<u>147,990</u>
LIABILITIES			
Current liabilities			
Bank overdrafts and loans	14	(48,576)	(88,642)
Trade and other payables	13	(28,638)	(38,356)
Provisions	15	(1,905)	(2,079)
Other liabilities	16	(8,050)	(6,940)
		<u>(87,169)</u>	<u>(136,017)</u>
Net current (liabilities)/ assets		<u>(18,827)</u>	<u>9,600</u>

Statement of financial position
at 31 December 2010

Company registered number 5805963

	Note	2010 £000	2009 £000
Non-current liabilities			
Retirement benefit liability	18	(12)	-
Deferred tax liabilities	19	-	(7,256)
		<u>(12)</u>	<u>(7,256)</u>
Total liabilities		<u>(87,181)</u>	<u>(143,273)</u>
Net (liabilities)/ assets		<u>(18,792)</u>	<u>4,717</u>
EQUITY			
Share capital	20	-	-
Share premium account		43	43
Other reserves	19	-	(7,249)
Hedging reserves	21	25,727	25,888
Retained earnings		<u>(44,562)</u>	<u>(13,965)</u>
Total equity		<u>(18,792)</u>	<u>4,717</u>

The accounts on pages 9 to 48 were approved by the board of Directors and authorised for issue on 30 September 2011

They were signed on its behalf by

Director
M Hearn



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

Statement of changes in equity
for the year ended 31 December 2010

	Share capital account	Share premium account	Deferred tax on the hedging reserve	Hedging reserve	Retained earnings	Total
	£000 (Note 20)	£000	£000 (Note 19)	£000 (Note 21)	£000	£000
At 1 January 2009	-	43	(7,516)	26,844	(10,968)	8,403
Loss for the year	-	-	-	-	(3,007)	(3,007)
Net movement on cash flow hedges	-	-	-	(956)	-	(956)
Income tax relating to the components of other comprehensive income	-	-	267	-	-	267
Total comprehensive income	-	-	267	(956)	(3,007)	(3,696)
Share options granted in the year	-	-	-	-	10	10
At 31 December 2009	-	43	(7,249)	25,888	(13,965)	4,717
Loss for the year	-	-	-	-	(30,606)	(30,606)
Net movement on cash flow hedges	-	-	-	(161)	-	(161)
Income tax relating to the components of other comprehensive income	-	-	7,249	-	-	7,249
Total comprehensive income	-	-	7,249	(161)	(30,606)	(23,518)
Share options granted in the year	-	-	-	-	9	9
At 31 December 2010	-	43	-	25,727	(44,562)	(18,792)

Statement of cash flows
for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
OPERATING ACTIVITIES			
Loss before tax from continuing operations		(25,324)	(6,044)
Non-cash adjustments to reconcile loss before tax to net cash flows,			
Depreciation & impairment of property, plant & equipment	8	33	38
Finance costs	5	(16)	(8)
Fair value losses/ (gains) on forward contracts – cash flow hedges		459	(332)
Increase/ (decrease) in retirement benefit obligations	18	36	(24)
(Decrease)/ increase in provisions	15	(174)	1,107
Share-based payments	22	9	10
Working capital adjustments			
Increase in inventories	9	(399)	(391)
Decrease/ (increase) in receivables (excluding the movement on retirement benefit obligations)	10	29,664	(38,007)
(Decrease)/ increase in payables	13,16	(8,608)	11,310
		(4,320)	(32,341)
Income taxes paid		(111)	(369)
Interest paid	5	(539)	(417)
Net cash used in operating activities		(4,970)	(33,127)
INVESTING ACTIVITIES			
Interest received	4	31	113
Purchases of property, plant and equipment	8	-	(5)
Purchase consideration received for the business acquired		-	984
Net cash generated from investing activities		31	1,092
FINANCING ACTIVITIES			
(Decrease)/ increase in bank overdrafts	14	(40,066)	71,894
Net cash (used in)/ from financing activities		(40,066)	71,894
Net (decrease)/ increase in cash & cash equivalents		(45,005)	39,859
Cash & cash equivalents at beginning of year		46,411	6,924
Effect of foreign exchange rate changes	5	(353)	(372)
Cash & cash equivalents at end of year		1,053	46,411

Notes to accounts

for the year ended 31 December 2010

Corporate Information

The financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 30 September 2011. The Company is a limited Company incorporated and domiciled in England & Wales. 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. Information on its ultimate parent is presented in note 26.

1. 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 (except for derivative financial instruments that have been measured at fair value). The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. 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.

The principal accounting policies adopted are set out below.

Going concern basis

On 30 September 2011 the Directors obtained written confirmation of the intention of the parent to provide ongoing financial support to Thales Rail Signalling Solutions Limited and are confident that the Company will be able to continue to trade and meet its liabilities as they fall due for the foreseeable future.

