Thales UK Limited

Annual report and financial statements
for the year ended 31 December 2015

Registered number: 868273

Contents

Directors' Report

The Directors present their annual report and financial statements, together with the auditor's report, for the year ended 31 December 2015.

Dividends

The Directors do not recommend the payment of a dividend (2014: Nil).

Going concern accounting basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 5. The Company's financial risk management objectives and its exposures to credit and liquidity risk are also set out in the Strategic Report.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. Additionally, the Company is able to draw on the deep technical expertise of its ultimate parent, Thales SA, as well as the expertise of fellow subsidiaries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors have taken into account the profitable trading position of the Company (2015: Operating Profit £72,242,000). Additionally the Company had net assets of £94,290,000 at 31 December 2015 (2014: Net liabilities £152,325,000). This improvement in the Company's financial position in the period is principally driven by the profit for the year and a decrease in the Company's net pension liability by £167,300,000 at 31 December 2015, which is the result principally of higher expected investment yields and changes in actuarial assumptions. The Directors have assessed the Company's ability to meet its pension and other obligations for the foreseeable future and have concluded these can be met from funds generated by the business and current resources. In addition the Company's immediate parent Thales Holdings UK Plc, backed by Thales SA, has provided a guarantee of the pension liabilities.

In view of the above, 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 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 Holdings UK Plc board. It is Thales' requirement that operating companies be 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.

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. The Company participates in the share based payment plan operated by its parent company, Thales SA, as part of its remuneration for eligible directors and employees (see Note 23).

The Company's management team encourages a dialogue with employees through the use of various representative groups and also through internal communications which are addressed to all employees, either electronically, or through other media.

In particular, the Company holds regular team briefings led by local management teams to ensure that current topics, including business performance, are appropriately shared and discussed with employees. Additionally, the Company actively engages with employee representative groups, such as recognised trade unions, with formal updates provided via periodic meetings.

Where the Company is considering plans that may impact the working conditions of certain groups of employees for example restructuring or relocation of teams, these topics are addressed directly through consultation with the employees who may be impacted in order to accommodate as far as possible the reasonable needs of employees within the objectives of the business. Consultations of this nature are carried out with the aim of enabling employees to plan for, and manage, as far as reasonably possible, the impacts that may be involved for them.

Disabled employees

The Company's attitude concerning the employment of disabled persons is the same as that relating to all other staff in matters of recruitment, continuity of employment, training, development and promotion. Nevertheless the Company is very conscious of the difficulties experienced by the disabled and takes account sympathetically of individual circumstances.

Directors

The Directors who served during the year, and subsequently are as follows:

Name	Date of appointment	Date of resignation
V M Chavez		
K H Jenkins		
A D McPhee		
W A Wilby		
E A McCrorie		
P Gosling		
P Naybour		
Y Pathmanathan	5 January 2015	
E Awang	5 January 2015	
D Beatty	6 March 2015	
S Stratton	1 September 2015	
D Plantier	1 January 2016	
S Boulton	1 January 2016	
G Williams	10 November 2015	
S F McCann	1 July 2016	
J Walker		5 January 2015
D R Mason		6 March 2015
P Watson		5 January 2015
P Rowley		31 August 2015
M E Broughton		1 January 2016
G E Baruchel		29 January 2016
P W Hitchcock		1 July 2016

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

During the year ended 31 December 2015 no political donations were paid (2014: nil).

Matters covered in the Strategic Report

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report. These matters relate to principal activities, business review, key performance indicators, principal risks and uncertainties and future developments.

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 auditors in connection with preparing their report, of which the auditors are unaware. Each Director has taken all the steps they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Approved by the Board on 28 September 2016 and signed on its behalf:

M W P Seabrook
Company Secretary

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

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

Principal activities

The principal activities of the Company comprise the design, manufacture and sale of defence electronics products, encompassing electronic warfare, radar, displays, defence radio, command information systems and optronic systems.

During the year the Company transitioned from EU adopted IFRS to FRS 101 - *Reduced Disclosure Framework* and has taken the disclosure exemptions allowed under this standard. The Company's parent undertaking, Thales Holdings UK Plc, was notified of and did not object to the use of FRS 101. There were no material recognition or measurement differences arising on the adoption of FRS 101.

