

Thales e-Security Limited

Annual Report and Financial Statements
for the year ended 31 December 2011

Registered number 2518805

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Directors' report

(Registered number 2518805)

The directors present their annual report and financial statements, together with the auditor's report, for the year ended 31 December 2011

Principal activities

The principal activities of the Company are the design, manufacture and sale of products and services in the areas of network security and the protection of value bearing electronic transactions. The Company operates throughout the EMEA region and globally through its affiliated companies in the USA and Hong Kong. Thales e-Security Limited focuses on two main business areas – network security protecting data on communications networks and card payment security protecting applications used to transfer payments and other value bearing instructions between users, loyalty scheme participants or users of other banking applications.

The subsidiary undertakings held by the Company are listed in note 10 to the accounts. Consolidated accounts are not presented as the Company takes advantage of the exemption afforded by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Thales SA which prepares consolidated accounts which are publicly available.

Business review

The Company is a wholly owned subsidiary of Thales SA, an international group, with its headquarters in Paris and with revenues of €13.0bn in 2011 (2010: €13.1bn). The Company believes that, in the current market conditions, being part of a strong international group is a major advantage over many of its competitors and will give access to investment funding and markets, thus enhancing its future growth potential.

The Company uses standard performance KPIs to manage its business. The Company has many clients in the financial sector, which has been impacted by economic factors since late in 2009, causing expenditures to be delayed.

Key performance Indicators	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Turnover	53,219	37,591	26,520	24,607	26,127
Operating (loss)/profit	(143)	(5,223)	1,931	3,255	4,705
Profit/(loss) after tax	115	(3,563)	975	6,301	3,374
Average number of Employees	327	334	190	185	173

Current year results include a full year of the trading of nCipher Corporation Limited. This business was purchased in 2008. Its trade and assets were transferred to the company on the 30 June 2010. All transfers were made at net book value.

Directors' report (continued)
(Registered number 2518805)

Business review (continued)

The Company continues to invest in research and development. This will result in a number of new products being launched which are expected to make significant contributions to the growth of the business. The directors regard investment in this area as a prerequisite for success in the medium to long term future.

Details of significant events since the date of the statement of financial position are contained in note 24 to the accounts.

Dividends

The directors do not recommend the payment of a dividend in 2011 (2010: £ nil).

Financial risk management

The Company's principal financial instruments, other than derivatives, comprise lease contracts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, in the form of forward currency contracts. The purpose is to manage currency risks arising from the Company's operations and its sources of finance.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Company's accounting policies in relation to derivatives are set out in note 1.

Foreign currency risk

Potential exposures to foreign currency exchange rate movements are monitored periodically by the Board in all currencies in which the company trades and appropriate actions are taken to manage net open foreign currency positions.

The Company has from time to time entered into forward selling contracts. See note 18.

Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables and investments.

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.

Directors' report (continued)
(Registered number 2518805)

Financial risk management (continued)

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

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

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

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

Going concern accounting basis

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

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

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

Environmental information

Thales 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 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' report (continued)
(Registered number 2518805)

Directors

The directors who served during the year are as follows -

	Date of Appointment	Date of Resignation
R Parsell	3 September 2008	1 June 2011
F Greverie	3 September 2008	13 April 2012
D Lockwood	1 April 2010	1 September 2011
S Roberts	1 April 2010	
P Jones, MD	1 June 2011	
D Baldwin	10 October 2011	11 January 2012
M Neybour	13 April 2012	
F Le-Lay	13 April 2012	
S Stratton	24 April 2012	

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 2011, 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 39 days (2010 47 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.

Donations

During the period to 31 December 2011 charitable donations of £925 (2010 £1,035) were made. No political donations were made during the year.

Directors' report (continued)
(Registered number 2518805)

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, needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of the auditor, the 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.

On behalf of the Board



S Roberts

Director

26 September 2012

Registered Office

2, Dashwood Lang Road
The Bourne Business Park
Addlestone
Nr Weybridge
Surrey KT15 2NX

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 shareholders of Thales e-Security Limited

We have audited the financial statements of Thales e-Security Limited for the year ended 31 December 2011 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit 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 APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

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 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on the other matter 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 auditor's report to the shareholders of Thales e-Security Limited (continued)

Matters on which we are required to report by exception

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

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



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

26 September 2012

Statement of comprehensive income
for the year ended 31 December 2011

	<i>Note</i>	2011	2010 £'000
Revenue	2	53,219	37,591
Cost of sales		(25,310)	(22,535)
Gross profit		27,909	15,056
Distribution costs		(10,581)	(10,833)
Administrative expenses		(17,471)	(9,446)
Loss from operations	3	(143)	(5,223)
Investment income	4	177	82
Finance costs	5	(106)	(373)
Impairment	9	(965)	-
Loss before tax		(1,037)	(5,514)
Income tax credit	8	1,152	1,951
Profit/(loss) for the year		115	(3,563)
Total comprehensive income/(loss) for the year		115	(3,563)