After making enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2010,

- IFRS 2 Share-based payment - Amendments relating to group cash-settled share-based payment transactions - *Effective for annual periods beginning on or after 1 January 2010*
- IFRS 3 (Revised) Business Combinations and IAS 27 (Amended) Consolidated and Separate Financial Statements - *Effective for periods beginning on or after 1 July 2009*, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39

Notes to accounts (continued)
for the year ended 31 December 2010

- IAS 39 Financial Instruments Recognition and Measurement - Amendments for eligible hedged items - *Effective for periods beginning on or after 1 July 2009*
- IFRIC 17 Distributions of non-cash assets to owners - *Effective for annual periods beginning on or after 1 July 2009*
- IFRIC 18 Transfer of assets from customers - *Effective for transfers received on or after 1 July 2009*
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

The adoption of the above standards and interpretations by the Company is described below

IFRS 2 Share-based Payment (Amendment)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Company adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Company in the current or prior year.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively and had no material impact on the financial position or performance of the Company in the current or prior year.

Notes to accounts (continued)
for the year ended 31 December 2010

IAS 39 Financial Instruments. Recognition and Measurement - Eligible Hedged Items

The amendment clarifies that a Company is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company in the current or prior year, as the Company has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby a Company distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position or performance of the Company in the current or prior year.

IFRIC 18 Transfer of Assets from Customers

This interpretation clarifies the requirements of IFRSs for agreements in which a Company receives from a customer an item of property, plant, and equipment that the Company must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). The interpretation has no effect on either the financial position or performance of the Company in the current or prior year.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company in the current or prior year.

Issued in May 2008

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the Company remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or financial performance of the Company in the current or prior year.

Issued in April 2009

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segments clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IAS 7 Statement of Cash Flows states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combinations completed in 2010 upon cash settlement.

Notes to accounts (continued)

for the year ended 31 December 2010

- **IAS 36 Impairment of Assets** The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Company as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company during the current year and prior year.

Issued in April 2009

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

New standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company does not intend to adopt those standards until they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended disclosure will be effective for annual periods beginning on or after 1 January 2011. This modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Company because it is not a government-related Company. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

IAS 32 Financial Instruments. Presentation - Classification of Rights Issues (Amendment)

The amended disclosure will be effective for annual periods beginning on or after 1 February 2011. The amendments to IAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Company has not entered into any arrangements that would fall within the scope of the amendments. However, if the Company does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRS 7 Disclosures - Transfers of Financial Assets (Amendment)

The amended disclosure will be effective for annual periods beginning on or after 1 July 2011. The amendments increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are

Notes to accounts (continued)
for the year ended 31 December 2010

intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Company's disclosures regarding transfers of trade receivables previously effected. However, if the Company enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IFRS 9 Financial Instruments – Classification and measurement of Financial Liabilities

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

The Directors anticipate that IFRS 9 that will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits a Company to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Company.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

Improvements to IFRSs (Issued in May 2010)

The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on Company.

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments Disclosures

Notes to accounts (continued)
for the year ended 31 December 2010

- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Directors do not anticipate that the adoption of these standards and interpretations, wherever relevant, will have a material impact on the Company's financial statements in the period of initial application

Intangible fixed assets

Research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the Directors are satisfied that all the following conditions are met

- an asset is created that can be identified,
- it is probable that the asset created will generate future economic benefits, and
- the development cost of the asset can be measured reliably

In such cases, an internally generated intangible asset is recognised and amortised on a straight line basis over its useful life

Software

Software is measured initially at purchase cost and amortised on a straight line basis over its estimated useful life

Property, plant and equipment

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

Plant and machinery	3 - 5 years
---------------------	-------------

Residual value is calculated on prices prevailing at the date of acquisition and is revised annually

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised

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

Notes to accounts (continued)

for the year ended 31 December 2010

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

At each reporting 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 statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

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.

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.

Notes to accounts (continued)
for the year ended 31 December 2010

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 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.

Notes to accounts (continued)
for the year ended 31 December 2010

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the first-in-first-out method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate. Un-invoiced research and development fully funded by customers is carried forward as work in progress.

Notes to accounts (continued)

for the year ended 31 December 2010

Taxation

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

The tax currently receivable/ payable is based on taxable loss/profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income 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 statement of financial position 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.
- The carrying amount of the deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.
- Deferred income tax is provided on temporary differences 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 assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 statement of financial position date.

Notes to accounts (continued)
for the year ended 31 December 2010

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

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.

Operating revenue from services provided are recognised insofar as the transaction has been completed on the reporting date.

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.