The subsidiary undertakings held by the Company are listed in note 11 to the financial statements. Consolidated financial statements are not presented as the Company takes the exemption afforded by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Thales SA which prepares publicly available consolidated financial statements.

Business review

Thales UK Limited continues to operate at the forefront of the markets in which it is engaged by developing new technologies as well by improving existing organisational and technical capabilities.

In 2015, the combined revenue generated by the Company totalled £943,851,000, representing a reduction of 5.4% compared with 2014. The reduction is due to a number of activity areas where certain contracts (including Watchkeeper and various optronic equipment programmes) are approaching the final stages but have not yet been replaced by revenues generated from new contracts.

During the year the Company booked a number of significant new orders domestic and export orders, for example supply of new naval communication systems to the UK MOD, as well as defence equipment orders with overseas governments.

Having carried out significant restructuring in the previous two years, the main focus in this area has been to consolidate the organisational efficiency impacts achieved through previous restructuring, with a lower level of restructuring cost incurred in 2015: £2,567,000 (2014: £18,390,000).

Future developments

The Company plans to strengthen its existing position in the market sectors in which it operates building on the structural changes and efficiency improvements which have been made in recent years. It is anticipated there will be opportunities to develop new business from existing and new customers within these sectors, particularly within the UK, but also in certain export markets.

On 1 April 2016, Thales Holdings Plc novated a loan note receivable of £232 million in Thales Holding Corporation, a company incorporated in the USA, to Thales UK Limited.

Research and development

In view of the fundamental role played by high level technological capability and products in the Company's business, Thales UK invests significant sums each year in enhancing existing and developing new technologies aligned to its target markets and customers. This is a key element of the Company's plans for its future business, and is greatly enhanced by the Company's close working relationships with its parent company, Thales SA, and with fellow subsidiaries. This co-operation provides access to both expertise and new market opportunities.

Key performance indicators

The Company's key financial and other performance indicators are as follows:

	2015	**2014**
	£'000	**£'000**
Revenue	943,851	998,014
Operating profit	72,242	35,012
Equity	94,290	(152,325)
Average number of employees	5,121	5,415

The Company is committed to a culture of customer focus, programme execution and our people. Our business is built on strong values which embrace our responsibility to customers, employees, suppliers, local communities and the environment.

Principal risks and uncertainties

The Company is exposed to a number of risks and uncertainties associated with its operational activities. In the Directors' view, the most significant risks relate to the potential for its main customers to change their procurement plans in the medium to longer term. In the shorter term, the Company manages the risk of ensuring that it develops its technical capabilities in step with its commitments to customers and to compete effectively with other companies which operate in similar markets. Given the technically complex nature of the Company's operational activities, these risks must be constantly monitored and managed.

In addition to the risks and uncertainties described above, the Company faces a number of wider business and financial risks as set out below.

Financial risk management objectives and policies

The Company's principal financial instruments, other than derivatives, comprise loans and other amounts due to and from group undertakings. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

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

The main risks arising from the Company's financial instruments are foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Company's accounting policies in relation to derivatives are set out in Note 2.

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from sales or purchases by the Company in currencies other than the entity's functional currency. The Company uses forward currency contracts to eliminate the currency exposures on any individual transactions in excess of €100,000 for which payment is anticipated more than one month after the Company has entered into a firm commitment for a sale or purchase. The forward currency contracts must be in the same currency as the hedged item. It is the Company's policy not to enter into forward contracts until a firm commitment is in place.

It is the Company's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Credit risk

The Company's principal financial assets are trade and other receivables.

The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. This may also involve the negotiation of third party guarantees of customer creditworthiness. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Company's exposure to credit risk arises from the default of a 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.

The Company's maximum exposure to credit risk is the carrying amount as disclosed in Note 15.

Interest rate risk

The Company's exposure to the risk for changes in market interest rates is minimal, as it charges a premium to group companies on any interest rate it bears on its accounts with Thales SA.

