

Thales Optronics (Staines) Limited

Annual report and accounts
for the year ended 31 December 2012

Registered number: SC154357

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Directors' report

The Directors present their annual report and financial statements, together with the auditors' report, for the year ended 31 December 2012.

Principal activities

The principal activities of the Company continue to be the design, manufacture and sale of electro-optic equipment.

Business review

The level of business and the year end financial position were as expected by the Directors.

Given the straightforward nature of the business, the Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. Furthermore as the company's business is managed on a group divisional basis it would not be appropriate or informative for an understanding of the business.

The Company continues to invest in research and development. This has resulted in a number of new products being launched recently which are expected to make significant contributions to the growth of the company and its parent company. The directors regard investment in this area as a prerequisite for success in the medium to long term future. In 2012 £523,000 of research and development expenditure was recognised as an expense (2011: £147,000).

Dividends

The Directors do not recommend the payment of a dividend (2011: £Nil).

Project Unity

The group is pursuing an internal consolidation of Thales UK Companies, an impact of this is the write-off of pension balances within affected entities; this was performed in 2012 in advance of consolidation in 2013.

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.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Company's maximum exposure to credit risk is the carrying amount as disclosed in Note 10.

Commodity price risk

The Company's exposure to price risk is minimal.

Directors' report (continued)

Interest rate risk

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

Liquidity risk

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

Going concern accounting basis

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

The Directors have a reasonable expectation that the Company has sufficient resources with group support to continue in operational existence for the foreseeable future therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Environmental Information

The Thales Group in the UK has implemented an Environmental Policy to conduct our current and future business in a way that protects the environment. This is achieved through development and implementation of Environmental Management Systems against which we report Environmental performance regularly to the Thales Holding UK plc board. It is a Thales requirement that operating companies are certified to the International Standard for Environmental Management Systems ISO 14001 to which we have been certified. Current Environmental Programmes include reducing our Carbon footprint and implementing a Green Purchasing programme.

Directors

The Directors who served during the year were as follows:

A Cresswell resigned 01.04.13

M Broughton appointed 01.04.13

S Boulton

E A McCrorie

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.

Directors' report (continued)

Supplier payment policy

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

Creditors days at 31 December 2012, based on the aggregate of the amounts which were owed to trade creditors at that date and the aggregate of the amounts which the Company was invoiced by suppliers during the year, amounted to 15 days (2011: 5 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.

Throughout 2012 Thales UK underwent an alignment project to provide competitive, consistent, and aligned employment terms and conditions, and introduce a more modern Flexible Benefits scheme, helping to achieve our goal of becoming a 21st century employer.

Donations

During the period to 31 December 2012 charitable donations of £nil (2011: £nil) were made.

No political donations were made during the year (2011: £nil).

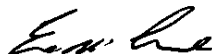
Disclosure of information to the auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of the auditor, the Directors have taken all the steps they are obliged to take as directors in order to make themselves 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.

Registered Office
1 Linthouse Road
Glasgow
G51 4BZ



E McCrorie
Director

23 September 2013

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 Optronics (Staines) Ltd

We have audited the financial statements of Thales Optronics (Staines) Limited for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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 (APB's) Ethical Standards for Auditors. This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS's as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

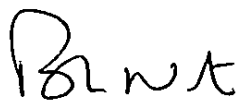
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Thales Optronics (Staines) Ltd (continued)

Matters on which we are required to report by exception

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

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



Robert Neate (Senior statutory auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

90 St Vincent Street

Glasgow

G2 5UB

25 September 2013

Statement of comprehensive income
for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Revenue	4	-	1,591
Cost of sales		-	(8,572)
Gross profit / (loss)		-	(6,981)
Administrative expenses		(2,601)	(1,921)
Transfer of obligation to Thales UK Ltd	14	3,377	-
Operating Profit / (Loss)		776	(8,902)
Finance (cost)	6	(292)	-
Finance income	6	2	3
Profit / (Loss) before tax	5	486	(8,899)
Income tax credit	8	582	2,839
Total comprehensive income/ (loss) for the year		1,068	(6,060)

The accompanying notes are an integral part of the Statement of comprehensive income.