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.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being updated to each statement of financial position date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Company's defined benefit obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Notes to accounts (continued)
for the year ended 31 December 2010

The expected return on plan assets and the interest cost on scheme liabilities are included within financial income and expense in the statement of comprehensive income

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

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

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

Borrowing costs

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

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

Provisions

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

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 the statement of comprehensive income over the vesting period of the rights. Recognition in the statement of comprehensive income 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.

Notes to accounts (continued)
for the year ended 31 December 2010

Significant accounting judgements, estimates and assumptions

Critical judgements in applying the Company's accounting policies

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

Key sources of estimation uncertainty

Construction contracts

The Company operates a number of long term construction contracts. The nature of these contracts often gives rise to disputes between the parties over the value of work performed and liability of one party to the other, along with known or potential variations in the scope of work undertaken, to the extent they are reasonably likely. The management have made estimates as to the outcome of these disputes and known and potential variations in scope, based on the information currently available. If these estimates proved to be materially in error this could result in a significant effect on the amounts recognised in the financial statements.

At the end of June 2010, Transport for London (TfL) acquired the shares of the main customer. On this date the main customer became a wholly owned subsidiary of TfL. The contract with the main customer is part of the acquisition. 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.

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.

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits. Further details on deferred tax asset recognition are disclosed in note 19.

Notes to accounts (continued)

for the year ended 31 December 2010

2 Revenue

An analysis of the Company's revenue is as follows

	2010 £000	2009 £000
Sale of goods and the rendering of services	9,960	16,067
Revenue from construction contracts	115,382	137,683
Revenue per statement of comprehensive income	125,342	153,750
Investment income	31	113
Total revenue as defined in IAS 18	125,373	153,863

3 Loss from operations

Loss from operations is stated after charging

	2010 £000	2009 £000
Depreciation of property, plant and equipment	33	38
Operating lease expenses (note 24)	143	166
Cost of inventories recognised as an expense	4,759	7,855
Staff costs (note 6)	22,641	19,549
Auditors' remuneration for audit services	57	50

Amounts payable to Mazars LLP and their associates by the Company in respect of non-audit services were nil (2009 £nil)

4 Investment Income

	2010 £000	2009 £000
Interest on bank deposits	31	113
	31	113

Notes to accounts (continued)
for the year ended 31 December 2010

5 Finance costs

	2010 £000	2009 £000
Interest on bank loans and overdrafts	511	404
Other	16	8
Total borrowing costs	527	412
Exchange loss	269	948
Cost/ (income) of foreign currency derivatives	84	(76)
Pension Interest Costs	28	13
Total finance costs	908	1,297

6 Staff costs

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

	2010 Number	2009 Number
Production	315	255
Sales	9	5
Administration	29	28
	353	288

	2010 £000	2009 £000
Their aggregate remuneration comprised		
Wages and salaries	19,916	16,365
Social security costs	2,120	2,707
Other pension costs (see note 18)	605	477
	22,641	19,549

Notes to accounts (continued)
for the year ended 31 December 2010

Directors' Emoluments

Remuneration	2010 £000	2009 £000
Emoluments	326	180
Compensation for loss of office	179	-
Contributions to money purchase pension schemes	16	13
Total emoluments	521	193

The emoluments of Directors disclosed above include the following amounts paid to the highest paid Director

	2010 £000	2009 £000
Emoluments	178	180
Compensation for loss of office	179	-
Contributions to money purchase pension schemes	15	13

	Number	Number
During the period the following number of Directors	2	1
Accrued benefits under money purchase pension schemes		

7 Income tax expense

	2010 £000	2009 £000
Current tax:		
UK Corporation tax	-	(2,008)
Adjustments in respect of prior years	2,119	15
Total current tax	2,119	(1,993)
Deferred tax		
Origination and reversal of temporary differences charge/ (credit)	2,286	(2,228)
Total deferred tax	2,286	(2,228)
Total tax charge/ (credit) on loss on ordinary activities	4,405	(4,221)

Finance (No 2) Act 2010 reduced the main rate of UK corporation tax to 27% with effect from 1 April 2011. As this rate had been substantively enacted at the balance sheet date, the deferred tax figures within these accounts have been calculated at this rate.

Notes to accounts (continued)
for the year ended 31 December 2010

The Chancellor announced in the UK Budget on 23 March 2011 that the full rate of UK corporation tax would reduce to 26% with effect from 1 April 2011, and decrease by a further 1% each 1 April thereafter until the rate reaches 23% with effect from 1 April 2014. The effect of these rate reductions on deferred tax balances has not been reflected in these accounts due to the relevant legislation not having been substantively enacted at the balance sheet date. The reduction to 23% will have no effect on the company's deferred tax liability.

