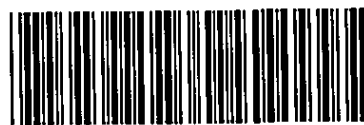


Thales Rail Signalling Solutions Limited

Annual report and accounts
for the year ended 31 December 2009

Registered number 5805963

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Contents

	Page
Directors' report	1
Statement of Directors' responsibilities	6
Independent auditors' report	7
Statement of comprehensive income	9
Statement of financial position	10
Statement of changes in equity	12
Statement of cash flows	13
Notes to accounts	14 - 43

Directors' report

The Directors present their annual report and financial statements, together with the auditors' report, for the year ended 31 December 2009

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 up to £153.8m from £83.9m in the previous period. The majority of the revenue was from a major contract. The change in revenue was due to the increase in the scale of the works in accordance with the delivery programme of the major contract. Operating loss for the year was £6.0m against an operating profit of £2.1m in the previous year. This operating loss is stated after charging £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.

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

	2009	2008	2007
	£000	£000	£000
Turnover	153,750	83,921	98,871
(Loss)/ Profit from Operations	(6,044)	2,118	(3,844)
(Loss)/ Profit after Tax	(3,007)	599	(4,376)
Total Equity	4,717	8,403	(44)
Average Headcount	288	207	140

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 24 to the accounts.

The Directors expect the general 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's priorities for the delivery of this programme.

Directors' report (continued)

Dividends

The Directors do not recommend the payment of a dividend (2008 - 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 2009 the Company had trade receivables due from the major contract but these are not considered a credit risk given their status. The Company has no other 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 a reasonable expectation that the Company has sufficient resources 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

As part of the Thales UK group, the Company 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, the Company achieved certification in 2009. 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
J Walker	Appointed 5 th January 2007, resigned 1 st April 2010
S Jones	Appointed 2 nd July 2007
M Hearn	Appointed 3 rd September 2008
D Gaiardo	Appointed 19 th November 2008, resigned 1 st April 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 2009, based on the aggregate of the amounts which were owed to trade creditors at that date and the aggregate of the amounts which the Company was invoiced by suppliers during the year, amounted to 79 days (2008 - 110 days)

Employee matters

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

Disabled employees

The Company's attitude concerning the employment of disabled persons is the same as that relating to all other staff in matters of recruitment, continuity of employment, training, development and promotion. Nevertheless the Company is very conscious of the difficulties that maybe 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.

Directors' report (continued)

Donations

During the period to 31 December 2009 charitable donations of £Nil (2008 £ Nil) were made

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

29 July 2010

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 entity'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 (Include this where no separate statement on going concern is made by the Directors)

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 2009 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. 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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities 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. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

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 2009 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

Mazars LLP

Mazars LLP, Chartered Accountants (Statutory auditor)

David Herbinet (Senior statutory auditor)

Tower Bridge House

St Katharine's Way

London, E1W 1DD

5 August 2010

Statement of comprehensive income
for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Continuing operations			
Revenue	2	153,750	83,921
Cost of sales		(149,741)	(76,155)
Gross profit		4,009	7,766
Administrative expenses		(2,759)	(2,837)
Other operating expenses		(7,294)	(2,811)
(Loss)/ Profit from operations	3	(6,044)	2,118
Investment income	4	113	258
Finance costs	5	(1,297)	(1,359)
(Loss)/ Profit before taxation from continuing operations		(7,228)	1,017
Income tax credit/ (charge)	7	4,221	(418)
(Loss)/ Profit for the year		(3,007)	599
Other comprehensive income			
Net movement on cash flow hedges		(956)	10,900
Income tax relating to the components of other comprehensive income	7	267	(3,052)
Other comprehensive (expense)/ income for the year net of tax		(689)	7,848
Total comprehensive (expense)/ income for the year net of tax		(3,696)	8,447

