

Thales Electronics plc

**Annual report and accounts
for the year ended 31 December 2010**

Registered number 497098



Contents

	Page
Directors' report	1
Directors' responsibilities	4
Independent auditors' report	5
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	10
Statement of cash flows	11
Notes to accounts	12

Directors' report

The Directors present their annual report and financial statements, together with the auditors' report, for the year ended 31 December 2010

Principal activities

The principal activity of the Company is a holding Company

Business review

The Company acts as a non-trading, intermediate holding Company within the Thales group of companies based in the UK. On 8 July 2010 the Company sold its 20% stake in Camelot Group plc

The subsidiary undertakings held by the Company are listed in note 8 to the financial statements. Consolidated financial statements are not presented as the Company takes advantage of the exemption afforded by Section 400 of CA 2006 because it is a wholly owned subsidiary of Thales SA which prepares consolidated accounts which are publicly available

The audited financial statements for the year ended 31 December 2010 are set out on pages 7 to 27. The Company made a profit after taxation for the year of £60,636,000 (2009 – £6,650,000)

Dividends

The Directors do not recommend the payment of a dividend (2009 - £nil)

Financial risk management objectives and policies

The Company's principal financial instruments comprise cash and bank overdrafts. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations

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

Foreign currency risk

The Company no longer has any transactional currency exposures in respect of its cash and bank overdrafts

Directors' report (continued)

Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables and investments. The Company trades exclusively with fellow subsidiaries and associates.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, 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 due to the financial status of its counterparties.

Interest rate risk

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

Liquidity risk

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

Going concern accounting basis

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

The Company has considerable financial resources. 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

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' report (continued)

Directors

The Directors who served during the year were as follows

A Dornan
A Lagomarsino
L Hammond
M W P Seabrook

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

Donations

No political or charitable donations were made during the year (2009 £ 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 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

Ernst & Young LLP have indicated their willingness to continue in office and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

By order of the Board



A Lagomarsino
Director
22 June 2011
2 Dashwood Lang Road
Bourne Business Park
Addlestone
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 judgments and accounting estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and

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 Electronics plc

We have audited the financial statements of Thales Electronics plc for the year ended 31 December 2010 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow, 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.

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.

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 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

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 2010 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 other matters prescribed by the Companies Act 2006

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

Independent auditors' report to the shareholders of Thales Electronics plc (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

Ernst & Young LLP

Helen Hewson (Senior statutory auditor)

For and on behalf of Ernst & Young LLP

London

27 June 2011

Statement of comprehensive income
for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Continuing operations			
Administrative expenses		3,358	-
Amounts written-off investments		(2,779)	-
Operating profit	3	579	-
Investment income	4	3,127	6,581
Profit on disposal of investments	8 & 9	56,887	-
Finance costs	6	-	(16)
Profit before tax from continuing operations		60,593	6,565
Income tax credit	7	43	85
Profit and total comprehensive income for the year net of tax		60,636	6,650

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

Statement of financial position
for the year ended 31 December 2010

Company Registered Number 497098

	Note	2010 £000	2009 £000
ASSETS			
Non-current assets			
Investment in subsidiaries	8	717,060	719,894
Other non-current financial assets	9	-	18,750
		<u>717,060</u>	<u>738,644</u>
Current assets			
Trade and other receivables	10	62,096	58,972
Current tax receivables		43	85
Cash and cash equivalents	11	94,392	12,467
		<u>156,531</u>	<u>71,524</u>
Total assets		<u>873,591</u>	<u>810,168</u>
LIABILITIES			
Current liabilities			
Trade and other payables	12	56,574	53,786
Net current assets		<u>99,957</u>	<u>17,738</u>
Non-current liabilities			
Provisions	13	861	861
Total liabilities		<u>57,435</u>	<u>54,647</u>
Net assets		<u>816,156</u>	<u>755,521</u>
EQUITY			
Share capital	15	74,613	74,613
Share premium account		212,215	212,215
Capital redemption reserve		279,325	279,325
Retained earnings		250,003	189,368
Total equity		<u>816,156</u>	<u>755,521</u>