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

	2010 £000	2009 £000
Loss on ordinary activities before tax	(26,201)	(7,228)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	(7,336)	(2,024)
Tax effect of		
Expenses not deductible for tax purposes	15	12
Recognition of prior year deferred tax	-	(2,224)
Movement in unrecognised deferred tax	9,344	-
Deferred tax rate change impact movement	263	-
Adjustments to prior year current tax	2,119	15
Total tax expense/ (credit)	4,405	(4,221)

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

	2010 £000	2009 £000
Net loss on revaluation of cash flow hedges	(7,249)	(267)
Deferred tax credit reported in other comprehensive income	(7,249)	(267)

Notes to accounts (continued)
for the year ended 31 December 2010

8 Property, plant and equipment

2010
Total
Plant and
Machinery

Cost

At 1 January 2009	223
Additions	5
At 31 December 2009	228
Additions	-
Disposals	(88)
At 31 December 2010	140

Accumulated depreciation

At 1 January 2009	(110)
Charge for the year	(38)
At 31 December 2009	(148)
Charge for the year	(33)
Disposals	88
At 31 December 2010	(93)

Net book value

At 31 December 2010	47
At 31 December 2009	80
At 1 January 2009	113

9 Inventories

	2010 £000	2009 £000
Raw materials and consumables	505	317
Work-in-progress	288	156
Finished goods and goods for resale	513	402
Inventory Provision	(516)	(484)
	790	391

The amount of write down of inventories recognised as an expense is £516k (2009 £484k) This is included in the cost of sales line item as a cost of inventories recognised as an expense (See note 3)

Notes to accounts (continued)
for the year ended 31 December 2010

10 Trade and other receivables

	2010 £000	2009 £000
Trade receivables	4,207	23,400
Amounts receivable from the sale of goods	189	1,397
Amounts receivable from construction contract customers (note 11)	35,178	44,441
Pension Asset	-	24
	<u>39,574</u>	<u>69,262</u>

An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience. The table below shows the movement in this allowance during the year

	2010 £000	2009 £000
At 1 January 2009	128	74
Charge for the year	366	150
Utilised against bad debts	(91)	(96)
	<u>403</u>	<u>128</u>
At 31 December 2010		

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

At 31 December the aged trade receivables analysis is as follows

	Total	Neither past due nor impaired	Overdue less than 3 months	Overdue 3 to 6 months	Overdue more than 6 months
	£000	£000	£000	£000	£000
2010 Amounts receivable	<u>4,207</u>	<u>1,939</u>	<u>1,933</u>	<u>264</u>	<u>71</u>
2009 Amounts receivable	<u>23,400</u>	<u>16,416</u>	<u>6,699</u>	<u>205</u>	<u>80</u>

Notes to accounts (continued)
for the year ended 31 December 2010

11 Construction Contracts

	2010 £000	2009 £000
Contracts in progress at date of statement of financial position		
Amounts due from contract customers included in trade and other receivables	35,178	44,441
Provision for expected losses on construction contracts included in trade and other payables	(8,990)	(8,032)
Receipts in advance included in other liabilities	<u>(1,116)</u>	<u>(1,113)</u>
	<u>25,072</u>	<u>35,296</u>
Contract costs incurred plus recognised profits less recognised losses to date	522,838	425,328
Less progress billings	<u>(497,766)</u>	<u>(390,032)</u>
	<u>25,072</u>	<u>35,296</u>

Included in the above as at 31 December 2010 are retentions held by customers for contract work amounted to £467k (2009 £3,616k) and advances received from customers for contract work amounted to £1,116k (2009 £1,113k)

The 2009 comparative has been re-categorised from the disclosure in the 2009 financial statements to include the provision for expected losses on construction contracts and receipts in advance to give a clearer disclosure. This has no effect on the underlying position.

12 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.

13 Trade and other payables

	2010 £000	2009 £000
Trade payables	8,179	16,654
Accruals	11,469	13,670
Provision for expected losses on construction contracts (note 11)	<u>8,990</u>	<u>8,032</u>
	<u>28,638</u>	<u>38,356</u>

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

The average credit period taken for trade purchases is 20 days (2009 33 days).

Notes to accounts (continued)
for the year ended 31 December 2010

14 Bank overdrafts

	2010 £000	2009 £000
Bank overdrafts	48,576	88,642
	<u>48,576</u>	<u>88,642</u>
The borrowings are repayable as follows		
On demand or within one year	<u>48,576</u>	<u>88,642</u>

The Company's bank overdraft is held in the currency of GBP

	2010 %	2009 %
The weighted average interest rates paid were as follows		
Bank overdraft	0.75%	0.90%

The Company participates in the Group wide cash pooling scheme to minimise the interest rate risk. The interest rate on bank overdraft is linked to the Bank of England base rate plus a quarter of a percentage point.

The Company has no principal bank loans.