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

Statement of financial position
at 31 December 2009

	Note	2009 £000	2008 £000
ASSETS			
Non-current assets			
Property, plant and equipment	8	80	113
Deferred tax asset	19	2,293	59
		<u>2,373</u>	<u>172</u>
Current assets			
Trade and other receivables	10	69,262	33,692
Inventory & Work in Progress	9	391	-
Cash and cash equivalents	12	46,411	6,924
Current tax receivable		2,008	-
Derivative financial instruments	17	27,545	26,946
		<u>145,617</u>	<u>67,562</u>
Total assets		<u>147,990</u>	<u>67,734</u>
LIABILITIES			
Current liabilities			
Bank overdrafts and loans	14	(88,642)	(16,748)
Trade and other payables	13	(38,356)	(29,186)
Current tax liabilities		-	(354)
Provisions	15	(2,079)	(972)
Other liabilities	16	(6,940)	(4,555)
		<u>(136,017)</u>	<u>(51,815)</u>
Net current assets		<u>9,600</u>	<u>15,747</u>

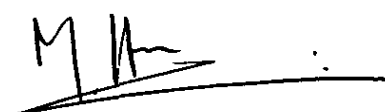
Statement of financial position
at 31 December 2009

	Note	2009 £000	2008 £000
Non-current liabilities			
Deferred tax liabilities	19	(7,256)	(7,516)
		<u>(7,256)</u>	<u>(7,516)</u>
Total liabilities		<u>(143,273)</u>	<u>(59,331)</u>
Net assets		<u>4,717</u>	<u>8,403</u>
EQUITY			
Share capital	20	-	-
Share premium account		43	43
Other reserves		(7,249)	(7,516)
Hedging reserves		25,888	26,844
Retained earnings		(13,965)	(10,968)
Total equity		<u>4,717</u>	<u>8,403</u>

The accounts on pages 9 to 43 were approved by the board of directors and authorised for issue on 29 July 2010

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 2009

	Share Capital Account	Share premium Account	Deferred tax on the hedging Reserve	Hedging Reserve	Retained Earnings	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2008	-	43	(4,464)	15,944	(11,567)	(44)
Increase in fair value of hedging derivatives	-	-	-	10,900	-	10,900
Total income and expense for the year recognised directly in equity	-	-	(3,052)	-	-	(3,052)
Retained profit for the year	-	-	-	-	599	599
At 31 December 2008	-	43	(7,516)	26,844	(10,968)	8,403
Shared based payment scheme					10	10
Decrease in fair value of hedging derivatives	-	-	-	(956)		(956)
Total income and expense for the year recognised directly in equity	-	-	267	-		267
Retained loss for the year	-	-	-	-	(3,007)	(3,007)
At 31 December 2009	-	43	(7,249)	25,888	(13,965)	4,717

Statement of cash flows
for the year ended 31 December 2009

	Note	2009 £000	2008 £000
OPERATING ACTIVITIES			
(Loss)/ Profit from Operations		(6,044)	2,118
Adjustments for,			
Depreciation of property, plant & equipment		38	33
Finance costs		(8)	(24)
Fair value gains on forward contracts – cash flow hedges		-	(102)
Operating cash flows before movement in working capital		(6,014)	2,025
(Increase) in receivables/ inventory/ work in progress		(39,024)	(5,700)
Increase/ (Decrease) in payables		12,684	(25,825)
Cash generated from operations		(32,354)	(29,500)
Income taxes (paid)/ received		(369)	1,743
Interest paid		(404)	(361)
Net cash from operating activities		(33,127)	(28,118)
INVESTING ACTIVITIES			
Interest received		113	258
Purchase consideration received for the business acquired	1	984	-
Purchases of property, plant and equipment		(5)	(113)
Net cash used in investing activities		1,092	145
FINANCING ACTIVITIES			
Movement in bank overdraft		71,894	16,748
Net cash from financing activities		71,894	16,748
Net increase/ (decrease) in cash & cash equivalents		39,859	(11,225)
Cash & cash equivalents at beginning of year		6,924	18,149
Effect of foreign exchange rate changes		(372)	-
Cash & cash equivalents at end of year		46,411	6,924

Notes to accounts

for the year ended 31 December 2009

General Information

The address of the registered office is given on page 5. The nature of the Company's operations and principal activities are set out in the Directors' report.

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

1. Accounting Policies

Basis of accounting

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

The principal accounting policies adopted are set out below.

These financial statements contain information about Thales Rail Signalling Solutions Limited as an individual Company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption from preparing consolidated accounts afforded by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Thales SA which prepares consolidated accounts which are publicly available.

Going concern basis

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.