Statement of financial position (continued)
for the year ended 31 December 2010

Company Registered Number 497098

The accounts on pages 7 to 27 were approved by the board of directors and authorised for issue on 22 June 2011
They were signed on its behalf by



A Lagomarsino

Director

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

Statement of changes in equity
for the year ended 31 December 2010

Attributable to equity holders of the Company

	Share capital £000 (Note 16)	Share premium account £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
At 1 January 2009	74,613	212,215	279,325	182,718	748,871
Profit for the year	-	-	-	6,650	6,650
At 31 December 2009	74,613	212,215	279,325	189,368	755,521
Profit for the year	-	-	-	60,636	60,636
At 31 December 2010	74,613	212,215	279,325	250,004	816,157

Statement of cash flows
for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
OPERATING ACTIVITIES			
Profit before tax from continuing operations		60,593	6,565
Non-cash adjustments to reconcile profit before tax to net cash flows			
Impairment provision		2,779	-
Inter-company debt forgiveness		(3,358)	-
Investment income	4	(3,127)	(6,581)
Finance costs	5	-	16
Gain on disposal of investments		(56,887)	-
Working capital adjustments			
(Increase)/decrease in receivables		215	14,986
Increase/(decrease) in payables		2,609	(15,745)
		<u>2,824</u>	<u>(759)</u>
Income taxes received/(paid)	7	85	(60)
Interest paid		-	(16)
		<u>2,909</u>	<u>(835)</u>
INVESTING ACTIVITIES			
Interest received	4	511	395
Dividends received	4	2,616	6,186
Proceeds on disposal of investments	8	75,889	-
		<u>79,016</u>	<u>6,581</u>
Net increase in cash & cash equivalents			
		<u>81,925</u>	<u>5,746</u>
Cash & cash equivalents at beginning of year	11	<u>12,467</u>	<u>6,721</u>
Cash & cash equivalents at end of year	11	<u>94,392</u>	<u>12,467</u>

Notes to accounts

for the year ended 31 December 2010

Corporate Information

The Company is a limited Company incorporated and domiciled in England & Wales. 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 16.

1. 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 and therefore comply with Article 4 of the EU IAS regulations.

The principal accounting policies adopted are set out below.

These financial statements contain information about Thales Electronics plc 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 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 2010,

- IFRS 3 (Revised) Business Combinations and IAS 27 (Amended) Consolidated and Separate Financial Statements – *Effective for periods beginning on or after 1 July 2009*, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IFRIC 17 Distributions of non-cash assets to owners - *Effective for annual periods beginning on or after 1 July 2009*
- IFRIC 18 Transfer of assets from customers – *Effective for transfers received on or after 1 July 2009*
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

The adoption of the above standards and interpretations by the Company is described below.

Notes to accounts (continued)
for the year ended 31 December 2010

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively and 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 2010

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby a Company distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Company in the current or prior year.

IFRIC 18 Transfer of Assets from Customers

This interpretation clarifies the requirements of IFRSs for agreements in which an Company receives from a customer an item of property, plant, and equipment that the Company must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). The interpretation has no effect on either, the financial position nor performance of the Company in the current or prior year.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company in the current or prior year.

Issued in May 2008

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the Company remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Company in the current or prior year.

Issued in April 2009

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segments clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IAS 7 Statement of Cash Flows States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combinations completed in 2010 upon cash settlement.
- IAS 36 Impairment of Assets The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Company as the annual impairment test is performed before aggregation.

Notes to accounts (continued)
for the year ended 31 December 2010

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company during the current year and prior year

Issued in April 2009

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

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.

IAS 24 Related Party Disclosures (Amendment)

The amended disclosure will be effective for annual periods beginning on or after 1 January 2011. This modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Company because it is not a government-related Company. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amendment)

The amended disclosure will be effective for annual periods beginning on or after 1 February 2011. The amendments to IAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Company has not entered into any arrangements that would fall within the scope of the amendments. However, if the Company does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRS 7 Disclosures – Transfers of Financial Assets (Amendment)

The amended disclosure will be effective for annual periods beginning on or after 1 July 2011. The amendments increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

Notes to accounts (continued)
for the year ended 31 December 2010

The Directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Company's disclosures regarding transfers of trade receivables previously effected. However, if the Company enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IFRS 9 Financial Instruments – Classification and measurement of Financial Liabilities

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

The directors anticipate that IFRS 9 that will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits a Company to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Company.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measure, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

Improvements to IFRSs (Issued in May 2010)

The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on Company.

