

Thales Ground Transportation Systems UK Limited

Annual report and accounts
for the year ended 31 December 2016

Registered number: 5805963

WEDNESDAY



L6FVQN0H

LD2

27/09/2017

#97

COMPANIES HOUSE

Contents

	Page
Strategic Report	1
Directors' Report	3
Statement of Directors' responsibilities	7
Independent auditor's Report	8
Statement of total comprehensive income	10
Statement of financial position	11
Statement of changes in equity	13
Notes to accounts	14 - 37

Strategic Report

The Directors present their Strategic Report which outlines the key issues which the Directors consider to be significant in relation to the Company's current and future activities.

Business review and future developments

Turnover for the year was £126m from £87m in the previous period. This increase can be attributed to the fact that the 4 Lines Modernisation contract is now fully mobilised and the strong position with LUL means that further work will follow on other underground lines. Profit after tax for the year was £3.58m against a loss after tax of £0.52m in the previous year.

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

	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Turnover	126,266	86,787	97,964	96,030	104,035
Profit/(Loss) after tax	3,583	(524)	4,828	11,774	(416)
Total equity	(27,262)	(30,859)	(29,506)	(32,177)	(39,344)
Average headcount	463	389	385	340	331

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 26 to the accounts.

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 2.

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.

Strategic Report (continued)

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.

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.

-- Approved by the Board on 21/09/17
and signed on its behalf by



.....
G Marsh
Director

Statement of Directors' responsibilities

The Directors present their annual report and financial statements, together with the auditor's report, for the year ended 31 December 2016.

Matters covered in the Strategic Report

As permitted by paragraph 1A of Schedule 7 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic report on pages 1 and 2. These matters relate to the review and analysis of the business, development and financial performance, future prospects and principal risks and uncertainties.

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.

Dividends

The Directors do not recommend the payment of a dividend (2015 - Nil).

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 Strategic Report 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 an intermediate 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.

Statement of Directors' responsibilities

Directors

The Directors who served during the year and appointed after the year end were as follows:

Name	Date of appointment
S K Jones	Appointed 18 December 2011
G Marsh	Appointed 1 October 2011
A McPhee	Appointed 13 October 2010 – resigned 1 September 2016
M Garrity	Appointed 4 April 2012
P Maynard	Appointed 7 January 2013
K Hill	Appointed 1 December 2015
V Turner	Appointed 1 December 2015
A Bell	Appointed 1 December 2015

Statement of Directors' responsibilities

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' 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 2016, 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 14 days (2015 – 11 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 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.

Disclosure of information to the auditors

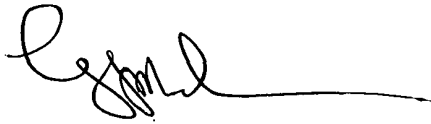
So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of the auditor, each Director has taken 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.

Statement of Directors' responsibilities

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

A handwritten signature in black ink, appearing to read 'G Marsh', followed by a long horizontal line extending to the right.

G Marsh
Director

Thales Ground Transportation System UK Limited
350 Longwater Avenue
Green Park
Reading
Berkshire
RG2 6GF

21 September 2017

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Thales Ground Transportation Systems UK Limited

We have audited the financial statements of Thales Ground Transportation Systems UK Limited for the year ended 31 December 2016 which comprise the Statement of Total Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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 and express an opinion on 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 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 Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its result for the year then ended;
- have been properly prepared in accordance United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; 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 based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

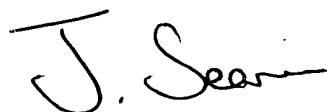
Independent auditor's report to the members of Thales Ground Transportation Systems UK Limited (continued)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

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

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



Jonathan Seaman (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London
E1W 1DD

Date: 22 September 2017

Statement of total comprehensive income
for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Continuing operations			
Turnover	4	126,266	86,787
Cost of sales		(109,328)	(75,014)
Gross profit		16,938	11,773
Investment income	6	47	48
Administrative expenses		(2,525)	(1,736)
Other operating expenses		(8,343)	(9,029)
Finance cost	7	(961)	(398)
Profit on ordinary activities before taxation	5	5,156	658
Tax expense	9	(1,573)	(1,182)
Profit/(loss) for the financial year		3,583	(524)
Other comprehensive income:			
Cash flow hedges:			
Profit/(losses) during the year		15	(1,035)
Tax on items relating to the components of other comprehensive income	9	(1)	206
Other comprehensive income / (loss) for the year		14	(829)
Total comprehensive income / (loss) for the year		3,597	(1,353)

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

All operations are classed as continuing.