15 Provisions

	Warranty £000	Total £000
At 1 January 2010	2,079	2,079
Net movement in the provision during the year	<u>(174)</u>	<u>(174)</u>
At 31 December 2010	<u>1,905</u>	<u>1,905</u>
Included in current liabilities		1,905
Included in non-current liabilities		<u>-</u>
		<u>1,905</u>

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

16 Other liabilities

	2010 £000	2009 £000
Receipts in advance (note 11)	1,116	1,113
VAT payable	5,985	4,835
Other payroll costs	949	992
	<u>8,050</u>	<u>6,940</u>

Notes to accounts (continued)
for the year ended 31 December 2010

17 Financial instruments

Categories of financial instruments

	Derivatives used for hedging £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Non- Financial instruments £000	Total £000
31 December 2010					
Assets					
Property, plant & equipment	-	-	-	47	47
Inventories	-	-	-	790	790
Trade and other receivables	-	4,207	-	35,367	39,574
Cash & cash equivalents	-	1,053	-	-	1,053
Derivative financial instruments	26,925	-	-	-	26,925
	<u>26,925</u>	<u>5,260</u>	<u>-</u>	<u>36,204</u>	<u>68,389</u>
Liabilities					
Trade & other payables	-	-	(8,179)	(20,459)	(28,638)
Bank overdrafts & loans	-	-	(48,576)	-	(48,576)
Provisions	-	-	-	(1,905)	(1,905)
Other liabilities	-	-	-	(8,050)	(8,050)
Retirement benefit liability	-	-	-	(12)	(12)
	<u>-</u>	<u>-</u>	<u>(56,755)</u>	<u>(30,426)</u>	<u>(87,181)</u>
31 December 2009					
Assets					
Property, plant & equipment	-	-	-	80	80
Inventories	-	-	-	391	391
Trade and other receivables	-	23,400	-	45,862	69,262
Cash & cash equivalents	-	46,411	-	-	46,411
Current tax receivable	-	-	-	2,008	2,008
Deferred tax asset	-	-	-	2,293	2,293
Derivative financial instruments	27,545	-	-	-	27,545
	<u>27,545</u>	<u>69,811</u>	<u>-</u>	<u>50,634</u>	<u>147,990</u>
Liabilities					
Trade & other payables	-	-	(16,654)	(21,702)	(38,356)
Bank overdrafts & loans	-	-	(88,642)	-	(88,642)
Provisions	-	-	-	(2,079)	(2,079)
Other liabilities	-	-	-	(6,940)	(6,940)
Deferred tax liability	-	-	-	(7,256)	(7,256)
	<u>-</u>	<u>-</u>	<u>(105,296)</u>	<u>(37,977)</u>	<u>(143,273)</u>

Notes to accounts (continued)
for the year ended 31 December 2010

Information concerning the risks arising from financial instruments that the Company is exposed to can be located in the Directors' report, along with the Company's policies for managing those risks

Fair value

Set out below is a comparison of the carrying amounts and fair value of all of the Company's financial instruments that are carried in the financial statements

As at 31 December 2010 the Company held the following financial instruments measured at fair value

	2010		2009	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial assets				
Cash	1,053	1,053	46,411	46,411
Trade receivables	4,207	4,207	23,400	23,400
Derivative financial instruments	26,925	26,925	27,545	27,545
Financial liabilities				
Trade payables	(8,179)	(8,179)	(16,654)	(16,654)
Bank overdrafts and loans	(48,576)	(48,576)	(88,642)	(88,642)

The carrying amount of the assets above represents the Company's maximum exposure to credit risk

All trade payables will be paid within the next 3 months

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

	Total at 31 December 2010 £000	Level 1 £000	Level 2 £000	Level 3 £000
Assets measured at fair value				
Foreign exchange contracts - hedged	26,925	26,925	-	-

Notes to accounts (continued)
for the year ended 31 December 2010

	Total at 31 December 2009 £000	Level 1 £000	Level 2 £000	Level 3 £000
Assets measured at fair value				
Foreign exchange contracts – hedged	27,545	27,545	-	-

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 Group treasury department in Paris and are primarily denominated in the currencies of the Company's principal markets. At the date of the statement of financial position, the total notional amount of outstanding forward foreign exchange contracts to which the Company is committed are as follows:

	2010 £000	2009 £000
Forward foreign exchange contracts	70,326	102,526

At 31 December 2010, the fair value of the Company's currency derivatives is estimated to be approximately £26,925k (2009 £27,545k). These amounts are based on quoted market prices for equivalent instruments at the date of the statement of financial position, comprising £27,051k assets (2009 £27,732k) and £126k liabilities (2009 £187k). The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £25,727k (2009 £25,888k) has been deferred in equity.

Amounts of £42,363k (2009 £34,681k) have been transferred to the statement of comprehensive position in respect of contracts matured during the period.

