

Thales Ground Transportation Systems UK Limited

Annual report and accounts
for the year ended 31 December 2018

Registered number: 5805963



Contents

| | Page |
|--|---------|
| Strategic Report | 1 |
| Directors' Report | 3 |
| Statement of Directors' responsibilities | 6 |
| Independent auditor's report | 7 |
| Statement of total comprehensive income | 10 |
| Statement of financial position | 11 |
| Statement of changes in equity | 12 |
| Notes to accounts | 13 - 37 |

Strategic Report

For the year ended 31 December 2018

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

Revenue for the year was £233m from £210m in the previous period. The increase of £23m is driven mainly by the 4 Lines Modernisation contract. Profit after tax for the year was £22.7m from a profit after tax of £17.0m in the previous year.

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

| | 2018 £000 | 2017 £000 | 2016 £000 | 2015 £000 | 2014 £000 | 2013 £000 |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 232,830 | 209,545 | 126,266 | 86,787 | 97,964 | 96,030 |
| Profit/(Loss) after tax | 22,747 | 17,036 | 3,583 | (524) | 4,828 | 11,774 |
| Total equity/(deficit) | 8,438 | (10,234) | (27,262) | (30,859) | (29,506) | (32,177) |
| Average headcount | 465 | 496 | 463 | 389 | 385 | 340 |

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

For the year ended 31 December 2018

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.

Brexit

The Company is exposed to Brexit risk as a result of the inherent uncertainty around the UK's exit from the European Union. Whilst the Company itself is not considered to be significantly exposed, suppliers which it engages with are considered to have exposure. The obligations of all significant subcontractors are underwritten by parent company guarantees. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

Approved by the Board on 25/09/2019
and signed on its behalf by


.....
J Jackson
Director

Directors' report

The Directors present their annual report and financial statements, together with the auditor's report, for the year ended 31 December 2018.

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 (2017: 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 a number of significant long-term contracts and 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.

Directors' report

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

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 |
| M Garrity | Appointed 4 April 2012 |
| P Maynard | Appointed 7 January 2013 |
| K Hill | Appointed 1 December 2015 – resigned 1 February 2019 |
| V Turner | Appointed 1 December 2015 – resigned 1 December 2018 |
| A Bell | Appointed 1 December 2015 |
| J Jackson | Appointed 1 January 2018 |

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 2018, 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 16 days (2017 – 13 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.

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.

Directors' report

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.

Other information

The directors have the intention to transfer the trade and assets' transfer from Thales Ground Transportation Systems UK Limited to Thales Transport and Security Ltd in the last quarter of 2019 to consolidate Thales UK transport activities into a single entity.

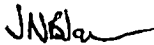
Disclosure of information to the auditors

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



J Jackson
Director

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

25 September 2019

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

Opinion

We have audited the financial statements of Thales Ground Transportation Systems UK Limited (the 'Company') for the year ended 31st December 2018 which comprise the Statement of total comprehensive income, Statement of financial position, Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to the United Kingdom exiting the European Union on our audit

The Directors' view on the impact of Brexit is disclosed on page 2.

The terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

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 the Directors' Report.

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

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

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

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of the audit report

This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.



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

Date: 25 September 2019

Statement of total comprehensive income
for the year ended 31 December 2018

| | Note | 2018 £000 | 2017 £000 |
|---|------|------------------|------------------|
| Continuing operations | | | |
| Revenue | 4 | 232,830 | 209,545 |
| Cost of sales | | <u>(188,207)</u> | <u>(174,810)</u> |
| Gross profit | | 44,623 | 34,736 |
| Investment income | 6 | 67 | 105 |
| Administrative expenses | | (4,657) | (4,191) |
| Other operating expenses | | (14,694) | (10,568) |
| Finance cost | 7 | <u>(1,032)</u> | <u>(358)</u> |
| Profit on ordinary activities before taxation | 5 | <u>24,307</u> | <u>19,723</u> |
| Tax expense | 9 | <u>(1,560)</u> | <u>(2,687)</u> |
| Profit for the financial year | | <u>22,747</u> | <u>17,036</u> |
| Other comprehensive income: | | | |
| Cash flow hedges: | | | |
| (Loss)/profit during the year | | <u>-</u> | <u>(8)</u> |
| Other comprehensive (loss)/profit for the year | | <u>-</u> | <u>(8)</u> |
| Total comprehensive income for the year | | <u>22,747</u> | <u>17,028</u> |

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

All operations are classed as continuing.