Statement of financial position
at 31 December 2016

Company registered number: 5805963

	Note	2016 £000	2015 £000
ASSETS			
Fixed Assets			
Intangible development costs	10	1,511	2,001
Tangible assets	11	603	399
Net deferred tax asset	21	4,264	5,310
		<u>6,378</u>	<u>7,710</u>
Current assets			
Stock	12	3,160	2,369
Trade and other debtors	13	31,471	32,478
Cash and cash equivalents	15	178	1,362
Derivative financial instruments		10	-
		<u>34,819</u>	<u>36,209</u>
Total assets		<u>41,197</u>	<u>43,919</u>
EQUITY AND LIABILITIES			
Share premium account		43	43
Other components of equity		11	(3)
Retained earnings		<u>(27,316)</u>	<u>(30,899)</u>
SHAREHOLDERS' DEFICIT - EQUITY		<u>(27,262)</u>	<u>(30,859)</u>

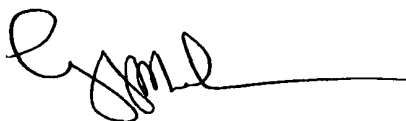
Statement of financial position
at 31 December 2016

Company registered number: 5805963

	Note	2016 £000	2015 £000
Creditors : amounts falling due within one year			
Bank overdrafts	16	46,521	53,199
Trade and other creditors	17	13,806	8,257
Provisions	18	641	867
Other liabilities	19	7,491	12,451
Derivative financial instruments		-	4
		<hr/> 68,459	<hr/> 74,778
Total equity and liabilities		<hr/> 41,197	<hr/> 43,919

The accounts on pages 10 to 37 were approved by the board of Directors and authorised for issue on 21 September 2017.

They were signed on its behalf by:



Director

G Marsh

21 September 2017

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

Statement of changes in equity
for the year ended 31 December 2016

	Share capital account	Share premium account	Other components of equity	Retained earnings	Total
	£000 (Note 22)	£000	£000 (Note 23)	£000	£000
At 1 January 2015	-	43	826	(30,375)	(29,506)
Loss for the year	-	-	-	(524)	(524)
Net movement on cash flow hedges	-	-	(1,035)	-	(1,035)
Income tax relating to the components of other comprehensive income	-	-	206	-	206
Total comprehensive income	-	-	(829)	(524)	(1,353)
Share options granted in the year	-	-	-	-	-
At 31 December 2015	-	43	(3)	(30,899)	(30,859)
Profit for the year	-	-	-	3,583	3,583
Net movement on cash flow hedges	-	-	15	-	15
Income tax relating to the components of other comprehensive income	-	-	(1)	-	(1)
Total comprehensive income	-	-	14	3,583	3,597
Share options granted in the year	-	-	-	-	-
At 31 December 2016	-	43	11	(27,316)	(27,262)

Notes to accounts

for the year ended 31 December 2016

1. Corporate Information

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 21 September 2017. The Company is a limited company incorporated and domiciled in England & Wales. The address of the registered office is given on page 6. 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 27.

2. Accounting Policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. 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 recognition, measurement and disclosure requirements (except for certain disclosure exemptions detailed below) of International Financial Reporting Standards as adopted by the EU (EU – adopted IFRSs) have been applied to these financial statements and, where necessary, amendments have been made in order to comply with the Companies Act 2006 and The Large and Medium – sized Companies and Groups Regulations 2008/410. The financial statements have been prepared on the historical cost basis, except for financial instruments which are measured in terms of IFRS 7.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2016 and have been consistently applied to all periods presented.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based Payment*, because:

(i) the share based payment arrangement concerns the instruments of another group entity;