All operations are classed as continuing.

There are no recognised gains or losses in either year other than the result for that year.

Statement of financial position

as at 31 December 2012

Company Registration Number SC154357

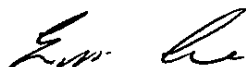
	Note	2012 £000	2011 £000
ASSETS			
Non-current assets			
Property, plant & equipment	9	12	144
		<u>12</u>	<u>144</u>
Current assets			
Trade and other receivables	10	18,959	14,577
Current tax receivables		620	2,341
Cash and cash equivalents	11	596	-
		<u>20,175</u>	<u>16,918</u>
Total assets		<u>20,187</u>	<u>17,062</u>
LIABILITIES			
Current liabilities			
Trade and other payables	12	(35,006)	(29,741)
Bank overdraft	11	-	(174)
		<u>(35,006)</u>	<u>(29,915)</u>
Net current liabilities		<u>(14,831)</u>	<u>(12,997)</u>
Non-current liabilities			
Amounts owed to group companies	12	(7,277)	(7,277)
Retirement benefit obligation	14	-	(3,034)
		<u>(7,277)</u>	<u>(10,311)</u>
Total liabilities		<u>(42,283)</u>	<u>(40,226)</u>
Net liabilities		<u>(22,096)</u>	<u>(23,164)</u>
EQUITY			
Share capital	16	-	-
Retained earnings		<u>(22,096)</u>	<u>(23,164)</u>
Total equity		<u>(22,096)</u>	<u>(23,164)</u>

Statement of financial position (continued)

as at 31 December 2012

Company Registration Number SC154357

The accounts on pages 7 to 31 were approved by the board of directors and authorised for issue on 20 September 2013. They were signed on its behalf by:



E McCrorie
Director

23 September 2013

The accompanying notes are an integral part of the Statement of financial position.

Statement of changes in equity
for the year ended 31 December 2012

Attributable to equity holders of the Company

	Retained earnings £000	Total equity £000
At 1 January 2011	(17,104)	(17,104)
Retained loss for the year	(6,060)	(6,060)
At 31 December 2011	<u>(23,164)</u>	<u>(23,164)</u>
At 1 January 2012	(23,164)	(23,164)
Retained profit for the year	1,068	1,068
At 31 December 2012	<u>(22,096)</u>	<u>(22,096)</u>

Statement of cash flows
for the year ended 31 December 2012

	Note	2012 £000	2011 £000
OPERATING ACTIVITIES			
Operating Profit / (Loss)		484	(8,902)
Non cash adjustment to reconcile operating profit / (loss) to net cash flows:			
Depreciation of property, plant & equipment	5	132	157
(Decrease) / Increase in retirement benefit obligations	14	(3,033)	794
Working capital adjustments:			
(Increase) / Decrease in receivables	10	(4,382)	5,593
Increase in payables	12	5,265	783
		(1,534)	(1,575)
Income taxes recovered		2,302	1,173
Net cash from operating activities		768	(402)
INVESTING ACTIVITIES			
Interest received	6	2	3
Net cash generated from investing activities		2	3
Net increase / (decrease) in cash & cash equivalents		770	(399)
Cash & cash equivalents at beginning of year		(174)	225
Cash & cash equivalents at end of year		596	(174)

Notes to accounts

for the year ended 31 December 2012

1. Corporate Information

The financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 23 September 2013. The Company is a limited Company incorporated and domiciled in Scotland. The address of the registered office is given on page 3. 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 18.

2. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) adopted for use in the European Union. The financial statements have been prepared on a historical cost basis (except for land and buildings and derivative financial instruments that have been measured at fair value). The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The financial statements are presented in pounds sterling, the currency in which the majority of the Company's transactions are denominated, and all values are rounded to the nearest thousand, (£000), except when otherwise indicated.