The following table details the Company's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows and outflows on derivative instruments that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

	Timing of cash flows				Total	Net carrying amount in statement of financial position £000
	Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000	£000	
At 31 December 2010						
Derivative assets -						
Gross cash outflows	33,567	36,759	-	-	70,326	26,925
	<u>33,567</u>	<u>36,759</u>	<u>-</u>	<u>-</u>	<u>70,326</u>	<u>26,925</u>

Notes to accounts (continued)
for the year ended 31 December 2010

**At 31 December
2009**

Derivative assets -

Gross cash inflows	29,010	36,757	36,759	-	102,526	27,545
	<u>29,010</u>	<u>36,757</u>	<u>36,759</u>	<u>-</u>	<u>102,526</u>	<u>27,545</u>

Maturity of financial liabilities

The contractual maturity of the Company's non-derivative financial liabilities is as follows

	Timing of cash flows				Total
	Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000	£000
At 31 December 2010					
Trade payables	(8,179)	-	-	-	(8,179)
Bank overdrafts and loans	(48,576)	-	-	-	(48,576)
	<u>(56,755)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(56,755)</u>
At 31 December 2009					
Trade payables	(16,654)	-	-	-	(16,654)
Bank overdrafts and loans	(88,642)	-	-	-	(88,642)
	<u>(105,296)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(105,296)</u>

Maturity of financial assets

The contractual maturity of the Company's non-derivative financial assets is as follows

	Timing of cash flows				Total
	Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000	£000
At 31 December 2010					
Cash	1,053	-	-	-	1,053
Trade receivables	4,207	-	-	-	4,207
	<u>5,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,260</u>
At 31 December 2009					
Cash	46,411	-	-	-	46,411
Trade receivables	23,400	-	-	-	23,400
	<u>69,811</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,811</u>

The Group's funding strategy is to ensure a mix of funding sources offering flexibility and cost effectiveness to match its requirements

Notes to accounts (continued)
for the year ended 31 December 2010

Sensitivity analysis – Foreign Currency

The Company is mainly exposed to the currency of the Canadian dollar

The table below illustrates the estimated impact on the profit before tax and equity as a result of market movements in foreign exchange of 10% in relation to the Company's financial instruments. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit or equity where the CU strengthens 10% against the relevant currency. For a 10% weakening of the CU against the relevant currency, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	10% weakening in sterling	10% strengthening in sterling
	£000	£000
At 31 December 2010		
Impact on statement of comprehensive income gain/ (loss)	4,522	(5,527)
Impact on equity increase/ (decrease)	7,856	(9,602)
At 31 December 2009		
Impact on statement of comprehensive income gain/ (loss)	3,378	(4,129)
Impact on equity increase/ (decrease)	10,845	(13,255)

Sensitivity analysis – Interest Rates

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/ 1% lower and all other variables were held constant, the Company's loss for the year ended 31 December 2010 would decrease by £640k/ increase by £320k (2009 decrease by £323k/ increase by £210k). This is mainly attributable to interest on the bank account balances.

Notes to accounts (continued)
for the year ended 31 December 2010

18 Retirement benefit schemes

The Thales Group operates a number of schemes within the UK for the benefit of employees. The schemes include both defined benefit schemes and defined contribution schemes. During 2007 and 2008, the Group undertook a pension project that merged 8 defined benefit schemes into a single scheme with 2 sections.

Defined contribution schemes

The total cost charge to income in relation to defined contribution schemes amounted to £570k (2009 £479k) representing contributions payable to the schemes by the Company at rates specified in the rules of the plan.

Defined benefit schemes

The Thales Group operates 3 defined benefit schemes that provide benefits to eligible UK employees, namely the Thales UK Pension Scheme, the Thales Shared Cost Section of the Railways Pension Scheme and the Avimo Pension Scheme. The Company participates in Thales UK Pension Scheme. The Company's share of assets and liabilities in the scheme are derived on a proportionate basis related to the cash contributions made. The management consider this the most appropriate basis of allocation.

The following tables summarise the components of net benefit expense recognised in the statement of comprehensive income and the funded status and amounts recognised in the statement of financial position for the plan.

	2010 £000	2009 £000
Net benefit expense		
Current service cost	35	(26)
Amortisation of scheme amendments	-	-
Total service charge	35	(26)
Interest cost	65	(116)
Expected return on plan assets	(58)	124
Past Service cost	4	-
Effect of Asset Limit	7	-
Amortisation of unrecognised gains & losses	10	(21)
Total charge	63	(39)
Actual return on plan assets	69	-

Notes to accounts (continued)
for the year ended 31 December 2010

	2010 £000	2009 £000
Benefit asset / (liability)		
Present value of defined obligations	(365)	(261)
Fair value of plan assets	284	212
Funded status	(81)	(49)
Present value of wholly unrefunded obligations	(1)	-
Effect of asset limit	(3)	-
Unrecognised actuarial losses	73	73
Net (Liability)/ asset	(12)	24