Statement of financial position
at 31 December 2018

Company registered number: 5805963

| | Note | 2018 £000 | 2017 £000 |
|---|------|---------------|-----------------|
| ASSETS | | | |
| Fixed Assets | | | |
| Intangible development costs | 10 | 1,020 | 1,144 |
| Tangible assets | 11 | 691 | 864 |
| Net deferred tax asset | 20 | 871 | 2,002 |
| | | 2,582 | 4,010 |
| Current assets | | | |
| Stock | 12 | 1,844 | 2,077 |
| Trade and other receivables | 13 | 43,780 | 44,577 |
| Cash and cash equivalents | 14 | 4,159 | 560 |
| | | 49,783 | 47,214 |
| Total assets | | 52,365 | 51,224 |
| EQUITY SHARE CAPITAL AND LIABILITIES | | | |
| Share capital | 21 | - | - |
| Share premium account | 22 | 43 | 43 |
| Other components of equity | 22 | 3 | 3 |
| Retained earnings | 22 | 8,392 | (10,280) |
| SHAREHOLDERS' DEFICIT - EQUITY | | 8,438 | (10,234) |
| Liabilities | | | |
| Bank overdrafts | 15 | 741 | 28,088 |
| Trade and other creditors | 16 | 32,974 | 20,022 |
| Provisions | 17 | 627 | 747 |
| Other liabilities | 18 | 9,585 | 12,601 |
| | | 43,927 | 61,458 |
| Total equity and liabilities | | 52,365 | 51,224 |

The accounts on pages 10 to 37 were approved by the board of Directors and authorised for issue on 25 September 2019.

They were signed on its behalf by:



Director

J Jackson

25 September 2019

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

11 THALES GROUND TRANSPORTATION SYSTEMS UK LIMITED

Statement of changes in equity
at 31 December 2018

| | Share capital account | Share premium account | Other components of equity | Retained earnings | Total |
|---|--------------------------|-----------------------------|----------------------------------|----------------------|----------|
| | £000 (Note 21) | £000 | £000 | £000 | £000 |
| At 1 January 2017 | - | 43 | 11 | (27,316) | (27,262) |
| Profit for the year | - | - | - | 17,036 | 17,036 |
| Net movement on cash flow hedges | - | - | (8) | - | (8) |
| Income tax relating to the components of other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | (8) | 17,036 | 17,028 |
| At 31 December 2017 (as published) | - | 43 | 3 | (10,280) | (10,234) |
| Impact on IFRS 15 (note 28) | | | | (4,075) | (4,075) |
| At 1 January 2018 (restated) | - | 43 | 3 | (14,355) | (14,309) |
| Profit for the year | - | - | - | 22,747 | 22,747 |
| Net movement on cash flow hedges | - | - | - | - | - |
| Income tax relating to the components of other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | 22,747 | 22,747 |
| At 31 December 2018 | - | 43 | 3 | 8,392 | 8,438 |

Notes to accounts (continued)
for the year ended 31 December 2018

1. Corporate Information

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 25 September 2019. The Company is a limited company incorporated and domiciled in England & Wales. The address of the registered office is given on page 5. The nature of the Company's operations and principal activities are set out in the Directors' Report. Information on its ultimate parent is presented in note 26.

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 9.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018 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 2018

(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*;

(k) 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

(l) 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*;

The immediate parent Company is Thales Transport and Security Limited and the ultimate parent Company is Thales SA, a Company incorporated in France. The company is included in the consolidated financial statements of Thales SA, which are publicly available.

Going concern basis

On 25 September 2019 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 with the support of the intermediate parent company, the Company has adequate resources to continue in operational existence for the foreseeable future. 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. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Tangible assets

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to accounts (continued)
for the year ended 31 December 2018

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

| | |
|---|--------------|
| Computer equipment | 3 – 7 years |
| Furniture, fixtures and fittings | 3 – 10 years |
| Data transmission, networks and related equipment | 3 – 12 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 assets

At each reporting date the Company reviews the carrying amounts of its property, plant and equipment 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.