The principal accounting policies adopted are set out below:

Going concern basis

After making enquiries on 23 September 2013, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future due to group support. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Intangible fixed assets

Research and development

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

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

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

Patents and trademarks

Patents and trademarks are measured initially at purchase cost and amortised on a straight line basis over their estimated useful lives.

Notes to accounts (continued)
for the year ended 31 December 2012

Software

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

Property, plant and equipment

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

Plant and machinery 20% to 50% per annum

Residual value is calculated on prices prevailing at the date of acquisition or revaluation and is revised annually. Interest costs incurred in bringing assets to a state where they are ready to be used are capitalised as part of the costs of the asset.

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

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

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

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

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

Financial instruments

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

Notes to accounts (continued)
for the year ended 31 December 2012

Trade receivables

Trade receivables are carried at fair value (in the majority of cases this will equate to original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year-end). Bad debts are written off when identified. Long term receivables are discounted where necessary.

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

Trade payables

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and a 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 2012

Taxation

The tax charge / (credit) comprises current and deferred tax. Income tax expense / (credit) 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 / (receivable) on the profit / (loss) 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 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.

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.

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

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 balance sheet 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.

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

Notes to accounts (continued)
for the year ended 31 December 2012

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

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

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

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial

Retirement benefit costs continued

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

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

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).

Notes to accounts (continued)
for the year ended 31 December 2012

Provisions

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

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets recognised in the financial statements are listed below;

Deferred Tax Recognition

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 15.

Post-retirement benefits

The determination of the pension cost and retirement benefit obligation of the Company's share of the Thales UK group's defined benefit pension schemes is dependent upon the selection of certain assumptions which include the discount rate, inflation rate, salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences will be reflected in future years.

3. Application of new and revised International Financial Reporting Standards (IFRSs)

New and amended standards and interpretations:

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2012;

Amendments to IFRS 7 Disclosures – transfers of financial assets in the current year:

The amendments enhance existing disclosure requirements for transferred financial assets that are not derecognised and require additional disclosure on an entity's continuing involvement in derecognised assets. This had no material impact on the financial position or performance of the Company in the current or prior year.

Notes to accounts (continued)
for the year ended 31 December 2012

Income Tax (IAS 12 - Amended):

The amendment states that the measurement of associated deferred tax arising on investment properties that are measured using the fair value model under IAS 40 "investment properties" should reflect the presumption that the carrying amount of the underlying asset will, normally, be recovered through sale rather than use. This had no material impact on the financial position or performance of the Company in the current or prior year.

New standards issued but not yet effective:

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

Presentation of Financial Statements (IAS 1):

The amendment is to the presentation of other comprehensive income (OCI); those items of OCI that could be reclassified to profit or loss at a future date will be presented separately from those items that will never be reclassified to profit or loss. The amendment to IAS 1 is effective for annual periods beginning on or after 1 July 2012 and the adoption of the amendment is not expected to have a material impact on the results of the company.

Employee Benefits (IAS 19 - Amended):

The amendment provides three key changes to the requirements for post-employment benefits: firstly, the elimination of the option to defer the recognition of actuarial gains and losses, known as the 'corridor approach'; secondly improving the presentational requirements for movements in defined benefit plan assets and liabilities; and thirdly, enhancing the disclosure requirements to provide better information about the characteristics and risks of defined benefit plans. The presentational requirements will result in the service cost and net interest cost being presented within profit or loss, and all re-measurement changes to be presented with other comprehensive income. The amendment has also changed the definition of a curtailment and requires all past service costs to be recognised immediately in profit or loss.

IAS 19 is effective for annual periods beginning on or after 1 January 2013 and the company intends to adopt this new standard with effect from that date. The evaluation of the effect of adoption of IAS 19 has not yet been completed.