All amounts relate to continuing operations

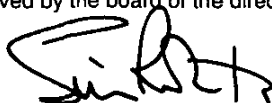
The accompanying notes are an integral part of this Statement of Comprehensive Income

Statement of financial position
at 31 December 2011

	Note	2011 £'000	2010 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	774	948
Investment	10	24,060	24,060
Goodwill and other intangible assets	9	34,070	35,035
Deferred tax asset	20	3,210	2,879
		<u>62,114</u>	<u>62,922</u>
Current assets			
Inventories	12	11,689	5,297
Trade and other receivables	13	18,598	15,243
Corporation tax receivable		416	1,855
Cash and cash equivalents	15	25,366	24,774
		<u>56,069</u>	<u>47,169</u>
Total assets		<u>118,183</u>	<u>110,091</u>
LIABILITIES			
Current liabilities			
Trade and other payables	16	55,398	47,523
Provisions	17	59	59
Current tax liabilities		-	-
		<u>55,457</u>	<u>47,582</u>
Net current asset/(liabilities)		<u>612</u>	<u>(413)</u>
Non-current liabilities			
Retirement benefit obligation	19	9,090	8,991
Total liabilities		<u>64,547</u>	<u>56,573</u>
Net assets		<u>53,636</u>	<u>53,518</u>
Equity			
Share capital	21	35,200	35,200
Retained earnings		18,436	18,318
Total equity		<u>53,636</u>	<u>53,518</u>

The accounts on pages 9 to 47 were approved by the board of the directors and authorised for issue on

26 September 2012
They were signed on its behalf by



S Roberts, Director

The accompanying notes are an integral part of this balance sheet

Statement of changes to equity
for the year ended 31 December 2011

	<i>Share Capital £'000</i>	<i>Retained Earnings £'000</i>	<i>Total Equity £'000</i>
At 1 January 2010	35,200	21,858	57,058
Loss for the year	-	(3,563)	(3,563)
Total recognised loss for the year	-	(3,563)	(3,563)
Share based payments	-	23	23
At 31 December 2010 and 1 January 2011	35,200	18,318	53,518
Profit for the year	-	115	115
Total recognised profit for the year	-	115	115
Share based payments	-	3	3
At 31 December 2011	35,200	18,436	53,636

Statement of cash flows
For year ended 31 December 2011

	<i>Note</i>	2011 £'000	2010 £'000
OPERATING ACTIVITIES			
Cash flows from/(used in) operating activities			
Loss from operations		(143)	(5,223)
Adjustments for			
Depreciation of property, plant and equipment		479	288
Amortisation of intangible assets		-	267
Share based payments		3	23
Increase in retirement benefit obligations		99	120
Operating cash flows before movement in working capital		438	(4,525)
(Increase)/decrease in inventories		(6,392)	10,705
Increase in receivables		(3,355)	(1,220)
Increase/(decrease) in payables		7,876	(11,590)
Cash generated from operations		(1,433)	(6,630)
Income taxes received		2,260	469
Net cash from/ (used in) operating activities		827	(6,161)
INVESTING ACTIVITIES			
Interest received		177	80
Acquisition of tangible fixed assets		(412)	(81)
Cash transferred with trade and assets of subsidiary		-	27,572
Net cash (used in)/from Investing activities		(235)	27,571
Net increase in cash & cash equivalents		592	21,410
Cash & cash equivalents at beginning of year	15	24,774	3,364
Cash & cash equivalents at end of year	15	25,366	24,774

Notes to accounts

for year ended 31 December 2011

General information

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

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

1 Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union.

The principal accounting policies adopted are set out below.

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

Going concern basis

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

New and amended standards and interpretations

The accounting policies adopted are consistent with the previous financial year except for the following new or amended International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2011.

Related party disclosures (IAS 24)

The revised standard supersedes IAS 24, 'Related party disclosures', issued in 2003. The definition of a related party has been modified and the disclosures for government-related entities have been simplified. Additionally, the definition of a related party has been clarified for the following relationships: associates and subsidiaries, jointly controlled entities, investments by members of key management personnel and investments made by close family members.

The group is yet to assess the full impact of this revision. However, initial indications are that it will not have a significant impact on the Company accounts as the Company has no such arrangements.

Notes to accounts (continued)
for year ended 31 December 2011

1 Accounting policies (continued)

Impact of new international financial reporting standards not yet adopted at 31 December 2011

The following new standards, revised standards, amendments and interpretations, have been published by the IASB but are not yet effective

The IASB issued new standards relating to interests in other entities and related disclosures. The new standards are

IFRS 9, 'Financial Instruments: Classification and measurement' – effective 1 January 2013

This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets.

The group is yet to assess IFRS 9's full impact. However, initial indications are that it may not have a significant impact on how the group and Company accounts for its financial assets as only financial assets that are categorised as loans and receivables are held within the group.