Notes to accounts (continued)
for the year ended 31 December 2018

Impairment of non-financial assets

The Company assesses annually whether there is any indication that any of the assets have been impaired. If such indication exists the assets recoverable amount is estimated and compared to its carrying value. Where it is impossible to estimate the recoverable amount of an individual asset, we use the recoverable amount of the cash generating unit to which the asset is now allocated (reorganisations have impacted this).

If the recoverable amount of the asset is less than its carrying value the impairment loss is recognised immediately in the profit and loss unless the asset is carried at a revalued amount in which case the impairment loss is recognised as a revaluation decrease.

For intangible assets that have an indefinite life, and intangible assets not yet available for use the recoverable amount is estimated annually at the end of each reporting period.

Financial Instruments

(i) Initial recognition

All financial assets and liabilities are initially recognised on the trade date; this being the date that Company becomes a party to the contractual provisions of the instrument.

All financial instruments are initially recognised at fair value plus, in the case of financial assets and financial liabilities not held at fair value through profit or loss, directly attributable transaction costs.

(ii) Classification

Financial assets

The classification of financial instruments depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. The Company classifies its financial assets in one of the following categories:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)

Financial assets classified as amortised cost

Amortised cost financial instruments are non-derivative financial assets held within a business model, whose objective is to collect contractual cash flows, on specified dates that are solely payments of principal and interest on the principal amount outstanding. Such financial instruments are that are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment based on Expected Credit Loss (ECL). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the financial asset.

Notes to accounts (continued)
for the year ended 31 December 2018

Financial assets classified as fair value through other comprehensive income "FVOCI". FVOCI financial assets are those non-derivative financial assets held within a business model, whose objectives are both to sell the financial assets and to collect contractual cash flows, on specified dates, that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that are classified as FVOCI are measured at fair value. The changes in fair value are recognised directly in equity with three exceptions, which are recognised in profit and loss:

- (a) Interest, calculated using the effective interest method;
- (b) Impairment losses; and
- (c) Foreign exchange gains and losses on monetary financial assets.

Financial liabilities

The Company classifies all financial liabilities as other financial liabilities measured at amortised cost. Financial liabilities are initially recognised at fair value, net of directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

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

Bank borrowings

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

Trade 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 2018

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 forecast transactions.

The use of financial derivatives is in line with Group policy which provides 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 re-measured 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.

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

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 2018

Contract assets and liabilities

The cumulated amount of revenue accounted for, less progress payments and accounts receivable (presented on a dedicated line of the statement of financial position) is determined on a contract-by-contract basis. If this amount is positive, the balance is recognised under "contract assets" in the statement of financial position. If it is negative, the balance is recognised under "contract liabilities".

Customer receivables

A receivable is an unconditional right to payment by the customer. Impairment losses are accounted for, based on a prospective assessment of the credit risk on the initiation of the receivable, and its deterioration over time.

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 statement of financial position 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 statement of financial position 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.

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

Unbundling of multiple performance obligations within a single contract

Some contracts include the supply to the customer of distinct goods and services (for instance contracts combining building of assets, followed by operation and maintenance). In such situations, the contract must be segmented into several components ("performance obligations"), each component being accounted for separately, with its own revenue recognition method and margin rate.

Notes to accounts (continued)

for the year ended 31 December 2018

The contract price is allocated to each performance obligation in proportion to the specific selling price of the underlying goods and services. This allocation should reflect the share of the price to which Thales expects to be entitled in exchange for the supply of these goods or services.

Options notified by the customer for the supply of distinct additional goods or services are generally accounted for separately from the initial contract.

Evaluation of revenue allocated to performance obligations

Variable considerations included in the selling price are taken into account only to the extent that it is highly probable that a significant reversal in the amount of revenue already recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Penalties for late delivery or for the improper execution of a performance obligation are recognised as a deduction from revenue.

If the financing component is deemed significant, the selling price is adjusted to reflect a "cash" selling price for the goods and services provided. A financing component exists when parties have agreed to set up a financing to the advantage of one of them, through contractual terms.

Revenue includes income from claims only when it is highly probable that such claims will be accepted by the customer.

Contractual amendments negotiated with customers are included in the selling price only when they become legally enforceable.