Adoption of new and revised standards

The following new and amended International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) interpretations have been adopted in the financial statements,

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption - *Effective for periods beginning on or after 1 January 2009*
- IFRS 2 Share-based Payment – Amendment relating to vesting conditions and cancellations - *Effective for periods beginning on or after 1 January 2009*
- IFRS 7 Financial Instruments Disclosures – Amendments enhancing disclosures about fair value and liquidity risk – *Effective for periods beginning on or after 1 January 2009*
- IFRS 8 Operating Segments - *Effective for periods beginning on or after 1 January 2009*
- IAS 1 Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income - *Effective for periods beginning on or after 1 January 2009*

Notes to accounts (continued)

for the year ended 31 December 2009

- IAS 1 Presentation of Financial Statements – Amendments relating to disclosure of puttable instruments and obligations arising on liquidation - *Effective for periods beginning on or after 1 January 2009*
- IAS 23 Borrowing costs – Comprehensive revision to prohibit immediate expensing - *Effective for periods beginning on or after 1 January 2009*
- IAS 27 Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to IFRS 3 - *Effective for periods beginning on or after 1 January 2009*
- IAS 32 Financial Instruments Presentation – Amendments relating to puttable instruments and obligations arising on liquidation - *Effective for periods beginning on or after 1 January 2009*
- IFRIC 13 Customer loyalty programmes – *Effective for periods beginning on or after 1 July 2008*
- IFRIC 18 Transfers of assets from customers – *Effective for transfers received on or after 1 July 2009*

The adoption of the above standards and interpretations has had no impact on the results or net assets of the Company other than as described below

New standards and interpretations not yet applied

At the date of authorisation of these financial statements the following standards and interpretations, which have not been applied in these statements, were in issue but not yet effective

- IFRS 1 First-time adoption of International Financial Reporting Standards – Revised and restructured - *Effective for annual periods beginning on or after 1 July 2009*
- IFRS 1 First-time adoption of International Financial Reporting Standards – Amendments relating to oil and gas assets and determining whether an arrangement contains a lease – *Effective for annual periods beginning on or after 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 Business Combinations – Comprehensive revision on applying the acquisition method - *Effective for periods beginning on or after 1 July 2009*
- IFRS 9 Financial instruments – Classification and measurement – *Effective for annual periods beginning on or after 1 January 2013*
- IAS 24 Related party disclosures – Revised definition of related parties – *Effective for annual periods beginning on or after 1 January 2011*
- IAS 27 Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to IFRS 3 - *Effective for periods beginning on or after 1 July 2009*
- IAS 28 Investments in Associates – Consequential amendments arising from amendments to IFRS 3 - *Effective for periods beginning on or after 1 July 2009*

Notes to accounts (continued)

for the year ended 31 December 2009

- IAS 31 Interests in Joint Ventures – Consequential amendments arising from amendments to IFRS 3 - *Effective for periods beginning on or after 1 July 2009*
- IAS 32 Financial instruments presentation – Amendments relating to classification of rights issues – *Effective for annual periods beginning on or after 1 February 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 19 Extinguishing financial liabilities with equity instruments – *Effective for annual periods beginning on or after 1 July 2010*

The Directors do not consider that the adoption of the amendments resulting from the April 2009 Annual Improvements project will result in a material impact on the financial information of the Company. These amendments are effective for accounting periods beginning on or after 1 January 2010, with the exception of the amendments to IFRS 2 and IAS 38 which are effective for accounting periods beginning on or after 1 July 2009.

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.

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 or valuation, less estimated residual value, of each asset on a straight-line / reducing balance basis over its expected useful life, as follows:

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

Residual value is calculated on prices prevailing at the date of acquisition or revaluation 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 income statement 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 2009

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

At each statement of financial position 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

Notes to accounts (continued)

for the year ended 31 December 2009

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

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 2009

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 cost plus 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. Where the expected loss exceeds amounts due from customers the excess is included as a provision for expected losses on construction contracts within trade and other payables.

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 2009

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the 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 2009

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 statement of financial position 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

Notes to accounts (continued)

for the year ended 31 December 2009

actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan

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 statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position 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 statement of financial position date, and are discounted to present value where the effect is material.

Notes to accounts (continued)

for the year ended 31 December 2009

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 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 2009

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

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. Consequently, the directors consider that the margin recognised remains reasonable.

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.

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.