Consolidated Financial Statements (IFRS 10)

This standard replaces the consolidation requirements in IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation – Special Purpose Entities', building on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard uses a single definition of control which comprises of three elements that centre on power over the investee, exposure or rights to the variable returns from the investee and the ability to use the power to affect the returns. The standard also includes new requirements for taking account of potential voting rights when assessing control.

The group is yet to assess IFRS 10's full impact. However, initial indications are that it may not have a significant impact on the Company accounts as the Company does not prepare consolidated financial statements.

Joint Arrangements (IFRS 11)

This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form as is currently the case. As a consequence IFRS 11 permits only two classifications for joint arrangements, being either joint operations or joint ventures. The new standard also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in joint ventures.

The group is yet to assess IFRS 11's full impact. However, initial indications are that it may not have a significant impact on the Company accounts as the Company does not enter into such arrangements.

Disclosure of Interests in Other Entities (IFRS 12)

This standard sets out new and comprehensive disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard therefore not only requires additional disclosures to be made about entities that are included within the consolidated financial

Notes to accounts (continued)

for year ended 31 December 2011

1 Accounting policies (continued)

statements, for example relating to judgements and assumptions that have been made when deciding classifications of interests, but also requires disclosures to be made so users are able to understand interests in unconsolidated entities

The group is yet to assess IFRS 12's full impact. However, initial indications are that it may not have a significant impact on the Company accounts as the Company does not prepare consolidated financial statements

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

Separate Financial Statements (IAS 27) and Investments in Associates and Joint Ventures' (IAS 28) (Re-issued)

Following the issue of IFRS 10 and IFRS 11, consequential changes have been made to these standards. IAS 27 no longer deals with the accounting or disclosure requirements for consolidated financial statements and therefore includes the requirements for individual financial statements only. IAS 28 no longer deals with the classification of joint arrangements and includes only the accounting requirements for joint arrangements. Accordingly the standard requires the use of the equity method of accounting for all joint ventures and no longer permits the proportionate consolidation method to be used. The new requirements 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

Income Tax (IAS 12 - Amended)

This amendment relates to the recovery of underlying assets and addresses the evaluation of deferred tax related to investment properties. The revision has an effective date of 1 January 2012 and the Company intends to adopt them at this date. The adoption of IAS 12 is not expected to have a significant impact on the business

Notes to accounts (continued)
for year ended 31 December 2011

1 Accounting policies (continued)

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 adoption of IAS 19 is not expected to have a significant impact on the business.

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 will have no impact on the results of the Company.

Financial Instruments disclosures (IFRS 7 - Amended)

The amendment relates to disclosures required for Transfers of Financial Assets and is effective for annual periods beginning on or after 1 July 2011. The amendment is to be applied prospectively and early adoption is permitted. The adoption of IFRS 7 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. Adoption of these standards is not expected to have a significant impact on the business.

Notes to accounts (continued)

for year ended 31 December 2011

1 Accounting policies (continued)

Intangible fixed assets

Goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and reviewed for impairment at least annually. Any impairment is recognised immediately in the statement of comprehensive income and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 31 December 1997 has not been reinstated in the statement of financial position.

On disposal of a previously acquired business, the attributable amount of goodwill is included in determining the profit or loss on disposal.

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 year ended 31 December 2011

1 Accounting policies (continued)

Property, plant and equipment

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.

Fixtures and equipment are stated at cost or valuation, 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 or valuation, less estimated residual value, of each asset on a straight-line / reducing balance basis over its expected useful life, as follows:

Land	Nil
Freehold buildings	0 years/ 0% per annum
Leasehold land and buildings	10 years/ 10% per annum/term of lease – to a maximum of 10 years
Plant and machinery	5 years/ 20% per annum

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

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

Interest costs incurred in bringing assets to a state where they are ready to be used are capitalised as part of the costs of the asset.

Notes to accounts (continued)
for year ended 31 December 2011

1 Accounting policies (continued)

Impairment property, plant and equipment and intangible assets excluding goodwill

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

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

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

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

Financial instruments

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

Trade receivables

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

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Company has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was

Notes to accounts (continued)
for year ended 31 December 2011

1 Accounting policies (continued)

Investments (continued)

recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

Trade payables

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 year ended 31 December 2011

1 Accounting policies (continued)

Derivative financial instruments and hedge accounting

The Company's activities expose it primarily to the financial risks of changes in foreign exchange rates. The Company uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Company's risk management strategy.

The Company does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in profit or loss. The Company's policy with respect to hedging the foreign currency risk of a firm commitment is to designate it as a cash flow hedge. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in profit or loss in the same period in which the hedged item affects profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Inventories

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

Notes to accounts (continued)
for year ended 31 December 2011

1 Accounting policies (continued)

Construction contracts

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised when incurred

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenue and expenses. The Company uses the percentage of completion/technical milestone method to determine the appropriate amount of revenue and costs to recognise in a given period. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

In determining costs incurred up to the year end, any costs relating to future activity on a contract are excluded and are shown as contract work in progress. The aggregate of the cost incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end.

Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from the customers on construction contracts, under receivables and prepayments. Where the progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under trade and other payables.

Notes to accounts (continued)
for year ended 31 December 2011

1 Accounting policies (continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible

- Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of certain non-current assets and derivative contracts, provisions for pensions and other post retirement benefits and tax losses carried forward, and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base
- Tax rates enacted or substantively enacted by the end of the reporting period are used to determine deferred income tax
- Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised
- The carrying amount of the deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered
- Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future
- Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the end of the reporting period

Notes to accounts (continued)
for year ended 31 December 2011

1 Accounting policies (continued)

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.

Operating revenue from services provided are recognised insofar as the transaction has been completed by the end of the reporting period.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Company's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

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

Pension costs are charged to Administration expenses in the statement of comprehensive income.

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

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

Notes to accounts (continued)
for year ended 31 December 2011

1 Accounting policies (continued)

Foreign currencies

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

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

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

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 end of the reporting period, and are discounted to present value where the effect is material.

Share-based payments

Share options granted by the Company's parent to its employees are accounted for in accordance with the requirements of IFRS 2.

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The Group uses a binomial model to measure the amount of the benefit to employees receiving the options granted. The fair value of such options is determined at the date of grant. The amounts thus obtained are taken to statement of comprehensive income over the vesting period of the rights. Recognition in the statement of comprehensive income is linear over the vesting period of each scheme. No expense is recognised for options that do not ultimately vest, with the exception of options where vesting is conditional upon a market condition.

This expense is included in income from operations and a corresponding credit is recognised increasing retained earnings. It thus has no effect on the overall amount of shareholders' funds.

Notes to accounts (continued)
for year ended 31 December 2011

1 Accounting policies (continued)

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.

Impairment of investments

The impairment reviews of the investments in subsidiaries are based on future cash flows.

Long-term contracts

Long-term contract arrangements are accounted for in accordance with IAS 11. This requires judgements to estimate future expected costs to be incurred.

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 20.

Notes to accounts (continued)
for year ended 31 December 2011

2 Revenue

An analysis of the Company's revenue is as follows

	2011 £'000	2010 £'000
Sale of goods - EMEA	44,451	26,159
- Rest of World	5,029	6,189
Revenue from construction contracts	3,739	5,243
Revenue per statement of comprehensive income	53,219	37,591
Revenue as defined in IAS18	53,219	37,591

3 Loss from operations

Loss from operations is stated after charging

	2011 £'000	2010 £'000
Research and development costs	5,126	5,604
Depreciation of property, plant and equipment	479	288
Amortisation of internally generated intangible assets included in other operating expenses	-	267
Cost of inventories recognised as an expense	214	354
Staff costs (note 6)	18,353	16,486
Auditor's remuneration for audit services	55	75

Amounts payable to Mazars LLP and their associates by the Company in respect of non-audit services were
£nil (2010 £nil)

Notes to accounts (continued)
for year ended 31 December 2011

4 Investment income

	2011 £'000	2010 £'000
Interest on bank deposits	<u>177</u>	<u>82</u>
	177	82

5 Finance costs

	2011 £'000	2010 £'000
Interest on pension fund liabilities	106	261
Interest on loan	-	112
	<u>106</u>	<u>373</u>

6 Staff costs

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

	2011 Number	2010 Number
Distribution	208	212
Sales/Marketing	97	95
Administration	22	27
	<u>327</u>	<u>334</u>

	2011 £'000	2010 £'000
Their aggregate remuneration comprised		
Wages and salaries	15,431	14,078
Social security costs	2,100	1,653
Other pension costs (see note 19)	822	755
	<u>18,353</u>	<u>16,486</u>

Notes to accounts (continued)
for year ended 31 December 2011

7 Directors' emoluments

Remuneration	2011 £'000	2010 £'000
Emoluments	357	384
Amounts of money and other net assets (excluding shares and share options) receivable under long term incentive schemes	79	59
Total emoluments	436	443

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

Emoluments	93	168
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As at 31 December the following amounts relating to the highest paid director were accrued under a defined benefit pension scheme nil (2010 nil)

	Number	Number
During the year the following number of directors		
Accrued benefits under defined benefit pension schemes	2	2

Amounts paid to defined benefit schemes during the year totalled £20,073 (2010 £29,550)

Notes to accounts (continued)
for year ended 31 December 2011

8 Income tax expense

	2011	2010
	£'000	£'000
Current tax		
UK Corporation tax	(416)	(1,909)
Adjustments in respect of prior years	(410)	(115)
Foreign tax	5	-
Total current tax	(821)	(2,024)
Deferred tax		
Origination and reversal of temporary differences charge	(331)	73
Total deferred tax	(331)	73
Total tax credit on profit on ordinary activities	(1,152)	(1,951)