Changes in the present value of the defined benefit obligation are as follows

Opening present value of obligations	(261)	-
Current service cost	(35)	(26)
Interest cost	(65)	(116)
Plan participants' contributions	(6)	(11)
Scheme amendments	(4)	-
Actuarial gains/(losses) on obligation	(38)	(184)
Benefits paid	44	76
Closing present value of obligations	(365)	(261)

Changes in the fair value of Plan Assets are as follows

Opening fair value of plan assets	212	-
Expected return on plan assets	58	124
Employers' contributions	42	74
Plan participants' contributions	6	11
Benefits paid	(44)	(76)
Actuarial gains (losses) on plan assets	10	79
Closing fair value of plan assets	284	212

The Thales Group expects to contribute £73m to its defined benefit pension plans in 2011

The 2009 comparatives have been re-categorised from the disclosure included in the 2009 financial statements. This has no effect on the 2009 closing fair value of plan assets

Notes to accounts (continued)

for the year ended 31 December 2010

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows

	Year ended 31 December 2010	Year ended 31 December 2009
Equities	52%	52%
Gilts and corporate bonds	46%	47%
Property	1%	1%
Cash	1%	0%

The expected rates of return on each category of plan assets are as follows

Equities	7.7%	7.6%
Gilts	4.2%	4.1%
Corporate bonds	5.8%	5.0%
Property	6.2%	6.1%
Cash	3.2%	0.1%

The overall expected rate of return on assets is determined based on market prices prevailing at that date, applicable to the period over which the obligation is to be settled. There has been a significant change in the expected rate of return on assets due to the improved returns on equity investments.

The principal assumptions used in determining pension obligations for the Group's plans are shown below

	Year ended 31 December 2010	Year ended 31 December 2009
Discount rate	5.52%	5.85%
Expected rate of return on assets	6.1%	6.3%
Future salary increases	4.3%	4.3%
Future price inflation	3.3%	3.3%
Future 5% LPI pension increases	3.1%	3.1%
Future 2.5% LPI pension increases	2.3%	2.3%

In determining the pension liabilities the Thales Group uses mortality assumptions which are based on published mortality tables. The actuarial table used is Males - PMA92 medium cohort year of birth, with initial mortality rates increased by 16%, Females - PFA92 medium cohort year of birth, with initial mortality rates increased by 35%.

The measurement bases required by IAS19 are likely to give rise to significant fluctuations in the reported amounts of the defined benefit pension schemes assets and liabilities from year to year, and do not necessarily give rise to a change in the contributions payable into the schemes, which are recommended by the independent actuaries based on the expected long term rate of return on the schemes assets.

A 0.5% point change in the assumed discount rate would have the following effects on the total UK group defined benefit obligations

	Year ended 31 December 2010	Year ended 31 December 2009
	£m	£m
Increase	(164)	(152)
Decrease	185	171

Notes to accounts (continued)
for the year ended 31 December 2010

Amounts for the current and previous four periods are as follows

	2006	2007	2008	2009	2010
	£000	£000	£000	£000	£000
Defined benefit obligation	-	-	-	(261)	(365)
Plan assets	-	-	-	212	284
(Deficit)/surplus	-	-	-	(49)	(81)
Experience adjustments on plan assets	-	-	-	79	10
Experience adjustments on plan liabilities	-	-	-	73	3

19 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	Tax losses £'000	Total £'000
As at 1 January 2009	59	-	59
Credited to the Statement of comprehensive income	43	2,191	2,234
As at 31 December 2009	102	2,191	2,293
Charged to the Statement of comprehensive income	(102)	(2,187)	(2,289)
As at 31 December 2010	-	4	4

Deferred Tax Liability	Accelerated tax Depreciation £'000	Pensions £'000	Cash flow hedges £'000	Total £'000
As at 1 January 2009	-	-	(7,516)	(7,516)
Charged to statement of comprehensive income	-	(7)	-	(7)
Credited to equity	-	-	267	267
As at 31 December 2009	-	(7)	(7,249)	(7,256)
(Charged)/ credited to statement of comprehensive income	(4)	7	-	3
Credited to equity	-	-	7,249	7,249
As at 31 December 2010	(4)	-	-	(4)

Notes to accounts (continued)
for the year ended 31 December 2010

Net Deferred tax asset/(liability).	2010	2009
	£000	£000
Deferred tax asset	4	2,293
Deferred tax liability	(4)	(7,256)
Net deferred tax asset / (liability)	-	(4,963)

The Company has not recognised a deferred tax asset amounting to £4,205k at the reporting date, comprising £10,974k tax losses, less £6,946k liability in relation to cash flow hedges and plus £177k of other timing differences. Deferred tax assets have not been recognised in respect of these losses, as there is insufficient certainty that there will be suitable taxable profits from which the future reversal of temporary differences may be deducted. None of these losses will expire.