(b) The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of *IFRS 3 Business Combinations*

(c) the requirements of paragraph 33 (c) of IFRS 5 *Non current Assets Held for Sale and Discontinued Operations*

(d) the requirements of IFRS 7 *Financial Instruments: Disclosures*,

(e) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*

(f) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

Notes to accounts

(continued)

for the year ended 31 December 2016

- (i) paragraph 79(a)(iv) of IAS 1;
- (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
- (iii) paragraph 118(e) of IAS 38 *Intangible Assets*;
- (g) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 *Presentation of Financial Statements*;
- (h) the requirements of IAS 7 *Statement of Cash Flows*;
- (i) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (j) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
- (l) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
- (m) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*;

Going concern basis

On 21 September 2017 the Directors obtained written confirmation of the intention of the parent to provide ongoing financial support to Thales Ground Transportation Systems UK 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.

Notes to accounts

(continued)

for the year ended 31 December 2016

Intangible 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.

Tangible assets

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.

Impairment of tangible 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).

Notes to accounts

(continued)

for the year ended 31 December 2016

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.

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 debtors

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.

Trade creditors

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

Notes to accounts

(continued)

for the year ended 31 December 2016

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.

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.

Notes to accounts

(continued)

for the year ended 31 December 2016

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.

Research and development government credits

The company claims research and development government credits in the UK. These are judged to have characteristics more akin to grants than income taxes and are offset against the relevant expenditure. Credits are recognised to the extent there is reasonable assurance they will be received.

Stocks

Stocks 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.

Taxation

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

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

Notes to accounts
(continued)
for the year ended 31 December 2016

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

The Company participates in certain retirement benefit schemes which are managed by Thales UK Limited for the benefit of employees and former employees of the Thales Group in the UK.

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.

The Company participates in the Thales UK Pension Scheme (TUPS) which is a defined benefit retirement benefit scheme and one of the sections in the Railways scheme sponsored by Thales Transport and Security Ltd. The annual cost of contributions associated with employees who are members of this scheme is borne by the Company as an expense in the statement of comprehensive income and there is no impact retained in the Balance Sheet. The impact for 2016 in these financial statements is shown in note 20.

Notes to accounts

(continued)

for the year ended 31 December 2016

Full details and disclosures of the Thales UK Pension Scheme are reported in the financial statements of Thales UK Limited.

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.

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.

Notes to accounts

(continued)

for the year ended 31 December 2016

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 major risks with regard to disputes and variations have been agreed with the customer. There is still an element of risk on future works, but management consider they have adequate allowances within their business assumptions to underpin the 2015 results and contract completion.

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 21.

3. Standards, amendments and interpretations adopted in the current financial year ended 31 December 2016

The adoption of the following mentioned standards, amendments and interpretations in the current year has not had a material impact on the Company's financial statements.

	<i>EU effective date – periods beginning on or after</i>
IAS 1 (amendment) 'Presentation of Financial Statements' - Disclosure initiative	1 January 2016
IAS 16 (amendment) 'Property, Plant and Equipment' and IAS 38 (amendment) 'Intangible Assets' - Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IAS 16 (amendment) 'Property, Plant and Equipment' and IAS 38 (amendment) 'Intangible assets'	1 January 2016
IAS 19 (amendment) 'Employee Benefits' - Defined benefit plans: Employee contributions	1 February 2015
Annual Improvements to IFRS (2010 - 2012)	1 February 2015
Annual Improvements to IFRS (2012 - 2014)	1 January 2016

Notes to accounts
(continued)

for the year ended 31 December 2016

Standards, amendments and interpretations in issue but not yet effective

The adoption of the following mentioned standards, amendments and interpretations in future years are not expected to have a material impact on the Company's financial statements.

The Company is however continuing to assess the full impact that adopting IFRS15 will have on future financial statements, and therefore the full effect is yet to be determined.