Corporation tax is calculated at 26.5% (2010: 28%) of the estimated assessable profit for the year

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

	2011	2010
	£'000	£'000
Loss on ordinary activities before tax	(1,037)	(5,514)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	(275)	(1,544)
Tax effect of		
Expenses not deductible for tax purposes	(283)	(468)
Movement in unrecognised deferred tax	-	69
Deferred tax rate change impact on movement and opening balance	254	106
Adjustments to prior year - current tax	(410)	(114)
Adjustments to prior year - deferred tax	(438)	-
Total tax credit	(1,152)	(1,951)

Notes to accounts (continued)

for year ended 31 December 2011

8 Income tax expense (continued)

Finance Act 2011 reduced the main rate of UK corporation tax to 25% with effect from 1 April 2012. As this rate has been substantively enacted at the statement of financial position date, the deferred tax figures within these accounts have been calculated at this rate.

The Chancellor announced in the UK budget on 21 March 2012 that the full rate of UK corporation tax would reduce to 25% with effect from 1 April 2012, and decrease by a further 1% each 1 April thereafter until the rate reaches 22% with effect from 1 April 2014. The effect of these subsequent rate reductions on deferred tax balances has not been reflected in these accounts due to the relevant legislation not having been substantively enacted at the balance sheet date. The reduction to 22% will reduce the Company's deferred tax asset by approximately £385,000.

9 Goodwill and other intangible assets

	<i>Goodwill</i> £'000	<i>Development costs</i> £'000	<i>Patents and trademarks</i> £'000	<i>Total</i> £'000
Cost				
At 1 January 2010	965	7,181	454	8,600
Additions	28,252	-	-	28,252
At 31 December 2010	29,217	7,181	454	36,852
At 31 December 2011	29,217	7,181	454	36,852
Amortisation				
At 1 January 2010	-	1,096	454	1,550
Charge for the year	-	267	-	267
At 31 December 2010	-	1,363	454	1,817
Charge for the year	-	-	-	-
Impairment	965	-	-	965
At 31 December 2011	965	1,363	454	2,782
Carrying amount				
At 31 December 2011	28,252	5,818	-	34,070
At 31 December 2010	29,217	5,818	-	35,035
At 1 January 2010	965	6,085	-	7,050

Notes to accounts (continued)
for year ended 31 December 2011

9 Goodwill and other intangible assets (continued)

Goodwill arose on the acquisition of CHR Design Limited in 2002 and the trade and net assets were subsequently transferred into the control of Thales e-Security Limited. The carrying value of this amount was reviewed during the year and as a consequence written off in full.

The amortisation period for development costs incurred on the Company's development is 3 years.

Patents and trademarks are amortised over their estimated useful lives, which is on average 3 years.

Goodwill has been allocated for impairment testing purpose to one cash generating unit. The Group tests annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the CGU has been determined on a value in use basis, using cash flow projections for four years. The assumptions are based on past experience and expected future development and no nominal growth rate has been applied to the calculation. The discount rate applied is a pre-tax rate based on the Thales group weighted average cost of capital of 9% (2010: 9%).

10 Investment in subsidiaries

		<i>Shares in Subsidiary Undertakings £'000</i>
Cost	Note	
At 1 January 2010		52,312
Reclassification to Goodwill	9	(28,252)
At 31 December 2010 and at 31 December 2011		<u>24,060</u>

The Company has investments in the following subsidiary undertakings at the year end:

	<i>Country of incorporation or principal business address</i>	<i>Holding</i>	<i>%</i>	<i>Principal activity</i>
CHR Design Limited	England	283,038 £1 ordinary 125,000 £1 preference	100	Dormant
nCipher Corporation Limited	England	700,000,000 £0.05 ordinary	100	Dormant

Notes to accounts (continued)
for year ended 31 December 2011

11 Property, plant and equipment

	<i>Leasehold improvements £'000</i>	<i>Plant, machinery and fittings £'000</i>	<i>Total £'000</i>
Cost or valuation			
At 1 January 2010	225	874	1,099
Additions	3	78	81
Disposals	(68)	(2,338)	(2,406)
Transfers at net book value	1,168	3,080	4,248
At 31 December 2010	1,328	1,694	3,022
Additions	74	338	412
Disposals	-	(170)	(170)
At 31 December 2011	1,402	1,862	3,264
Accumulated depreciation			
At 1 January 2010	209	851	1,060
Disposals	(59)	(2,248)	(2,307)
Transfers at net book value	460	2,573	3,033
Charge for the year	99	189	288
At 31 December 2010	709	1,365	2,074
Disposals	-	(63)	(63)
Charge for the year	185	294	479
At 31 December 2011	894	1,596	2,490
Carrying amount			
At 31 December 2011	508	266	774
At 31 December 2010	619	329	948
At 1 January 2010	16	23	39