Recognition of revenue over time or at a point in time

Revenue associated with each performance obligation identified within a contract is recognised when the obligation is satisfied, i.e., when the control of the promised goods or services is transferred to the customer.

To demonstrate that the transfer of goods is progressive and recognise revenue over time, the following cumulative criteria are required:

- The goods sold have no alternative use, and
- The Company has an irrevocable right to payment (corresponding to costs incurred, plus a reasonable profit margin) for the work performed to date, in the event of termination for reasons other than Thales' failure to perform as promised.

Revenue from the sale of goods with an alternative use, and/or for which the Company has no enforceable right to payment in case of termination for convenience by the customer, is recognised when the goods are delivered to the customer. This essentially concerns equipment (mainly in civil avionics) and spare parts.

Notes to accounts (continued)
for the year ended 31 December 2018

Revenue from service contracts is generally recognised over time, as the customer simultaneously receives and consumes the benefits of these services provided by Thales.

Percentage of completion method

The percentage of completion method generally used by the Company is expense-based: revenue is recognised based on costs incurred to date in relation to all the costs expected upon completion.

Margin recognition

Expected losses on contracts are fully recognised as soon as they are identified, pursuant to the provisions of IAS 37 on onerous contracts.

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 statement of financial position. The impact for 2017 in these financial statements is shown in note 20.

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.

Notes to accounts (continued)
for the year ended 31 December 2018

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.

Key sources of estimation uncertainty

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.

Recognition of revenue over time

A very significant part of the company's revenue and current operating income stems from contracts recognised according to the percentage of completion method. These contracts often span several financial years. In the accounting closing process, the recognition of revenue and operating margin relating to these contracts depends mainly:

Notes to accounts (continued)
for the year ended 31 December 2018

- on estimates of revenue and margin at completion, including provisions for technical and commercial risks;
- on costs incurred to date compared to the total costs expected at completion.

Monitoring of costs incurred to date and estimates of figures at completion are based, for each contract, on the company's internal systems and procedures, with project managers playing a key role. These estimates are reviewed regularly by the Operations and Finance departments, under the supervision of the Company's corporate management, particularly at each period-end reporting.

3. New standards, amendments and IFRIC interpretations

The following standards and interpretations have been adopted in the financial statements as they are mandatory for the year ended 31 December 2018. IFRS 15 have had a material impact on the company (see note 28), however IFRS 9 impact was limited to the disclosure amendments. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2018 have had a material impact on the company.

| | EU effective date Periods beginning on or after |
|--|--|
| IFRS 9 - Financial instrument - classification and valuation of financial assets | 1 January 2018 |
| IFRS 15 - Revenue from contracts with customers | 1 January 2018 |
| Amendments to IFRS 15 - Revenue from contracts with customers | 1 January 2018 |
| Annual improvements (2014-2016) | 1 January 2018 |
| Amendments to IFRS 2 - Share based payment | 1 January 2018 |
| IFRIC 22 - Foreign currency transactions and advance consideration | 1 January 2018 |

Future changes in accounting policies

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

Mandatory for 2019

| | |
|----------------|--|
| IFRS 16 | IFRS 16 Leases. Under the new standard, a lessee is in essence required to: <ul style="list-style-type: none"> a) Recognize all lease assets and liabilities (including those currently classed as operating leases) on the statement of financial position, initially measured at the present value of unavoidable lease payments; b) Recognize amortization of lease assets and interest on lease liabilities in the income statement over the lease term; and c) Separate the total amount of cash paid into a principal portion (presented within financial activities) and interest (which companies can |
|----------------|--|

Notes to accounts (continued)
for the year ended 31 December 2018

choose to present within operating or financing activities consistent with presentation of any other interest paid) in the cash flow statement.

The new standard will be applied according to the "modified retrospective" method at 1 January 2019. Consequently, the 2018 comparative financial statements as included in the 2019 financial statements, will not be restated.