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments Disclosures
- IAS 1 Presentation of Financial Statements

Notes to accounts (continued)
for the year ended 31 December 2010

- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Directors do not anticipate that the adoption of these standards and interpretations, wherever relevant, will have a material impact on the Company's financial statements in the period of initial application

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 the statement of comprehensive income 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 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 the statement of comprehensive income 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

Notes to accounts (continued)
for the year ended 31 December 2010

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 the year ended 31 December 2010

Taxation

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

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

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

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

Revenue recognition

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 2010

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.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Provisions

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

Significant accounting judgements, estimates and assumptions

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 review of certain investments in the trading subsidiaries are based on future cash flows.

Notes to accounts (continued)
for the year ended 31 December 2010

2 Revenue

An analysis of the Company's revenue is as follows

	2010 £000	2009 £000
Investment income	3,127	6,581
Revenue as defined in IAS18	<u>3,127</u>	<u>6,581</u>

3 Profit from operations

Profit from operations is stated after charging/(crediting)

	2010 £000	2009 £000
Inter-company debt forgiveness	3,358	-
Impairment losses	<u>2,779</u>	<u>-</u>

For the year ended 31 December 2009 and the preceding year, auditors' remuneration for audit and non audit services has been borne by a fellow subsidiary. Amounts payable to Ernst & Young LLP and their associates by the Company in respect of non-audit services were £nil (2009 - £nil)

4 Investment Income

	2010 £000	2009 £000
Interest on bank deposits	-	2
Interest received from group companies	511	393
Dividends from equity investments	2,616	6,186
	<u>3,127</u>	<u>6,581</u>

5 Finance costs

	2010 £000	2009 £000
Interest paid to group companies	<u>-</u>	<u>16</u>

Notes to accounts (continued)
for the year ended 31 December 2010

6 Staff costs

The Directors received no remuneration for their services in respect of the Company in either the current or preceding year. Directors' remuneration is borne by other companies within the Group. Their time spent on the activities of the Company is negligible. The Company had no employees other than the Directors.

7 Income tax expense

	2010 £000	2009 £000
Current tax		
Current income tax credit	(43)	(85)
Total current tax	<u>(43)</u>	<u>(85)</u>
Total tax charge credit on profit on ordinary activities	<u>(43)</u>	<u>(85)</u>

The Chancellor announced in the UK budget on 23 March 2011 that the full rate of UK corporation tax will reduce to 26% with effect from 1 April 2011, and decrease by a further 1% each 1 April thereafter until reaching 23% with effect from 1 April 2014. The reduction in the tax rate to 26% with effect from 1 April 2011 was substantively enacted on 29 March 2011. The figures within these accounts are calculated in accordance with the legislation which had been substantively enacted at the balance sheet date, being the rate of 27% with effect from 1 April 2010, rather than the rates announced in the 23 March 2011 budget.

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

	2010 £000	2009 £000
Profit on ordinary activities before tax	<u>60,593</u>	<u>6,565</u>
Profit / (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	16,966	1,838
Tax effect of:		
Expenses not deductible for tax purposes	(16,823)	(1,732)
Imputed interest under UK-UK transfer pricing	<u>(186)</u>	<u>(191)</u>
Total tax charge	<u>(43)</u>	<u>(85)</u>

Notes to accounts (continued)
for the year ended 31 December 2010

8 Investment in subsidiaries

The Company has investments in the following subsidiary undertakings all of which are wholly owned and incorporated in England & Wales except where stated. To avoid a statement of excessive length, details of investments which are not significant have been omitted. A full list of all subsidiaries will be filed with the annual return.