Notes to accounts (continued)
for year ended 31 December 2011

12 Inventories

	2011	2010
	£'000	£'000
Raw materials and consumables	1,558	2,240
Work-in-progress	6,931	1,000
Finished goods and goods for resale	3,200	2,057
	11,689	5,297

The amount of write down of inventories recognised as an expense is £214,000 (2010 £354,000) This is included in the cost of sales line item as a cost of inventories recognised as an expense (note 3)

13 Trade and other receivables

	2011	2010
	£'000	£'000
Trade and other receivables		
Amounts receivable from the sale of goods	15,392	11,214
Amounts receivable from group entities	1,908	2,833
Prepaid and accrued income	558	366
Amounts owed by construction contracts customers	506	506
Other debtors	234	324
	18,598	15,243

An allowance has been made for estimated irrecoverable amounts from the sale of goods of £157,516 (2010 £435,000) This allowance has been determined by reference to past default experience The table below shows the movement in this allowance during the year

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

	2011	2010
	£'000	£'000
At 1 January	435	18
Amounts provided	63	11
Provisions transferred with trade and assets of subsidiary	-	406
Amounts utilised	(340)	-
At 31 December	158	435

Notes to accounts (continued)
for year ended 31 December 2011

13 Trade and other receivables (continued)

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
2011					
Amounts receivable from the sale of goods	15,392	12,373	2,152	381	486
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
2010					
Amounts receivable from the sale of goods	11,214	7,964	1,896	1,269	85
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

14 Construction contracts

	2011 £'000	2010 £'000
Contracts in progress at statement of financial position date		
Amounts due from contract customers included in trade and other receivables	506	506
	<hr/>	<hr/>
	506	506
	<hr/>	<hr/>
Contract costs incurred plus recognised profits less recognised losses to date	16,047	9,951
Less progress billings	(12,855)	(9,105)
	<hr/>	<hr/>
	3,192	846
	<hr/>	<hr/>

At 31 December 2011, retentions held by customers for contract work amounted to £nil (2010 £nil) Advances received from customers for contract work amounted to £nil (2010 £nil)

At 31 December 2011, amounts of £nil (2010 £nil) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months

Notes to accounts (continued)
for year ended 31 December 2011

15 Cash and cash equivalents

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

16 Trade and other payables

	2011	2010
	£'000	£'000
Trade creditors	2,737	2,787
Amounts owed to group undertakings	33,072	30,874
Other taxes and social security costs	3,024	2,397
Accruals and deferred income	16,565	11,465
	55,398	47,523

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

The average credit period taken for trade purchases is 39 days (2010: 47 days).

17 Provisions

	<i>Post-sale rectification and support costs</i>
	<i>£'000</i>
At 1 January 2011 and 31 December 2011	59

The provision for post-sale rectification and support costs relates to anticipated costs to be borne by the Company within the next 6 months in respect of rectification and support of products already delivered to customers.

Notes to accounts (continued)
for year ended 31 December 2011

18 Financial instruments

Currency derivatives

The Company utilises currency derivatives to hedge significant future transactions and cash flows. The Company is party to a number of foreign currency forward contracts and options in the management of its exchange rate exposures. The instruments are purchased internally from the group treasury department in Paris and are primarily denominated in the currencies of the Company's principal markets. At the statement of financial position date, the total notional amount of outstanding forward foreign exchange contracts to which the Company is committed was £8,843,000 (2010: £nil).

The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £nil (2010: £nil) has been deferred in equity.

Fair values

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

	2011		2010	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Financial assets				
Cash	25,366	25,366	24,774	24,774
Trade and other receivables	22,224	22,224	19,977	19,977
Financial liabilities				
Trade and other payables	55,398	55,398	47,523	47,523

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

A loan to group is rolled over on a monthly basis and attracts a variable interest rate in line with the base rate.

All trade creditors will be paid within the next two months.

At 31 December 2011 the Company held no financial instruments at fair value.

Notes to accounts (continued)
for year ended 31 December 2011

19 Retirement benefit schemes

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

Defined contribution schemes

The total cost charge to income in relation to defined contribution schemes amounted to £454,000 (2010: £519,000) representing contributions payable to the schemes by the Company at rates specified in the rules of the plan.