20 Share capital

	2010	2009
	£000	£000
<i>Authorised</i>		
2 ordinary shares of £1 each	-	-
<i>Allotted, called-up and fully-paid</i>		
2 ordinary shares of £1 each	-	-

On 30 July 2010, the share capital of the Company was acquired by Thales Transport and Security Limited from Thales Security Solutions & Services GmbH.

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 policy. 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 2010 and 31 December 2009.

21 Reserves

The hedging reserve relates to certain derivative financial instruments which the Company uses to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecast transactions.

Notes to accounts (continued)

for the year ended 31 December 2010

22 Share based payments

The Group grants options in the shares of Thales SA 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 2010 the following options were outstanding:

Type of arrangement	General employee share option plan							
Date of grant	1 July 2003	1 July 2004	30 June 2005	9 November 2006	4 July 2007	1 July 2008	25 June 2009	23 September 2010
Number granted	-	-	-	-	2,840	2,600	690	-
Contractual life	All options are granted for a 10 year period							
Vesting conditions	Fully vested after 4 years							

The estimated fair value of each share option granted in the general employee share option plan is £5.26 (2009: £6.08).

This estimated fair value was calculated by applying a binomial option pricing model.

General employee share option plan								
Date of grant	1 July 2003	1 July 2004	30 June 2005	9 Nov 2006	4 July 2007	1 July 2008	25 June 2009	31 July 2010
Share price at grant date	€ 25.70	€ 29.50	€ 34.01	€ 36.47	€ 45.13	€ 35.72	€ 31.93	€ 26.40
Exercise price	€ 25.70	€ 29.50	€ 34.01	€ 36.47	€ 44.77	€ 38.50	€ 32.88	€ 26.34
Expected volatility*	34%	32%	30%	30%	20%	20%	25%	25%
Dividend rate	3.5%	3.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Risk-free interest rate	3.8%	4.4%	3.0%	3.0%	4.5%	4.5%	3.9%	3.09%
Expected rate of cancellation pre-vesting	2%	2%	2%	2%	2%	2%	2%	2%
Expected rate of departure post-vesting	3%	3%	3%	3%	3%	3%	3%	3%
Early exercise multiple	1.5	1.5	1.5	1.5	1.3	1.3	1.3	1.3

*Measured on the basis of a mix between historical and implicit volatility.

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 1.5 times the exercise price.

Notes to accounts (continued)
for the year ended 31 December 2010

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.

Details of options outstanding during the year are presented below

	Number of options	2010 Weighted average exercise price	2009 Number of options	2009 Weighted average exercise price
Outstanding at start of year	5,830	£36.29	5,440	£33.53
Granted	-	-	690	£28.42
Exercised	-	-	-	-
Cancelled	-	-	(300)	£34.26
Outstanding at end of year	5,830	£35.00	5,830	£36.29
Exercisable at end of year	4,181	£35.85	2,836	£37.58

The weighted average share price at the date of exercise for share options exercised during the period was £1.1 (2009 £1.1). The options outstanding at 31 December 2010 had exercise prices in the range €25.70 to €44.77, and the weighted average remaining contractual life of 7.1 years (2009 8.1 years).

The expense arising from share and share option plans was £9,187 (2009 £10,000).

23 Other commitments

The Company has a number of arrangements with banks to guarantee performance and advance payments to be received.

24 Operating lease arrangements

The Company as lessee

	2010 £000	2009 £000
Minimum lease payments under operating leases charged to expense for the year	143	166

At the date of the statement of financial position, the Company has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2010 £000	2009 £000
- Within one year	59	125

Notes to accounts (continued)
for the year ended 31 December 2010

25 Events after the reporting period

The Directors have considered the implications of the development of significant events subsequent to the reporting date. As a result it has been necessary for the Company to make certain working assumptions about the financial impact of significant events subsequent to the reporting date, and the impact has been reflected in these financial statements as appropriate.

There have been no non-adjusting events that are considered to be significant events that require disclosure.

26 Parent and ultimate parent undertaking

The immediate parent company is Thales Transport and Security Limited. 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.

27 Related party transactions

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	
	2010	2009	2010	2009	2010	2009	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fellow subsidiaries	542	672	31,556	41,810	836	788	10,397	15,598

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.

Notes to accounts (continued)
for the year ended 31 December 2010

Compensation of key management personnel

The remuneration of other members of key management (other than Directors, refer note 6) during the year was as follows

	Year ended 2010 £000	Year ended 2009 £000
Short-term employee benefits	917	776
Post-employment benefits	18	27
	<u>935</u>	<u>803</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 £3,554k (2009 £2,803k) was charged, being an appropriate allocation of costs incurred by relevant administrative departments