Liquidity risk

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

Approved by the Board on 28 September 2016 and signed on its behalf:

E A McCrorie
Director

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 Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

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 member of Thales UK Limited

We have audited the financial statements of Thales UK Limited for the year ended 31 December 2015, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's member, 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 member those matters we are required to state to it 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 member 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 Statement of Directors' Responsibilities set out on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

In addition, we read all the financial and non-financial information in the Directors' Report and the Strategic Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice: and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Bob Forsyth (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

28 September 2016

Statement of comprehensive income
For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Continuing operations			
Revenue	4	943,851	998,014
Cost of sales		(758,647)	(820,816)
Gross profit		185,204	177,198
Distribution costs		(72,959)	(75,081)
Administrative expenses		(37,436)	(48,715)
Other operating expenses		(2,567)	(18,390)
Operating profit	5	72,242	35,012
Interest receivable and similar income	6	19,435	28,246
Interest payable and similar charges	7	(34,455)	(31,385)
Profit on ordinary activities before taxation		57,222	31,873
Tax credit / (expense)	9	19,872	(2,276)
Profit for the financial year		77,094	29,597
Other comprehensive income			
Items that cannot be reclassified to profit or loss			
Re-measurement of pension plan gain/(deficit)	20	134,800	(277,500)
Tax on items relating to components of other comprehensive income		31,500	-
Items that can be reclassified to profit or loss			
Net movement on cash flow hedges		2,251	2,438
Tax on items relating to components of other comprehensive income		(343)	(632)
		1,908	1,806
Other comprehensive income/(loss) for the year, net of tax		168,208	(275,694)
Total comprehensive income/(loss) for the year		245,302	(246,097)

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

Balance Sheet
as at 31 December 2015

Registered number: 868273

	Note	2015 £000	2014 £000
Fixed assets			
Intangible assets	10	48,556	52,446
Tangible assets	13	65,832	61,439
Investments in subsidiaries	11	569,073	569,073
Investments in joint ventures and associates	12	6,133	6,133
		689,594	689,091
Current assets			
Stocks	14	101,367	88,573
Debtors	15	1,301,011	974,554
Cash and cash equivalents	17	29,192	381,791
		1,431,570	1,444,918
Total assets		2,121,164	2,134,009
Creditors: amounts falling due within one year			
Creditors	18	1,239,528	1,328,505
Net current assets		192,042	116,413
Total assets less current liabilities		881,636	805,504
Provisions for liabilities	19	77,646	80,829
Retirement benefit obligations	20	709,700	877,000
		787,346	957,829
Total liabilities		2,026,874	2,286,334
Net assets/(liabilities)		94,290	(152,325)

Balance Sheet
as at 31 December 2015

Registered number: 868273

	Note	2015	2014
		£000	**£000**
Equity			
Called up share capital	22	481,938	481,938
Share premium account		92,906	92,906
Other reserves		440,000	440,000
Cash flow hedge reserve		4,435	2,527
Pension reserve	20	(808,100)	(974,400)
Retained earnings		(116,889)	(195,296)
Total equity		94,290	(152,325)

The accompanying notes are an integral part of this Balance Sheet.

The financial statements on pages 12 to 56 were approved by the Board of Directors and authorised for issue on 28 September 2016. They were signed on its behalf by:

E A McCrorie
Director

Statement of changes in equity
for the year ended 31 December 2015

	Called up Share capital £000 (Note 22)	Share premium account £000	Other reserves £000	Cash flow hedge reserve £000	Pension reserve £000 (Note 20)	Retained earnings £000	Total equity £000
At 31 December 2014	481,938	92,906	440,000	2,527	(974,400)	(195,296)	(152,325)
Profit for the year	-	-	-	-	-	77,094	77,094
Other comprehensive income:							
Movement on cash flow hedges	-	-	-	2,251	-	-	2,251
Remeasurement of pension plan	-	-	-	-	134,800	-	134,800
Deferred tax	-	-	-	(343)	31,500	-	31,157
Total comprehensive income	-	-	-	1,908	166,300	77,094	245,302
Share options costs in the year	-	-	-	-	-	1,313	1,313
At 31 December 2015	481,938	92,906	440,000	4,435	(808,100)	(116,889)	94,290