Defined benefit schemes

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

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

	2011 £'000	2010 £'000
Net benefit expense		
Current service cost	(293)	(236)
Total service charge	(293)	(236)
Interest cost	(1,536)	(586)
Expected return on plan assets	1,453	522
Past service cost	-	(36)
Effect of asset limit	163	(63)
Amortisation of unrecognised gains and losses	(187)	(92)
Total charge	(107)	(491)
Actual return on plan assets	286	3,841

Notes to accounts (continued)
for year ended 31 December 2011

19 Retirement benefit schemes (continued)

	2011 £'000	2010 £'000
Liability		
Present value of wholly or partly funded obligations	(90,205)	(84,907)
Fair value of plan assets	71,910	72,273
Funded status	(18,295)	(12,634)
Present value of wholly unfunded obligations	(290)	(288)
Effect of asset limit	-	(486)
Transfer of liability with trade and assets from subsidiary	-	(7)
Unrecognised actuarial losses	9,495	4,424
Net amount recognised	(9,090)	(8,991)
Changes in the present value of the defined benefit obligation are as follows		
Opening present value of obligations	(85,195)	(84,338)
Current service cost	(293)	(236)
Interest cost	(1,536)	(586)
Plan participants' contributions	(127)	(51)
Scheme amendments	-	(36)
Actuarial losses on obligation	(4,414)	(344)
Benefits paid	1,069	396
Closing present value of obligations	(90,496)	(85,195)
	2011 £'000	2010 £'000
Changes in the fair value of Plan Assets are as follows		
Opening fair value of plan assets	72,273	68,401
Expected return on plan assets	1,453	522
Employers' contributions	293	376
Plan participants' contributions	127	51
Benefits paid	(1,069)	(396)
Actuarial gains on plan assets	(1,168)	3,319
Closing fair value of plan assets	71,910	72,273

Notes to accounts (continued)
for year ended 31 December 2011

19 Retirement benefit schemes (continued)

The Thales Group expects to contribute £81M to its defined benefit pension plans in 2012 (2011 £73M)

	2011	2010
<i>The major categories of plan assets as a percentage of the fair value of total plan assets are as follows</i>		
Equities	49%	52%
Gilts and corporate bonds	50%	46%
Property	0%	1%
Cash/other	1%	1%
<i>The expected rates of return on each category of plan assets are as follows</i>		
Equities	6.3%	7.7%
Gilts	2.8%	4.2%
Corporate bonds	5.2%	5.8%
Property	4.8%	6.2%
Cash/other	0.7%	3.2%

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

	2011	2010
<i>The principal assumptions used in determining pension obligations for the Group's plans are shown below</i>		
Discount rate	4.76%	5.5%
Expected rate of return on assets	4.84%	6.1%
Future salary increases	3.79%	4.3%
Future retail price inflation	2.79%	3.3%
Future 5% LPI pension increases	2.60%	3.1%
Future 2.5% LPI pension increases	2.10%	2.3%

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 are Males – SAPS light year of birth tables with initial mortality rates decreased by 3% and medium cohort future projections with a 0.75% p.a. minimum improvement starting in 2003, Females – SAPS light year of birth tables with initial mortality rates decreased by 16% and medium cohort future projections with a 0.75% p.a. minimum improvement starting in 2003. The actuarial tables for all other members are Males – SAPS year of birth tables with initial mortality rates decreased by 7% and medium cohort future projections with a 0.75% p.a. minimum improvement starting in 2003, Females – SAPS year of birth tables with initial mortality rates increased by 2% and medium cohort future projections with a 0.75% p.a. minimum improvement starting in 2003.

Notes to accounts (continued)

for year ended 31 December 2011

19 Retirement benefit schemes (continued)

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

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

	Year ended 31 December 2011	Year ended 31 December 2010
	£'000	£'000
Increase	(208,000)	(164,000)
Decrease	236,000	185,000

Amounts for current and previous four periods are as follows

	2007	2008	2009	2010	2011
	£M	£M	£M	£M	£M
Defined benefit obligation	(77)	(78)	(84)	(85)	(90)
Plan assets	64	64	68	72	72
(Deficit)	(13)	(14)	(16)	(13)	(18)
Experience adjustments on plan assets	4	(4)	2	3	(1)
Experience adjustments on plan liabilities	(1)	(1)	2	-	(4)

Notes to accounts (continued)
for year ended 31 December 2011

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 year

	Capital allowances £'000	Pensions £'000	Tax losses £'000	Total £'000
Deferred tax asset at 31 December 2010	451	2,428	-	2,879
Deferred tax charged to statement of comprehensive income	<u>425</u>	<u>(155)</u>	<u>61</u>	<u>331</u>
Deferred tax asset at 31 December 2011	<u>876</u>	<u>2,273</u>	<u>61</u>	<u>3,210</u>

21 Share capital

	2011 £'000	2010 £'000
<i>Authorised</i>		
704,020,000 ordinary shares of 5p each	<u>35,201</u>	<u>35,201</u>
<i>Allotted, called-up and fully-paid</i>		
704,001,900 ordinary shares of 5p each	<u>35,200</u>	<u>35,200</u>

During the year the Company allotted nil (2010 nil) ordinary shares with a nominal value of £nil (2010 £nil) for cash consideration of £nil (2010 £nil)

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 2011 and 31 December 2010.

Notes to accounts (continued)

for year ended 31 December 2011

22 Share based payments

The Group grants options in the shares of Thales SA to employees as part of an employee incentive program. All options granted under this program are equity-settled. Historically, these have been issued annually.