	EU effective date – periods beginning on or after
IFRS 9 'Financial Instruments'	1 January 2018
IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	Expected to be endorsed Q2 2017
Annual Improvements to IFRS (2014 - 2016)	Expected to be endorsed H2 2017
IFRS 16 'Leases'	Expected to be endorsed H2 2017
IFRS 14 'Regulatory Deferral Accounts'	Will not be endorsed by the EU
IFRS 10 (amendment) 'Consolidated Financial Statements' and IAS 28 (amendment) 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture	Endorsement by the EU has been postponed

Notes to accounts
(continued)
for the year ended 31 December 2016

4. Turnover

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

	2016 £000	2015 £000
Sale of goods and the rendering of services	10,454	15,057
Turnover from construction contracts	115,812	71,730
Turnover per statement of comprehensive income	126,266	86,787
Investment income	47	48
Total turnover	126,313	86,835

5. Profit before taxation

Profit from operating activities is stated after charging/(crediting):

	2016 £000	2015 £000
Operating lease expenses (note 25)	185	187
Cost of inventories recognised as an expense (note 12)	4,386	7,714
Staff costs (note 8)	29,174	25,018
Auditors' remuneration for audit services	43	43
R&D Tax credit	(2,656)	(2,727)
Amortisation of intangible assets	791	371

Amounts payable to Mazars LLP and their associates by the Company in respect of non-audit services were £nil (2015: £nil).

6. Investment income

	2016 £000	2015 £000
Interest on bank deposits	47	48

Notes to accounts
(continued)
for the year ended 31 December 2016

7. Finance cost

	2016 £000	2015 £000
Interest on bank loans and overdrafts	6	160
Other	371	195
	<hr/>	<hr/>
Total borrowing costs	377	355
Exchange loss	584	36
Loss of foreign currency derivatives	-	7
	<hr/>	<hr/>
Total finance expense	961	398
	<hr/>	<hr/>

8. Staff costs

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

	2016 Number	2015 Number
Production	437	369
Sales	8	5
Administration	18	15
	<hr/>	<hr/>
	463	389
	<hr/>	<hr/>

	2016 £000	2015 £000
Their aggregate remuneration comprised:		
Wages and salaries	25,288	21,656
Social security costs	2,797	2,411
Other pension costs	1,089	951
	<hr/>	<hr/>
	29,174	25,018
	<hr/>	<hr/>

Notes to accounts
(continued)
for the year ended 31 December 2016

Directors' Emoluments

Remuneration	2016 £000	2015 £000
Remuneration of directors	762	788
Pension scheme contributions	79	65
Total emoluments	841	853

Number of directors accruing benefits under the following schemes:

	2016 Number	2015 Number
Money purchase schemes	4	10
Defined benefit schemes	2	2
The number of directors who exercised share options	0	1
The number of directors who received shares under the long term incentive scheme	6	9

Details of the highest paid director

	2016 £000	2015 £000
Remuneration of director	187	195
Pension scheme contributions	32	18

The highest paid director received shares under the long term incentive schemes.

9. Taxation

	2016 £000	2015 £000
Current tax:		
UK Corporation tax	531	552
Adjustments in respect of prior years	0	55
Total current tax	531	607
Deferred tax		
Origination and reversal of temporary differences	1,178	729
Adjustments in respect of prior year	(136)	(154)
Total deferred tax	1,042	575
Total tax charge for the year	1,573	1,182

Notes to accounts

(continued)

for the year ended 31 December 2016

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

	2016 £000	2015 £000
Profit on ordinary activities before tax	5,156	658
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	1,031	133
Tax effect of:		
Expenses not deductible for tax purposes	7	8
Adjustments to prior year current tax	-	55
Deferred tax rate change impact movement	148	588
Adjustments to prior year deferred tax	(136)	(154)
RDEC Relief no charge - or used	531	552
Group relief surrendered for nil payment	(8)	-
Total tax charge for the year	1,573	1,182

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

	2016 £000	2015 £000
Net loss/(gain) on revaluation of cash flow hedges	1	(206)
Credit to equity relating to movements on revaluation of cash flow hedges	1	(206)

The rate of corporation tax remained unchanged at 20% on 1 April 2016. Reductions to 19% and 18%, effective from 1 April 2017 and 1 April 2020 respectively, were included in the Finance Act (No.2) 2015 which was enacted on 18 November 2015, and a further reduction to 17% effective from 1st April 2020 was included in the Finance 2016 which was substantively enacted on 6 September 2016.