Financial Instruments (IFRS 9):

This standard is the first step in the process to replace IAS 39 "Financial Instruments: recognition and measurement". It introduces new requirements for the classification and measurement of financial assets with all recognised financial assets that are within the scope of IAS 39 to be subsequently measured at amortised cost or fair value. In addition entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment in other comprehensive income with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS9 requires that the amount of change in fair value attributable to changes in credit risk is presented in other comprehensive income unless recognition would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to credit risk are not subsequently reclassified to profit or loss.

This is effective for annual periods beginning on or after 1 January 2015. The effect of adoption of IFRS 9 has not yet been evaluated.

Notes to accounts (continued)
for the year ended 31 December 2012

Consolidation, joint arrangements, associates and disclosures (IFRSs 10, 11 & 12, IAS 27 & 28):

In May 2011 a package of five standards on consolidation, joint arrangements, associates and disclosures was issued.

Under IFRS 10 there is only one basis for consolidation and that is control. Control has a new definition under IFRS 10 that contains three elements; power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect returns. IFRS 11 classifies joint arrangements as either joint operations or joint ventures with joint ventures required to be accounted for using the equity method of accounting.

IFRS 12 introduces more extensive disclosure requirements than under existing standards.

These new standards are effective for annual periods beginning on or after 1 January 2013 and the company intends to adopt them from this date. Adoption of these standards is not expected to have a significant impact on the business.

Fair Value Measurement (IFRS 13):

This new standard sets out a comprehensive framework for defining and measuring fair value and also includes additional disclosure requirements about fair value measurements. The standard does not extend the use of fair value accounting, but brings together all the requirements for how to measure and disclose information about fair value under all circumstances into this one standard. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and the company intends to adopt it from this date. The adoption of IFRS 13 is not expected to have a significant impact on the business.

Financial Instruments: presentation (IAS 32 - Amended) & disclosure (IFRS 7 - Amended):

These amendments introduce new disclosure requirements regarding the effect of offsetting financial assets and financial liabilities on the balance sheet. The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and the amendments to IAS 32 effective for annual periods beginning on or after 1 January 2014. Thales intends to adopt these amendments with effect from 1 January 2013 and 1 January 2014 respectively. The evaluation of the effect of the adoption of these standards has not yet been completed.

Improvements to IFRSs (Issued in May 2012):

The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2013 and include:

- Amendments to IAS 16 Property, Plant and Equipment
- Amendments to IAS 32 Financial Instruments: Presentation

Notes to accounts (continued)
for the year ended 31 December 2012

Amendments to IAS 16:

The amendments clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Directors do not anticipate that the amendments to IAS 16 will have a significant impact on the Company's financial statements.

Amendments to IAS 32:

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 "Income Taxes". The Directors do not anticipate that the amendments to IAS 32 will have any impact on the Company's financial statements.

Long-term contracts

Long term contract arrangements are accounted for in accordance with IAS11 or IAS18. This requires judgements to estimate future expected costs to be incurred.

4. Revenue

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

	2012 £000	2011 £000
Sale of goods	-	1,591
Revenue per statement of comprehensive income	-	1,591
Finance income	2	3
Revenue as defined in IAS18	2	1,594

5. Profit / (loss) from operations

Profit / (Loss) from operations is stated after charging:

	2012 £000	2011 £000
Research and development costs	523	147
Depreciation of property, plant and equipment	132	157
Staff costs (note 7)	5,200	5,074

Amounts payable to Mazars LLP and their associates by the Company in respect of audit services were borne by the immediate parent company.

Amounts payable to Mazars LLP and their associates by the Company in respect of non-audit services were £nil (2011: £nil).

Notes to accounts (continued)
for the year ended 31 December 2012

6. Finance (Cost) / Income

	2012 £000	2011 £000
Pension financing component	(292)	-
Interest on bank deposits	<u>2</u>	<u>3</u>
Finance (cost) / income	<u>(290)</u>	<u>3</u>

7. Staff costs

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

	2012 Number	2011 Number
Production	61	57
Sales	14	15
Administration	<u>2</u>	<u>9</u>
	<u>77</u>	<u>81</u>

	2012 £000	2011 £000
Their aggregate remuneration comprised:		
Wages and salaries	4,258	4,169
Social security costs	507	528
Other pension costs (see note 14)	<u>435</u>	<u>377</u>
	<u>5,200</u>	<u>5,074</u>

The cost of directors is borne by the immediate parent company, Thales Optronics Limited.