At 31 December 2011, the following options were outstanding

Type of arrangement	General employee share option plan							
Date of grant	1 July 2004	30 June 2005	9 Nov 2006	4 July 2007	1 July 2008	25 June 2009	23 Sept 2010	15 Sept 2011
Number granted	5,550	4,300	4,350	1,540	1,480	1,950	-	-
Contractual life	All options are granted for a 10 year period							
Vesting conditions	Fully vested after 4 years							

The estimated fair value of each share option granted in the general employee share option plan is £4.93 (2010 £5.26).

Notes to accounts (continued)
for year ended 31 December 2011

22 Share based payments (continued)

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

Type of arrangement	General employee share option plan							
Date of grant	1 July 2004	30 June 2005	9 Nov 2006	4 July 2007	1 July 2008	25 June 2009	23 Sept 2010	15 Sept 2011
<i>The model inputs were</i>								
Share price at grant date	€ 29 50	€ 34 01	€ 36 47	€ 45 13	€35 72	€31 93	€ 26 40	€ 25 20
Exercise price	€ 29 50	€ 34 01	€ 36 47	€ 44 77	€38 50	€32 88	€ 26 34	€ 26 34
Expected volatility*	32%	30%	30%	20%	20%	25%	25%	25%
Dividend rate	3 5%	2 5%	2 5%	2 5%	2 5%	2 5%	2 5%	2 5%
Risk-free interest rate	4 4%	3 0%	3 0%	4 5%	4 5%	3 9%	3 09%	3 51%
Expected rate of cancellation pre-vesting	2%	2%	2%	2%	2%	2%	2%	2%
Expected rate of departure post-vesting	3%	3%	3%	3%	3%	3%	3%	3%
Early exercise multiple	1 5	1 5	1 5	1 3	1 3	1 3	1 3	1 3

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

To allow for the effects of early exercise, it was assumed that the employees would exercise the options after vesting date when the share price was 1 3 times the exercise price

In accordance with IFRS 2, the Group values the costs represented by options attributed to employees. The fair value of these options is determined at their respective attribution date. This amount is taken to profit and loss, spreading over the period of acquisition of benefits.

Details of options outstanding during the year are presented below

Notes to accounts (continued)
for year ended 31 December 2011

22 Share based payments (continued)

	2011	2011	2010	2010
	Number of	Weighted	Number of	Weighted
	options	average	options	average
		exercise		exercise
		price		price
Outstanding at start of year	24,067	£31.64	24,067	£31.83
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	(8,943)	£36.79	-	-
Outstanding at end of year	15,124	£30.96	24,067	£31.64
Exercisable at end of year	14,203	£31.45	21,799	£31.91

The weighted average share price at the date of exercise for share options exercised during the period was €28.23 (2010: €26.40). The options outstanding at 31 December 2011 had exercise prices in the range €26.34 to €44.77, and the weighted average remaining contractual life of 4.2 years (2010: 5.2 years). The expense arising from share and share option plans was £2,996 (2010: £22,766).

23 Operating lease arrangements

The Company as lessee	2011	2010
	£'000	£'000
Minimum lease payments under operating leases recognised in income for the year	1,547	1,428

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

	Property	2011	Total	2010
	£'000	Cars	£'000	Total
		£'000		£'000
- Within one year	1,149	156	1,305	1,337
- In the second to fifth years inclusive	1,573	152	1,725	2,360
- After five years	-	-	-	9
	2,722	308	3,030	3,706

Notes to accounts (continued)
for year ended 31 December 2011

23 Operating lease arrangements (continued)

Operating lease payments represent rentals payable by the Company for certain of its office properties. Leases are entered into with lease terms ranging between 4 to 25 years. Rental charges are subject to review at varying points across the individual leases.

24 Contingencies and events occurring after the reporting period

There are contingent liabilities in the event of any claim for breach or non-performance of the term of overseas contracts against which bank guarantees have been issued amounting to £nil (2010: £100,000).

25 Related party transactions

The immediate parent company is Thales UK 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:

	<i>Sales of goods</i>		<i>Purchases of goods and Services</i>		<i>Amounts owed by related parties</i>		<i>Amounts owed to related parties</i>	
	<i>2011 £'000</i>	<i>2010 £'000</i>	<i>2011 £'000</i>	<i>2010 £'000</i>	<i>2011 £'000</i>	<i>2010 £'000</i>	<i>2011 £'000</i>	<i>2010 £'000</i>
Fellow subsidiaries	8,274	8,341	25,997	4,060	1,908	2,833	33,072	30,874

Sales of goods to related parties were made at the Company's usual list prices, less average discounts of 40 per cent. 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.

There are no other related party transactions that require disclosure.

Notes to accounts (continued)
for year ended 31 December 2011

25 Related party transactions (continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the year amounted to

	2011 £'000	2010 £'000
Short-term employee benefits	1,187	832
Post-employment benefits	66	48
	<u>1,253</u>	<u>880</u>