Notes to accounts (continued)
for the year ended 31 December 2018

4. Revenue

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

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| Revenue from contracts with customers | 232,830 | 209,545 |
| Revenue per statement of comprehensive income | 232,830 | 209,545 |
| Investment income | 67 | 105 |
| Total revenue | 232,897 | 209,650 |

5. Profit on ordinary activities before taxation

Profit before taxation is stated after charging/ (crediting):

| | 2018 £000 | 2017 £000 |
|--|--------------|--------------|
| Operating lease expenses (note 24) | 321 | 461 |
| Cost of inventories recognised as an expense (note 12) | 3,606 | 6,515 |
| Staff costs (note 8) | 37,511 | 36,014 |
| Auditors' remuneration for audit services | 56 | 35 |
| R&D Tax credit | (2,257) | (2,210) |
| Depreciation (note 11) | 173 | - |
| Amortisation of intangible assets (note 10) | 442 | 612 |

Amounts payable to Mazars LLP and their associates by the Company in respect of non-audit services were £nil (2017: £nil).

Notes to accounts (continued)
for the year ended 31 December 2018

6. Investment Income

| | 2018 £000 | 2017 £000 |
|---------------------------|--------------|--------------|
| Interest on bank deposits | <u>67</u> | <u>105</u> |

7. Finance cost

| | 2018 £000 | 2017 £000 |
|---------------------------------------|--------------|--------------|
| Interest on bank loans and overdrafts | - | 30 |
| Other | <u>24</u> | <u>287</u> |
| Total borrowing costs | 24 | 317 |
| Exchange loss | <u>1,008</u> | <u>41</u> |
| Total finance expense | <u>1,032</u> | <u>358</u> |

8. Staff costs

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

| | 2018 Number | 2017 Number |
|----------------|----------------|----------------|
| Production | 433 | 460 |
| Sales | 7 | 9 |
| Administration | <u>25</u> | <u>27</u> |
| | <u>465</u> | <u>496</u> |

| | 2018 £000 | 2017 £000 |
|---|---------------|---------------|
| Their aggregate remuneration comprised: | | |
| Wages and salaries | 32,452 | 31,191 |
| Social security costs | 3,707 | 3,535 |
| Other pension costs | <u>1,352</u> | <u>1,288</u> |
| | <u>37,511</u> | <u>36,014</u> |

Notes to accounts (continued)
for the year ended 31 December 2018

Directors' Emoluments

| Remuneration | 2018 £000 | 2017 £000 |
|------------------------------|----------------------|----------------------|
| Remuneration of directors | 733 | 757 |
| Pension scheme contributions | 108 | 84 |
| Total emoluments | 841 | 841 |

Number of directors accruing benefits under the following schemes:

| | 2018 Number | 2017 Number |
|--|------------------------|------------------------|
| Money purchase schemes | 5 | 4 |
| Defined benefit schemes | 2 | 1 |
| The number of directors who exercised share options | 1 | 2 |
| The number of directors who received shares under the long term incentive scheme | 3 | 2 |

Details of the highest paid director

| | 2018 £000 | 2017 £000 |
|------------------------------|----------------------|----------------------|
| Remuneration of director | 202 | 179 |
| Pension scheme contributions | 29 | 14 |

The highest paid director received shares under the long term incentive schemes.
There was no exercise of share options during the year from the highest paid director.

The directors are deemed to be the key management personnel.

Notes to accounts (continued)
for the year ended 31 December 2018

9. Taxation

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| Current tax: | | |
| UK Corporation tax | 429 | 425 |
| Adjustments in respect of prior years | - | - |
| Total current tax | <u>429</u> | <u>425</u> |
| Deferred tax | | |
| Origination and reversal of temporary differences | 2,153 | 2,262 |
| Adjustments in respect of prior year | (1,022) | - |
| Total deferred tax | <u>1,131</u> | <u>2,262</u> |
| Total tax charge for the year | <u>1,560</u> | <u>2,687</u> |

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

| | 2018 £000 | 2017 £000 |
|--|---------------|---------------|
| Profit on ordinary activities before tax | <u>24,307</u> | <u>19,723</u> |
| Profit (loss) multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%) | 4,618 | 3,797 |
| Tax effect of: | | |
| Adjustment for disallowable items | (14) | 1 |
| Movement in unrecognised deferred tax | (744) | (464) |
| Deferred tax rate change impact movement | (253) | (361) |
| Adjustments to prior year deferred tax | (1,022) | - |
| RDEC Relief no charge - or used | - | - |
| Group relief surrendered for nil payment | (1,025) | (286) |
| Total tax charge for the year | <u>1,560</u> | <u>2,687</u> |

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

The deferred tax balances as at 31 December 2018 have been calculated at the above rates corresponding to the expected years of reversal.