Business acquired

On the 1 January 2009, the Company acquired the assets and liabilities of a related rail signalling business from Thales UK Limited. The purchase consideration received by the Company was £984k based on the net liabilities when the agreement was concluded on 21 December 2009. There was no positive goodwill recognised.

Notes to accounts (continued)
for the year ended 31 December 2009

2 Revenue

An analysis of the Company's revenue is as follows

	2009 £000	2008 £000
Sale of goods/ rendering of services	16,067	6,573
Revenue from construction contracts	137,683	77,348
Revenue per statement of comprehensive income	153,750	83,921
Investment income	113	258
Total revenue	153,863	84,179

3 (Loss)/ Profit from operations

(Loss)/ Profit from operations is stated after charging

	2009 £000	2008 £000
Depreciation of property, plant and equipment	38	33
Staff costs (note 6)	19,549	15,244
Auditors' remuneration for audit services	50	95

Amounts payable to Mazars LLP and their associates by the Company in respect of non-audit services were £5k (2008 £nil)

4 Investment Income

	2009 £000	2008 £000
Interest on bank deposits	113	133
Other	-	125
	113	258

Notes to accounts (continued)
for the year ended 31 December 2009

5 Finance costs

	2009 £000	2008 £000
Interest on bank loans and overdrafts	404	361
Other	8	24
Total borrowing costs	412	385
Exchange loss	948	631
(Income)/ cost of foreign currency derivatives	(76)	343
Pension Interest Costs	13	-
Total finance costs	1,297	1,359

6 Staff costs

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

	2009 Number	2008 Number
Production	255	179
Sales	5	4
Administration	28	24
	288	207

	2009 £000	2008 £000
Their aggregate remuneration comprised		
Wages and salaries	16,365	13,383
Social security costs	2,707	1,435
Other pension costs (see note 18)	477	426
	19,549	15,244

Notes to accounts (continued)
for the year ended 31 December 2009

Directors' Emoluments

Remuneration	2009 £000	2008 £000
Emoluments	180	154
Contributions to money purchase pension schemes	13	12
Total emoluments	193	166

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

	2009 £000	2008 £000
Emoluments	180	154
Contributions to money purchase pension schemes	13	12

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

7 Income tax expense

	2009 £000	2008 £000
Current tax		
UK Corporation tax	(2,008)	354
Adjustments in respect of prior years	15	121
Total current tax	(1,993)	475
Deferred tax		
Origination and reversal of temporary differences (credit)/ charge	(2,228)	(57)
Total deferred tax	(2,228)	(57)
Total tax (credit)/ charge on profit on ordinary activities	(4,221)	418

Corporation tax is calculated at 28% (2008 28.5%) of the estimated assessable profit for the year

The following changes were announced in the UK Budget on 22 June 2010 (i) the full rate of corporation tax will reduce to 27% with effect from 1 April 2011, and will decrease by a further 1% each 1 April thereafter until reaching 24% with effect from 1 April 2014, (ii) the rate of annual writing down allowances on qualifying plant and machinery

Notes to accounts (continued)

for the year ended 31 December 2009

will reduce by 2%, to 18% for the general capital allowance pool and to 8% for the integral features pool, with effect from 1 April 2012. As this legislation was not substantially enacted by the balance sheet date, the figures within these accounts are calculated in accordance with the existing rates'

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

	2009 £000	2008 £000
(Loss)/ Profit on ordinary activities before tax	(7,228)	1,017
(Loss)/ Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 28.5%)	(2,024)	291
Tax effect of		
Expenses not deductible for tax purposes	12	6
Recognition of prior year deferred tax	(2,224)	-
Adjustments to prior year current tax	15	121
Total tax (credit)/ charge	(4,221)	418

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

	2009 £000	2008 £000
Net (gain)/ loss on revaluation of cash flow hedges	(267)	3,052
Deferred tax (credit)/ expense reported in other comprehensive income	(267)	3,052

Notes to accounts (continued)
for the year ended 31 December 2009

8 Property, plant and equipment

	2009
	Total Plant and Machinery
Cost	
At 1 January 2008	109
Additions	114
At 31 December 2008	223
Additions	5
At 31 December 2009	228
Accumulated depreciation	
At 1 January 2008	(77)
Charge for the year	(33)
At 31 December 2008	(110)
Charge for the year	(38)
At 31 December 2009	(148)
Net book value	
At 31 December 2009	80
At 1 January 2009	113