Notes to accounts (continued)
for the year ended 31 December 2012

8. Income tax credit

	2012 £000	2011 £000
Current tax:		
Current income tax credit	(742)	(2,341)
Adjustments in respect of current income tax of previous years	160	(498)
Total tax charge / (credit) for the year	(582)	(2,839)
Deferred tax	-	-
Total tax (credit) for the year	(582)	(2,839)

The Finance Act 2012 reduced the main rate of UK corporation tax to 23% with effect from 1 April 2013. As this rate has been substantively enacted at the balance sheet date, the deferred tax figures within these accounts have been calculated at this rate.

The Chancellor announced in the UK budget on 20 March 2013 that the full rate of UK corporation tax would reduce by a further two percent to 21% from 1 April 2014, followed by a further one percent to 20% from 1 April 2015. The effect of this subsequent rate reduction on deferred tax balances has not been reflected in these accounts due to the relevant legislation not having been substantively enacted at the balance sheet date. We calculate a reduction to 20% would reduce the company's unrecognised deferred tax asset by approximately £69k.

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

	2012 £000	2011 £000
Profit / (Loss) before tax	486	(8,899)
(Loss) multiplied by standard rate of corporation tax in the UK of 24.5% (2011 26.5%)	119	(2,358)
Tax effect of:		
Expenses not deductible for tax purposes	(27)	(235)
Movement in unrecognised deferred tax	-	153
Deferred tax rate change impact movement	-	99
Research & Development tax credit	(123)	-
Non-taxable income (release of pension scheme liability)	(742)	-
Temporary difference	31	-
Adjustments to prior year (current tax)	160	(498)
Total tax (credit) for the year	(582)	(2,839)

Notes to accounts (continued)
for the year ended 31 December 2012

9. Property plant & equipment

	Plant and machinery £000	Total £000
Cost		
At 1 January 2012	1,127	1,127
At 31 December 2012	<u>1,127</u>	<u>1,127</u>
Accumulated depreciation and impairment		
At 1 January 2012	(983)	(983)
Charge for the year	<u>(132)</u>	<u>(132)</u>
At 31 December 2012	<u>(1,115)</u>	<u>(1,115)</u>
Carrying amount		
At 31 December 2012	<u>12</u>	<u>12</u>
At 31 December 2011	<u>144</u>	<u>144</u>

10. Trade and other receivables

	2012 £000	2011 £000
Trade and other receivables:		
Amounts receivable from the sale of goods	1,638	2,342
Less: Provision for the impairment of receivables	<u>-</u>	<u>-</u>
Amounts receivable from the sale of goods - net	1,638	2,342
Amounts owed by group undertakings	17,313	12,195
Prepayments	<u>8</u>	<u>40</u>
	<u>18,959</u>	<u>14,577</u>

Notes to accounts (continued)
for the year ended 31 December 2012

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

At 31 December the aged trade receivables analysis is as follows:

	Total	Neither past due nor impaired	Overdue less than 3 months	Overdue 3 to 6 months	Overdue more than 6 months
	£000	£000	£000	£000	£000
2012:					
Amounts receivable from the sale of goods	<u>1,638</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,638</u>
2011:					
Amounts receivable from the sale of goods	<u>2,342</u>	<u>-</u>	<u>-</u>	<u>2,342</u>	<u>-</u>

11. Cash and cash equivalents

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

12. Trade and other payables

	2012 £000	2011 £000
Trade & other creditors	11	15
Accruals & deferred income	1,674	2,362
Amounts owed to group undertakings due within one year	<u>33,321</u>	<u>27,364</u>
	<u>35,006</u>	<u>29,741</u>
Amounts owed to group undertakings due outwith 1 year	<u>7,277</u>	<u>7,277</u>
	<u>42,283</u>	<u>37,018</u>