Notes to accounts (continued)
for the year ended 31 December 2018

10. Intangible assets

| | 2018 £000 |
|-----------------------|--------------|
| Cost | |
| At 1 January 2018 | 2,918 |
| Additions | 318 |
| | <hr/> |
| At 31 December 2018 | 3,236 |
| Amortisation | |
| At 1 January 2018 | (1,774) |
| Charge for the year | (442) |
| | <hr/> |
| At 31 December 2018 | (2,216) |
| Net book value | |
| At 31 December 2018 | <hr/> 1,020 |
| At 31 December 2017 | <hr/> 1,144 |

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 2018

11. Tangible assets

| | 2018 £000 Plant and Machinery | 2018 £000 Data transmission, Networks and related equipment | 2018 £000 Total |
|-------------------------------------|--|---|-----------------------|
| Cost | | | |
| At 1 January 2018 | 140 | 864 | 1004 |
| Additions | - | - | - |
| At 31 December 2018 | <u>140</u> | <u>864</u> | <u>1004</u> |
| Accumulated depreciation | | | |
| At 1 January 2018 | (140) | - | (140) |
| Charge for the year | - | (173) | (173) |
| At 31 December 2018 | <u>(140)</u> | <u>(173)</u> | <u>(313)</u> |
| Net book value | | | |
| At 31 December 2018 | <u>-</u> | <u>691</u> | <u>691</u> |
| At 31 December 2017 | <u>-</u> | <u>864</u> | <u>864</u> |

Notes to accounts (continued)
for the year ended 31 December 2018

12. Stock

| | 2018 £000 | 2017 £000 |
|-------------------------------------|--------------|--------------|
| Raw materials and consumables | 493 | 544 |
| Work-in-progress | 322 | 254 |
| Finished goods and goods for resale | 1,319 | 1,864 |
| Stock Provision | (290) | (585) |
| | <u>1,844</u> | <u>2,077</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 £3,606k (2017: 6,515k). 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 receivables

| | 2018 £000 | 2017 £000 |
|---|---------------|---------------|
| Trade receivables | 16,475 | 26,748 |
| Other receivables | 3,748 | 9,946 |
| Prepayments and accrued income | 6,372 | - |
| Amounts receivable from construction contract customers | - | 7,883 |
| Contract assets | 17,185 | - |
| | <u>43,780</u> | <u>44,577</u> |

An allowance has been made where applicable for estimated irrecoverable amounts from the sale of goods, determined by reference to expected default in the next 12 months.

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 2018

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 |
| 2018: Amounts receivable | <u>16,475</u> | <u>15,079</u> | <u>648</u> | <u>748</u> |
| 2017: Amounts receivable | <u>26,748</u> | <u>21,174</u> | <u>4,224</u> | <u>1,350</u> |

14. 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.

15. Bank overdrafts

| | 2018 £000 | 2017 £000 |
|--|--------------|---------------|
| Bank overdrafts | <u>741</u> | <u>28,088</u> |
| | <u>741</u> | <u>28,088</u> |
| The borrowings are repayable as follows: | | |
| On demand or within one year | <u>741</u> | <u>28,088</u> |

The Company participates in the Group wide cash pooling scheme to minimise the interest rate risk. The interest rate on bank overdraft is the overnight LIBOR +/- 0.125%.

The Company has no principal bank loans.

Notes to accounts (continued)
for the year ended 31 December 2018

16. Trade and other creditors

| | 2018 | 2017 |
|---|---------------|---------------|
| | £000 | £000 |
| Trade creditors | 8,272 | 6,464 |
| Accruals | 24,702 | 13,238 |
| Provision for expected losses on construction contracts | | 320 |
| | <u>32,974</u> | <u>20,022</u> |

The Directors consider that the carrying amount of trade creditors approximates their fair value. The average credit period taken for trade purchases is 16 days (2017: 13 days).