9 Inventory and Work in Progress

	2009 £000	2008 £000
Raw materials and consumables	317	-
Work-in-progress	156	-
Finished goods and goods for resale	402	-
Inventory Provision	(484)	-
	391	-

The amount of write down of inventories has been made for estimated obsolete and slow moving items, which relate to the business acquired inventory

Notes to accounts (continued)
for the year ended 31 December 2009

10 Trade and other receivables

	2009 £000	2008 £000
Trade and other receivables	23,400	18,957
Amounts receivable from the sale of goods	1,397	2,123
Amounts receivable from construction contract customers (note 11)	44,441	12,552
Other receivables from the sale of goods	-	60
Pension Asset	24	-
	<u>69,262</u>	<u>33,692</u>

An allowance has been made for estimated irrecoverable amounts from the sale of goods of £128k (2008 £74k). This allowance has been determined by reference to past default experience. The table below shows the movement in this allowance during the year.

	2009 £000	2008 £000
At 1 January 2008	74	144
Unused amounts reversed	-	(70)
Additional Provision	150	-
Charge for the year	(96)	-
	<u>128</u>	<u>74</u>
At 31 December 2009		

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
2009 Amounts receivable	<u>23,400</u>	<u>16,416</u>	<u>6,699</u>	<u>205</u>	<u>80</u>
2008 Amounts receivable	<u>18,957</u>	<u>16,520</u>	<u>2,135</u>	<u>11</u>	<u>291</u>

Notes to accounts (continued)

for the year ended 31 December 2009

11 Construction Contracts

	2009 £000	2008 £000
Contracts in progress at date of statement of financial position		
Amounts due from contract customers included in trade and other receivables	<u>44,441</u>	<u>12,552</u>
Contract costs incurred plus recognised profits less recognised losses to date	434,473	291,022
Less progress billings	<u>(390,032)</u>	<u>(278,470)</u>
	<u>44,441</u>	<u>12,552</u>

At 31 December 2009, retentions held by customers for contract work amounted to £3,616k (2008 £1,698k) are due for settlement after more than 12 months. Advances received from customers for contract work amounted to £1,113k (2008 £1,976k)

The provision of £9,450k was established during the period in relation to certain company activities, for which it is currently anticipated that the cost of delivery will exceed the currently agreed associated revenues, of which £1,418k has been offset within construction contracts costs above, with the remaining provision of £8,032k within trade and other payables

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

	2009 £000	2008 £000
Trade creditors	16,654	13,457
Accruals	13,670	15,729
Provision for expected losses on construction contracts	<u>8,032</u>	<u>-</u>
	<u>38,356</u>	<u>29,186</u>

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

The average credit period taken for trade purchases is 79 days (2008 110 days)

Notes to accounts (continued)
for the year ended 31 December 2009

14 Bank overdrafts

	2009 £000	2008 £000
Bank overdrafts	88,642	16,748
	<u>88,642</u>	<u>16,748</u>
The borrowings are repayable as follows		
On demand or within one year	<u>88,642</u>	<u>16,748</u>

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

The weighted average interest rates paid were as follows

	2009 %	2008 %
Bank overdraft	0.9%	4.93%

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 2009	972	972
Transfer from the business acquired during the year	816	816
Net movement in the provision during the year	<u>291</u>	<u>291</u>
At 31 December 2009	<u>2,079</u>	<u>2,079</u>
Included in current liabilities		2,079
Included in non-current liabilities		-
		<u>2,079</u>

The warranty provision relates to post-sale rectification costs on certain types of products, including one that is currently in the process of obtaining approval for use. Upon successful achievement of the product approval, part of this provision will no longer be needed, however the remainder of the provision will be required to cover any warranty costs for a further 2 years.