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

The average credit period taken for trade purchases is 15 days (2011: 5 days)

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

Notes to accounts (continued)
for the year ended 31 December 2012

	Timing of cash flows		Total £000
	Within one year £000	More than five years £000	
At 31 December 2012			
Trade creditors	11	-	11
Other payables	34,995	-	34,995
Amounts owed to group undertakings due outwith 1 year	-	7,277	7,277
	<u>35,006</u>	<u>7,277</u>	<u>42,283</u>
At 31 December 2011			
Trade creditors	15	-	15
Other payables	29,726	-	29,726
Amounts owed to group undertakings due outwith 1 year	-	7,277	7,277
	<u>29,741</u>	<u>7,277</u>	<u>37,018</u>

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

13. Financial instruments

Fair value

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

As at 31 December 2012 the Company held the following financial instruments:

	2012		2011	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial Assets				
Cash	596	596	(174)	(174)
Trade and other receivables	18,959	18,959	14,577	14,577
Financial Liabilities:				
Trade and other payables	42,283	42,283	37,018	37,018

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

Notes to accounts (continued)
for the year ended 31 December 2012

14. Retirement benefit schemes

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

Defined contribution schemes

The total cost charge to income in relation to defined contribution schemes amounted to £77,486 (2011: £83,296) representing contributions payable to the schemes by the Company at rates specified in the rules of the plan.

Defined benefit schemes

The Thales Group in the UK operates 2 defined benefit schemes, sponsored by Thales UK Ltd, namely the Thales UK Pension Scheme (TUPS), and the Avimo Pension Scheme. The third scheme, the Thales Shared Cost Section of the Railways Pension scheme is sponsored by Thales Transport and Security Ltd.

In previous years, we applied an estimated methodology which enabled a 'split' of the Company's share of assets and liabilities in the scheme, derived on a proportional basis related to the cash contributions made. Due to recent Group reorganisations, and consequent mobility and movement of staff between the UK companies, management is now of the view this previously used methodology no longer provides meaningful information.

At the end of 2012 we have changed the way we account for the pension scheme in the statutory accounts by allocating the defined benefit cost in totality to the sponsoring company on the basis that we consider we are unable to apply an appropriate allocation across all the statutory financial statements. To this end we have now moved the pension asset from all individual Thales participating employer entities to the sponsoring employer, Thales UK Ltd for the TUPS and Avimo schemes and Thales Transport and Security for the Railways scheme. The impact of this adjustment is a gain of £3,377k in Thales Optronics (Staines). The following tables summarise the components of net benefit expense recognised in the Statement of Comprehensive Income and the funded status and amounts recognised in the Statement of Financial Position for the plan.

	2012 £000	2011 £000
Net benefit expense:		
Current service cost	355	300
Total service charge	355	300
Interest cost	468	1,204
Expected return on plan assets	(361)	(1,139)
Plan service costs	-	-
Effect of asset limit	-	(129)
Amortisation of unrecognised gains & losses	184	147
Total before pension adjustment	291	83
Total charge	646	383
Actual return on plan assets	1,885	755

Notes to accounts (continued)
for the year ended 31 December 2012

	2012 £000	2011 £000
Benefit asset / (liability):		
Present value of defined obligations	(43,563)	(42,379)
Fair value of plan assets	33,659	31,788
Funded status	(9,904)	(10,591)
Present value of wholly unfunded obligations	-	(103)
Unrecognised actuarial losses	6,527	7,660
Transfer of obligation to Thales UK Ltd	3,377	-
Net amount recognised	-	(3,034)
Changes in the present value of the defined benefit obligation are as follows:		
Opening present value of obligations	(42,482)	(38,332)
Current service cost	(355)	(225)
Interest cost	(468)	(1,204)
Plan participants' contributions	(36)	(99)
Scheme amendments	-	-
Actuarial gains/(losses) on obligation	(576)	(3,460)
Benefits paid	354	838
Closing present value of obligations	(43,563)	(42,482)
Changes in the fair value of Plan Assets are as follows:		
Opening fair value of plan assets	31,788	31,542
Expected return on plan assets	361	1,139
Employers' contributions	304	230
Plan participants' contributions	36	99
Benefits paid	(354)	(838)
Actuarial gains (losses) on plan assets	1,524	(384)
Closing fair value of plan assets	33,659	31,788