The deferred tax balances as at 31 December 2016 have been calculated at the above rates corresponding to the expected years of reversal.

Notes to accounts
(continued)
for the year ended 31 December 2016

10. Intangible assets

2016
£000

Cost

At 1 January 2016	2,372
Additions	301
At 31 December 2016	<u>2,673</u>

Amortisation

At 1 January 2016	(371)
Charge for the year	(791)
At 31 December 2016	<u>(1,162)</u>

Net book value

At 31 December 2016	<u>1,511</u>
At 31 December 2015	<u>2001</u>

The above capitalised items relate to research and development costs which have now been realised.

Notes to accounts
(continued)
for the year ended 31 December 2016

11. Tangible assets

	2016 £000 Plant and Machinery	2016 £000 Assets under construction	2016 £000 Total
Cost			
At 1 January 2016	140	399	539
Additions		204	204
At 31 December 2016	<u>140</u>	<u>603</u>	<u>743</u>
Accumulated depreciation			
At 1 January 2016	(140)	-	(140)
Charge for the year	-	-	-
At 31 December 2016	<u>(140)</u>	<u>-</u>	<u>(140)</u>
Net book value			
At 31 December 2016	<u>-</u>	<u>603</u>	<u>603</u>
At 31 December 2015	<u>-</u>	<u>603</u>	<u>603</u>

Notes to accounts
(continued)
for the year ended 31 December 2016

12. Stock

	2016 £000	2015 £000
Raw materials and consumables	445	407
Work-in-progress	255	261
Finished goods and goods for resale	2,852	2,093
Stock Provision	(392)	(392)
	<u>3,160</u>	<u>2,369</u>

There is no material difference between the carrying value of stock and its replacement cost.

The amount of write down of stocks recognised as an expense is £4,386k (2015: £7,714k). This is included in the cost of sales line item as a cost of inventories recognised as an expense (see note 5).

13. Trade and other debtors

	2016 £000	2015 £000
Trade receivables	11,351	8,728
Other receivables	13,572	10,325
Amounts receivable from the sale of goods	-	193
Amounts receivable from construction contract customers (note 14)	6,548	13,232
	<u>31,471</u>	<u>32,478</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.

	2016 £000	2015 £000
At 1 January 2016	-	5
Credit for the year	-	-
Utilised against bad debts	-	(5)
	<u>-</u>	<u>-</u>
At 31 December 2016	-	-

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

Notes to accounts
(continued)
for the year ended 31 December 2016

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
	£000	£000	£000	£000
2016: Amounts receivable	<u>11,351</u>	<u>9,310</u>	<u>729</u>	<u>1,312</u>
2015: Amounts receivable	<u>8,728</u>	<u>8,423</u>	<u>285</u>	<u>20</u>

14. Construction Contracts

	2016 £000	2015 £000
Contracts in progress at date of Balance Sheet:		
Amounts due from contract customers included in trade and other receivables	6,548	13,232
Provision for expected losses on construction contracts included in trade and other payables	(113)	(439)
Receipts in advance included in other liabilities	<u>(1,261)</u>	<u>(5,014)</u>
	<u>5,174</u>	<u>7,779</u>
Contract costs incurred plus recognised profits less recognised losses to date	1,069,382	908,222
Less: progress billings	<u>(1,064,208)</u>	<u>(900,443)</u>
	<u>5,174</u>	<u>7,779</u>

Included in the above as at 31 December 2016 are retentions held by customers for contract work that amounted to £165k (2015: £165k) and advances received from customers for contract work that amounted to £1,261k (2015: £5,014k).

15. 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.

Notes to accounts
(continued)
for the year ended 31 December 2016

16. Bank overdrafts

	2016 £000	2015 £000
Bank overdrafts	46,521	53,199
	<u>46,521</u>	<u>53,199</u>
The borrowings are repayable as follows:		
On demand or within one year	<u>46,521</u>	<u>53,199</u>

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

The weighted average interest rates paid were as follows:

	2016 %	2015 %
Bank overdraft	0.75%	0.75%

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.