Notes to accounts (continued)
for the year ended 31 December 2009

16 Other liabilities.

	2009	2008
	£000	£000
Receipts in advance	1,113	-
VAT payable	4,835	3,702
Other payroll costs	992	853
	<u>6,940</u>	<u>4,555</u>

17 Financial instruments

Categories of financial instruments

	FVTPL Held for trading £000	Total £000
31 December 2009		
Assets		
Derivative financial instruments	27,545	27,545
	<u>27,545</u>	<u>27,545</u>
31 December 2008		
Assets		
Derivative financial instruments	26,946	26,946
	<u>26,946</u>	<u>26,946</u>

Notes to accounts (continued)
for the year ended 31 December 2009

Fair value

Set out below is a comparison of the carrying amounts and fair value of all of the Company's financial instruments, including those classified under discontinued operations, that are carried in the financial statements

	2009 Carrying amount £000	Fair value £000	2008 Carrying amount £000	Fair value £000
Financial assets				
Derivative financial instruments	27,545	27,545	26,946	26,946

Fair value hierarchy

As at 31 December 2009 the Company held the following financial instruments measured at fair value

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

Notes to accounts (continued)
for the year ended 31 December 2009

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:

	2009 £000	2008 £000
Forward foreign exchange contracts	<u>102,526</u>	<u>111,086</u>

At 31 December 2009, the fair value of the Company's currency derivatives is estimated to be approximately £27,545k (2008: £26,946k). These amounts are based on quoted market prices for equivalent instruments at the date of the statement of financial position, comprising £27,732k assets (2008: £26,946k) and £187k liabilities (2008: £Nil). The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £25,888k (2008: £26,844k) has been deferred in equity.

Amounts of £34,681k (2008: £35,421k) have been transferred to the statement of comprehensive position in respect of contracts matured during the period.

Maturity of currency derivatives contracts.

The contractual maturity of the Company's currency derivative contracts is as follows:

	Timing of cash flows				Total
	Within one year	Between one and two years	Between two and five years	More than five years	
	£000	£000	£000	£000	£000
At 31 December 2009					
Derivative financial instruments	29,010	36,757	36,759	-	102,526

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

Sensitivity analysis

The table below illustrates the estimated impact on the statement of comprehensive income and net assets as a result of market movements in foreign exchange in relation to the Company's financial instruments.

Notes to accounts (continued)
for the year ended 31 December 2009

	10% weakening in sterling	10% strengthening in sterling
	£000	£000
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)
At 31 December 2008		
Impact on statement of comprehensive income gain/(loss)	3,346	(2,738)
Impact on equity increase/(decrease)	14,763	(12,079)

18 Retirement benefit schemes

Defined contribution schemes

The total cost charge to income in relation to defined contribution schemes amounted to £479k (2008 £426k) representing contributions payable to the schemes by the Company at rates specified in the rules of the plan

Defined benefit schemes

During the year employees with a defined benefit scheme pension transferred to the Company

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

	2009 £000
Net benefit expense	
Current service cost	(26)
Amortisation of scheme amendments	-
Total service charge	(26)
Interest cost	(116)
Expected return on plan assets	124
Amortisation of unrecognised gains & losses	(21)
Curtailment charge	-
Total charge	(39)
Actual return on plan assets	-

Notes to accounts (continued)
for the year ended 31 December 2009

	2009 £000
Benefit asset / (liability)	
Present value of defined obligations	(261)
Fair value of plan assets	212
Funded status	(49)
Unrecognised actuarial losses	73
Unrecognised scheme amendments	-
Net amount recognised	24

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

Opening present value of obligations	
Current service cost	(26)
Interest cost	(116)
Plan participants' contributions	(11)
Scheme amendments	-
Curtailments / Settlements	-
Actuarial gains/(losses) on obligation	(184)
Benefits paid	76
Closing present value of obligations	(261)

Changes in the fair value of Plan Assets are as follows

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

The Thales Group expects to contribute £71m to its defined benefit pension plans in 2010

Notes to accounts (continued)

for the year ended 31 December 2009

Year ended
31 December
2009

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

Equities	52%
Gilts and corporate bonds	47%
Property	1%
Cash	0%

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

Equities	7.6%
Gilts	4.1%
Corporate bonds	5.0%
Property	6.1%
Cash	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 stock market scenario.

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

Discount rate	5.85%
Expected rate of return on assets	6.3%
Future salary increases	4.3%
Future price inflation	3.3%
Future 5% LPI pension increases	3.1%
Future 2.5% LPI pension increases	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.