The Thales Group expects to contribute £89.2m to its defined benefit pension plans in 2013 (2012 - £79.3m).

Notes to accounts (continued)
for the year ended 31 December 2012

	Year ended 31 December 2012	Year ended 31 December 2011
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The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

Equities	44%	49%
Gilts and corporate bonds	51%	50%
Property	3%	0%
Cash	2%	1%

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

Equities	6.2%	6.3%
Gilts and corporate bonds	4.5%	4.2%
Property	4.7%	4.8%
Cash	0.5%	0.7%

The overall expected rate of return on assets is determined based on market prices prevailing at that date, applicable to the period over which the obligation is to be settled.

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

Discount rate	4.48%	4.76%
Expected rate of return on assets	4.61%	4.84%
Future salary increases	3.73%	3.79%
Future price inflation	2.73%	2.79%
Future 5% LPI pension increases	2.60%	2.60%
Future 2.5% LPI pension increases	2.10%	2.10%

In determining the pension liabilities the Thales Group uses mortality assumptions, which are based on published mortality tables. The actuarial table used for former members of the Racal Group Executive or Senior Managers Pension Schemes (male and Female) is: SAPS light year of birth tables; and medium cohort future projections with a 0.75% p.a. minimum improvement starting in 2003. The actuarial tables for all other members are: SAPS normal year of birth tables projections also with a 0.75% p.a. minimum improvement starting in 2003.

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

Notes to accounts (continued)
for the year ended 31 December 2012

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

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Increase	(215,400)	(208,000)
Decrease	243,600	236,000

Amounts for the current and previous four periods are as follows:

	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000
Defined benefit obligation	(30,061)	(37,328)	(38,189)	(42,379)	(43,563)
Plan assets	23,782	29,274	31,542	31,788	33,659
(Deficit)/surplus	(6,279)	(8,054)	(6,647)	(10,591)	(9,904)
Experience adjustments on plan assets	(1,188)	2,378	1,626	(385)	1,524
Experience adjustments on plan liabilities	317	(5,441)	(397)	(3,460)	(576)

15. Deferred tax

The company has £529,000 (2011: £1,301, 000) of unrecognised deferred tax assets. These have not been recognised due to the uncertainty over the availability of sufficient taxable profits in the future.

Notes to accounts (continued)
for the year ended 31 December 2012

16. Share capital

	2012 £000	2011 £000
<i>Allotted, called-up and fully-paid</i>		
2 ordinary shares of £1 each	-	-

Capital management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2012 and 31 December 2011.

17. Operating lease arrangements

The Company as lessee

	Land & Building	
	2012 £000	2011 £000
Minimum lease payments under operating leases charged to expense for the year	-	472

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

	Land & Building	
	2012 £000	2011 £000
Within one year	-	472
In the second to fifth years inclusive	-	-
	-	472

Notes to accounts (continued)
for the year ended 31 December 2012

18. Related party transactions

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

Trading transactions

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

	Sales of goods		Purchases of goods		Amounts owed by related parties		Amounts owed to related parties	
	2012	2011	2012	2011	2012	2011	2012	2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Parent company	-	-	-	-	17,302	9,953	33,533	34,516
Fellow subsidiaries	-	-	-	565	10	2,242	7,065	125

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.

19. Compensation of key management personnel

All remuneration of directors and other members during the year was made by Thales Optronics Ltd.