17. Trade and other creditors

	2016 £000	2015 £000
Trade creditors	7,124	2,872
Accruals	6,569	4,946
Provision for expected losses on construction contracts (note 14)	113	439
	<u>13,806</u>	<u>8,257</u>

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

The average credit period taken for trade purchases is 14 days (2015: 11 days).

Notes to accounts
(continued)
for the year ended 31 December 2016

18. Provisions

	Warranty £000	Total £000
At 1 January 2016	867	867
Net movement in the provision during the year	(226)	(226)
At 31 December 2016	<u>641</u>	<u>641</u>
Included in current liabilities		<u>641</u>
		<u>641</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.

19. Other liabilities

	2016 £000	2015 £000
Receipts in advance (note 14)	1,261	5,014
VAT payable	5,088	6,206
Other payroll costs	1,142	1,231
	<u>7,491</u>	<u>12,451</u>

20. Retirement benefit schemes

The Thales Group operates a number of retirement benefit schemes within the UK for the benefit of employees and former employees of the Group. As indicated in the Accounting Policy (see Note 2), the full details of the Thales UK Pension Scheme, which is a defined benefit scheme, are reported in the financial statements of Thales UK Limited. The Company recognised the amounts described below in respect of its pension scheme obligations during the year. The schemes include both defined benefit schemes and defined contribution schemes.

Defined benefit schemes

The total cost charged to income in relation to defined benefit schemes amounted to £115k (2015: £96k).

Defined contribution schemes

The total cost charged to income in relation to defined contribution schemes amounted to £974k (2015: £855k) representing contributions payable to the schemes by the Company at rates specified in the rules of the plan.

Notes to accounts
(continued)
for the year ended 31 December 2016

21. 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 assets have been recognised based on future budgets.

Deferred Tax Asset	Capital allowances £'000	Tax losses £'000	Total £'000
As at 1 January 2015	89	5,795	5,884
Charged to the Statement of comprehensive income	-	(574)	(574)
As at 31 December 2015	89	5,221	5,310
Charged to the Statement of comprehensive income	7	(1,049)	(1,042)
As at 31 December 2016	96	4,172	4,268

Deferred Tax Liability	Accelerated tax Depreciation £'000	Cash flow hedges £'000	Total £'000
As at 1 January 2015	-	(206)	(206)
Credited to statement of comprehensive income	-	-	-
Charged to equity	-	206	206
As at 31 December 2015	-	-	-
Credited to the Statement of comprehensive income	-	-	-
Charged to equity	-	(1)	(1)
As at 31 December 2016	-	(1)	(1)

Net Deferred tax asset	2016	2015
	£000	£000
Deferred tax asset	4,268	5,310
Deferred tax liability	(4)	-
Net deferred tax asset	4,264	5,310

There are no significant taxable temporary differences associated with investments in subsidiaries, associated undertakings and joint ventures.

Notes to accounts
(continued)

for the year ended 31 December 2016

22. Share capital

	2016 £000	2015 £000
<i>Authorised</i>		
2 ordinary shares of £1 each	-	-
<i>Allotted, called-up and fully-paid</i>		
2 ordinary shares of £1 each	-	-

23. 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.

24. Contingent liabilities

The Company has a number of arrangements with banks to guarantee performance and advance payments to be received. These include bank guarantees amounting to £nil (2015: £nil).

Notes to accounts
(continued)
for the year ended 31 December 2016

25. Operating lease arrangements

	2016	2015
The Company as lessee		
	£000	£000
Minimum lease payments under operating leases charged to expenses for the year	<u>185</u>	<u>187</u>

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

	2016	2015
	£000	£000
- Within one year	194	87
- Between 1 and 5 years	<u>379</u>	<u>75</u>

26. 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.

27. 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.

Notes to accounts
(continued)
for the year ended 31 December 2016

28. 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	
	2016	2015	2016	2015	2016	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fellow subsidiaries	607	174	37,632	31,835	1,563	353	5,055	2,284

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.

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 £4,454k (2015: £4,311k) was charged, being an appropriate allocation of costs incurred by relevant administrative departments.