Notes to accounts (continued)

for the year ended 31 December 2009

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

	Year ended 31 December 2009
	£000
Increase	(152)
Decrease	171

During 2007, the Thales Group undertook a pensions project that changed the structure of benefits for active members and offered other options to pensioners and deferred members. This resulted in reduced ongoing costs and a reduction of existing liabilities, which are shown as scheme amendments within the total service credit on page 36.

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 2008	2	-	2
Credited to the Statement of comprehensive income	57	-	57
As at 31 December 2008	59	-	59
Credited to the Statement of comprehensive income	43	2,191	2,234
As at 31 December 2009	102	2,191	2,293

Deferred Tax Liability	Pensions £'000	Cash flow hedges £'000	Total £'000
As at 1 January 2008	-	(4,464)	(4,464)
Charged to equity	-	(3,052)	(3,052)
As at 31 December 2008	-	(7,516)	(7,516)
Charged to statement of comprehensive income	(7)	-	(7)
Charged to equity	-	267	267
As at 31 December 2009	(7)	(7,249)	(7,256)

Factors that may affect future tax charges

As a UK resident company in the Thales Group, the Company is eligible to surrender group relief to, or claim group relief from other Thales plc Group companies. These claims or surrenders are to be made without a charge.

Notes to accounts (continued)
for the year ended 31 December 2009

20 Share capital

	2009 £000	2008 £000
<i>Authorised</i>		
2 ordinary shares of £1 each	-	-
<i>Allotted, called-up and fully-paid</i>		
2 ordinary shares of £1 each	-	-

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 2009 and 31 December 2008.

21 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 2009, the following options were outstanding:

Type of arrangement	General employee share option plan	General employee share option plan
Date of grant	25 June 2009	1 July 2008
Number granted	690	2,600
Contractual life	10 years	10 years
Vesting conditions	Fully vested after 4 years	Fully vested after 4 years

The estimated fair value of each share option granted in the general employee share option plan is £6.08 (2008: £5.22).

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

Notes to accounts (continued)
for the year ended 31 December 2009

	General employee share option plan 25 June 2009	General employee share option plan 1 July 2008
Date of grant		
The model inputs were		
Share price at grant date	€ 31 93	€ 35 72
Exercise price	€ 32 88	€ 38 50
Expected volatility*	25%	20%
Dividend rate	2 5%	2 5%
Risk-free interest rate	3 9%	4 5%
Expected rate of cancellation pre-vesting	2%	2%
Expected rate of departure post-vesting	3%	3%
Early exercise multiple	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

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

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at start of year	5,440	£33 53	2,840	£32 83
Granted	690	£28 42	2,600	£30 90
Forfeited	(300)	£34 26	-	-
Outstanding at end of year	5,830	£36 29	5,440	£33 53
Exercisable at end of year	2,836	£37 58	1,390	£34 75

The options outstanding at 31 December 2009 had exercise prices in the range €25 70 to €44 77, and the weighted average remaining contractual life of 8 1 years (2008 9 0 years)

The expense arising from share and share option plans was £10k (2008 £7k)

Notes to accounts (continued)

for the year ended 31 December 2009

22 Other commitments

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

23 Operating lease arrangements

The Company as lessee

	2009 £000	2008 £000
Minimum lease payments under operating leases charged to expense for the year	<u>166</u>	<u>71</u>

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

	2009 £000	2008 £000
- Within one year	<u>125</u>	<u>78</u>

24 Events after the reporting period

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.

25 Parent and ultimate parent undertaking

The immediate parent company is Thales Security Solutions & Services GmbH. 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.

Notes to accounts (continued)
for the year ended 31 December 2009

26 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	
	2009	2008	2009	2008	2009	2008	2009	2008
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fellow subsidiaries	672	900	41,810	37,386	788	1,411	15,598	14,583

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

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

Compensation of key management personnel

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

	Year ended 2009 £000	Year ended 2008 £000
Short-term employee benefits	776	682
Post-employment benefits	27	10
	<u>803</u>	<u>692</u>

The basis for 2009 disclosure has been revised. The 2008 comparative using the same method as 2009 would be as follows - short-term employee benefits £776k and post-employment benefits £24k.

Other related party transactions

In addition to the above, Thales UK Corporate Services and Thales Rail Signalling Solutions SA performed certain administrative services for the Company, for which a management fee of £2,803k (2008 £2,741k) was charged, being an appropriate allocation of costs incurred by relevant administrative departments.