17. Provisions

| | Warranty £000 | Total £000 |
|---|------------------|---------------|
| At 1 January 2018 | 747 | 747 |
| Net movement in the provision during the year | <u>(120)</u> | <u>(120)</u> |
| At 31 December 2018 | <u>627</u> | <u>627</u> |
| Included in current liabilities | | <u>627</u> |
| | | <u>627</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.

18. Other liabilities

| | 2018 | 2017 |
|----------------------|--------------|---------------|
| | £000 | £000 |
| Contract liabilities | 1,302 | - |
| Receipts in advance | - | 3,255 |
| VAT payable | 5,810 | 6,930 |
| Other payroll costs | 2,473 | 2,416 |
| | <u>9,585</u> | <u>12,601</u> |

19. 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

Notes to accounts (continued)
for the year ended 31 December 2018

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 £137k (2017: £121k).

Defined contribution schemes

The total cost charged to income in relation to defined contribution schemes amounted to £1,215 (2017: £1,167k) 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 2018

20. 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 2018 | 96 | 1,907 | 2,003 |
| Charged to the Statement of comprehensive income | -18 | -1,114 | -1,132 |
| As at 31 December 2018 | 78 | 794 | 872 |

| Deferred Tax Liability | Accelerated tax Depreciation £'000 | Cash flow hedges £'000 | Total £'000 |
|------------------------------------|---------------------------------------|---------------------------|----------------|
| As at 1 January & 31 December 2018 | - | (1) | (1) |

| | 2018 | 2017 |
|------------------------|------|-------|
| Net Deferred tax asset | £000 | £000 |
| Deferred tax asset | 872 | 2,003 |
| Deferred tax liability | (1) | (1) |
| Net deferred tax asset | 871 | 2,002 |

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 2018

21. Share capital

| | 2018 | 2017 |
|---|------|------|
| | £000 | £000 |
| <i>Authorised</i> | | |
| 2 ordinary shares of £1 each | - | - |
| <i>Allotted, called-up and fully-paid</i> | | |
| 2 ordinary shares of £1 each | - | - |

22. Equity and Reserves

The share capital represents the nominal value of the shares that have been allotted in 2007.

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.

23. 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 (2017: £nil).

24. Commitments

| | 2018 | 2017 |
|--|------|------|
| | £000 | £000 |
| The Company as lessee | | |
| Minimum lease payments under operating leases charged to expenses for the year | 321 | 461 |

At 31 December 2018 and 2017, irrevocable lease and rental commitments, undiscounted, are as follows:

| | 2018 | 2017 |
|-------------------------|------|------|
| | £000 | £000 |
| - Within one year | 320 | 373 |
| - Between 1 and 5 years | 285 | 557 |

25. Events after the reporting period

No significant events subsequent to the reporting date have been occurred.

Notes to accounts (continued)
for the year ended 31 December 2018

26. Parent and ultimate parent undertaking

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

27. Related party transactions

The company has taken advantage of the exemptions under IAS24, as a wholly owned subsidiary, not to disclose its details of transactions with other group companies.

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 £10,301k (2017: £9,604k) was charged, being an appropriate allocation of costs incurred by relevant administrative departments.

28. Changes in accounting policies

This note explains the impact of the adoption of IFRS 15 Revenue from Contracts with Customers on the company's financial statements. The company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the company has adopted the new rules based on modified retrospective approach from 1 January 2018, accordingly has not restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the statement of financial position at the date of initial application (1 January 2018):

| | IAS 18 carrying amount 31 Dec 17 | IFRS 15 Impacts | IFRS 15 carrying amount 1 Jan 18 |
|--|---|--------------------|---|
| Contract assets | - | 7,311 | 7,311 |
| Trade and other receivables | 36,694 | (6,879) | 29,815 |
| Amounts receivables from construction contracts | 7,883 | (7,883) | - |
| Prepayments and accrued income | - | 2,526 | 2,526 |
| Contract liabilities | - | 2,216 | 2,216 |
| Other liabilities | 12,601 | (3,066) | 9,535 |
| Retained earnings | (10,280) | (4,075) | (14,355) |

The table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments previously recorded under trade and other receivables and trade and other liabilities have been reclassified to meet the requirements of the standard and retained earnings impact was on the following basis:

- Contracts previously accounted on a point of time basis (i.e. milestone) transitioned to over time.
- Capitalised bid costs are expensed under IFRS15.