Continues on next page

Statement of changes in equity
as at 31 December 2015

	Called up share capital £000 (Note 22)	Share premium account £000	Other reserves £000	Cash flow hedge reserve £000	Pension reserve £000 (Note 20)	Retained earnings £000	Total equity £000
At 31 December 2013	481,938	92,906	440,000	721	(696,900)	(225,164)	93,501
Profit for the year	-	-	-	-	-	29,597	29,597
Other comprehensive income:							
Net movement on cash flow hedges	-	-	-	1,806	-	-	1,806
Remeasurement of pension plan	-	-	-	-	(277,500)	-	(277,500)
Total comprehensive income/ (loss)	-	-	-	1,806	(277,500)	29,597	(246,097)
Share options costs in the year	-	-	-	-	-	271	271
At 31 December 2014	481,938	92,906	440,000	2,527	(974,400)	(195,296)	(152,325)

The share premium account represents the consideration received in excess of the nominal value of shares on issue of new ordinary share capital.

Other reserves represent a capital contribution from the parent company.

The hedging reserve represents the difference between the market value and the contracted value of financial instruments held by the Company in respect of future receipts and payments.

The pension reserve represents the effects of the revaluation of the Thales UK pension scheme, to reflect the full pension liability being disclosed on the Balance Sheet, as required by IAS19 R.

1. Corporate Information

The financial statements of Thales UK Limited (the Company) for the year ended 31 December 2015 were authorised for issue by the Board of Directors on 28 September 2016 and signed on its behalf by EA McCrorie. The Company is a limited company incorporated and domiciled in England & Wales. The address of the registered office is given on page 4. The nature of the Company's operations and principal activities are set out in the Strategic Report. Information on its ultimate parent is presented in Note 26.

2. Accounting Policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The Company has used a true and fair view override in respect of the non-amortisation of goodwill (see goodwill accounting policy page 20). The financial statements are presented in pounds sterling, the Company's functional currency. All values are rounded to the nearest thousand (£000), except when otherwise indicated.

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

The Company transitioned from EU-adopted IFRS to FRS 101 for all periods presented. There were no material amendments on the adoption of FRS 101.

2 Accounting Policies (continued)

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2015.

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

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

(b) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67of *IFRS 3 Business Combinations;*

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

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

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

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

(i) paragraph 79(a)(iv) of IAS 1 *Presentation of Financial Statements*;

(ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;

(iii) paragraph 118(e) of IAS 38 *Intangible Assets;*

(g) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 *Presentation of Financial Statements*;

(h) the requirements of IAS 7 *Statement of Cash Flows*;

(i) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;

(j) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;

(l) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and

(m) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets.*

2 Accounting Policies (continued)

Going concern accounting basis

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. Additionally, the Company is able to draw on the deep technical expertise of its ultimate parent, Thales SA, as well as the expertise of fellow subsidiaries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors have taken into account the profitable trading position of the Company (2015: Operating profit £72,242,000). Additionally the Company had net assets of £94,290,000 at 31 December 2015 (2014: Net liabilities £152,325,000). This improvement in the Company's financial position in the period is principally driven by the profit for the year and a decrease in the Company's net pension liability by £167,300,000 at 31 December 2015, which is the result principally of higher expected investment yields and changes in actuarial assumptions. The Directors have assessed the Company's ability to meet its pension and other obligations for the foreseeable future and have concluded these can be met from funds generated by the business and current resources. In addition the Company's immediate parent Thales Holdings UK Plc, backed by Thales SA, has provided a guarantee of the pension liabilities.

In view of the above, 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.

The principal accounting policies adopted are set out below.

Combination of businesses under common control

Following the Thales wider consolidation plan which was implemented on 31 December 2013, whereby the Company acquired all operating assets and liabilities from certain of its subsidiaries as well as the associated trading activities, the ongoing conduct of the transferred business is managed and reported by the Company. As there were no changes to the shareholder group at the time of this transaction, this transaction did not classify as a business combination as defined under IFRS 3 'Business Combinations', but as a combination of businesses under common control. The acquired assets and assumed liabilities were recognised at the consideration agreed between the parties. The financial position and results of the acquired businesses are reflected in the Company's financial statements only from the date on which the combination occurred.