	<i> Holding </i>	<i> Principal Activity </i>
Decca Limited	Ordinary shares	Holding company
Controls and Communications Limited	Ordinary shares	Holding company
Saracen Insurance Limited *	Ordinary shares	Insurance services
Racal Radio Limited	Ordinary shares	Non-trading company
Thales IT&S Holdings Limited	Ordinary shares	Holding company
Sterling Flying Training Services Limited	Ordinary shares	Non-trading company
Thales Overseas Holdings Limited	Ordinary shares	Holding company
Thales (Wigmore Street) Limited	Ordinary shares	Holding company

* Incorporated in Bermuda

	Total £000
Cost	
At 1 January 2010	921,919
Disposals	(55)
At 31 December 2010	<u>921,864</u>
Amounts written off	
At 1 January 2010	202,025
Written-off during the year	2,779
At 31 December 2010	<u>204,804</u>
Net book value	
At 31 December 2010	<u>717,060</u>
At 31 December 2009	<u>719,894</u>
At 1 January 2009	<u>719,894</u>

On 23 December 2010 the Company's subsidiary Racal-SMD Electronics (Proprietary) Limited, a company registered in South Africa, was deregistered and the Company received a return of capital of £1,882,000.

Notes to accounts (continued)
for the year ended 31 December 2010

9 Other non-current financial assets

	2010 £000	2009 £000
Other participating interest	<u>-</u>	<u>18,750</u>

£000

Cost and net book value

At 1 January 2009 and 2010	18,750
Disposals	<u>(18,750)</u>
At 31 December 2010	<u>-</u>

On 8 July 2010 the Company disposed of its 20% holdings in Camelot Group plc and Camelot Global Services Limited for a combined net consideration of £74,008,000

10 Trade and other receivables

	2010 £000	2009 £000
Amounts owed by group undertakings	62,096	58,756
Other debtors	-	216
	<u>62,096</u>	<u>58,972</u>

The Directors consider that an allowance for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience, is not necessary

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

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 £000	Neither past due nor impaired £000	Overdue less than 3 months £000	Overdue 3 to 6 months £000	Overdue more than 6 months £000
2010	<u>62,096</u>	<u>62,096</u>	<u>-</u>	<u>-</u>	<u>-</u>
2009	<u>58,972</u>	<u>58,972</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to accounts (continued)
for the year ended 31 December 2010

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

	2010 £000	2009 £000
Amounts due to group undertakings	56,226	53,509
Other creditors	170	171
Accruals and deferred income	178	106
	<u>56,574</u>	<u>53,786</u>

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

13 Provisions

	Total £000
At 1 January and 31 December 2010	<u>861</u>
Included in current liabilities	-
Included in non-current liabilities	<u>861</u>
	<u>861</u>

Provisions relate to liabilities arising in connection with claims against former group companies. It is expected that the majority of these liabilities will be settled over the warranty periods for the companies disposed.

Notes to accounts (continued)
for the year ended 31 December 2010

14 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, including those classified under discontinued operations that are carried in the financial statements

As at 31 December 2010 the Company held the following financial instruments measured at fair value

	2010		2009	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial assets				
Cash	94,392	94,392	12,467	12,467
Trade and other receivables	62,096	62,096	58,972	58,972
Financial liabilities				
Trade and other payables	56,574	56,574	53,786	53,786

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

All trade payables will be paid within the next 12 months

Sensitivity analysis – Interest Rates

As a result of the historically very low interest rates that have prevailed in the UK over the last two years, any movement in interest rate will have minimal impact on the statement of comprehensive income and equity

Notes to accounts (continued)
for the year ended 31 December 2010

15 Share capital

	2010 £000	2009 £000
<i>Authorised</i>		
1,600,000,000 ordinary shares of 25p each	<u>400,000</u>	<u>400,000</u>
<i>Allotted, called-up and fully-paid</i>		
298,452,708 ordinary shares of 25p each	<u>74,613</u>	<u>74,613</u>

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 2010 and 31 December 2009.

16 Related party transactions

The immediate parent Company is Thales Holdings UK plc, 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

	Intercompany transactions		Amounts owed by related parties		Amounts owed to related parties	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2009 £'000	2010 £'000
Parent Company	-		50,000	50,000	-	-
Fellow subsidiaries	3,340	(30,680)	12,096	8,756	53,509	53,509

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.