Intangible assets
Goodwill

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the Directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Had the Company amortised goodwill a period of 20 years would have been chosen as the useful life for goodwill. The profit for the year would have been £1,823,000 lower had goodwill been amortised in the year.

2 Accounting Policies (continued)

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of assets and liabilities required, 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 is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ('CGUs) or groups of CGUs expected to benefit from the synergies of the combination. CGUs or groups of CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the relevant goodwill may be impaired. If the recoverable amount of the CGUs or groups of CGUs is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets pro-rata on the basis of the carrying amount of each asset. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of an 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. The estimated useful life is assumed to be a maximum of five years unless it is clear that the useful life differs from this period.

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

Depreciation and amortisation charges in relation to intangible fixed assets are recognised as an administration expense in the statement of comprehensive income.

2 Accounting Policies (continued)

Tangible assets

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

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

Long-term leasehold buildings	50 years
Plant and machinery	4 to 10 years

Residual value is calculated based on current market prices, less costs to sell, if the asset were already of the age and in the condition expected at the end of its useful life.

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, if any, and the carrying amount of the asset) is included in the Statement of comprehensive income when the asset is derecognised.

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

Impairment of tangible and intangible assets excluding goodwill

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

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.

2. Accounting Policies (continued)

Financial instruments

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

Financial assets

Financial assets within the scope of IAS 39 are classified as loans and receivables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition, comprising loans, trade and other receivables and cash/cash equivalents. All financial assets are recognised initially at fair value plus any transaction costs.

The Company has no financial assets classified at fair value through profit or loss or available-for-sale.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2. Accounting Policies (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, as well as any observable data indicating that there is a measurable decrease in the respective estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2. Accounting Policies (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the Statement of Comprehensive Income.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings, other liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

2. 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.

On initial designation of the hedge, the Company formally documents the relationship between the hedge instrument and the hedges item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedge relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, whether each hedging instrument is expected to be "highly effective" in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 90 – 110 percent.

For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Where a cash flow hedge is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in shareholders' funds. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of income as the hedged item.

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.

2 Accounting Policies (continued)

Trade debtors

Trade debtors are carried at amortised cost using the effective interest rate method, less any impairment (in the majority of cases this will equate to the original invoice amount less an estimate made for doubtful debtors based on a review of all outstanding amounts at the year-end). Bad debts are written off when identified.

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 fair value 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.

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.

Bank borrowings

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

Trade creditors

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

2. Accounting Policies (continued)

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and credited to the Statement of comprehensive income on a straight line basis over the expected useful lives of the assets concerned.

Other grants are credited to the Statement of Comprehensive Income as the related expenditure is incurred.

Stocks

Stocks, including work in progress, are measured at the lower of cost or net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads, including indirect labour, based on normal levels of activity plus transport and handling costs. 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 sale or other disposal. Provision is made for obsolete, slow-moving or defective items where appropriate in the period when such write downs or losses occur, and this is charged to direct costs in the Statement of Income.

Uninvoiced research and development fully funded by customers is carried forward as work in progress.

Foreign currencies

As indicated above, the Company hedges currency risks arising in connection with the negotiation of contracts denominated in currencies other than sterling and currency risks generated by normal commercial operations.

In order to hedge its exposure to these foreign exchange risks, the Company enters into forward contracts and options.

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. Exchange differences arising on the fair value of non-monetary assets and liabilities where the changes in fair value are also recognised in equity.

Revenue recognition

Revenue represents the fair value of consideration received or receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

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

2. Accounting Policies (continued)

Revenue from services provided is recognised by reference to the stage of completion of a transaction at the reporting date, reflecting the extent of the service activity and performance during the period, in accordance with the requirements of IAS 18 Revenue.

Revenue from construction contracts is recognised in accordance with the Company's accounting policy on *construction contracts* as detailed below.

Revenue received before goods and services are delivered is recognised as deferred income and transferred to profit and loss once the goods are delivered and when the services have been performed.

Construction contracts
The Company recognises revenue on construction contracts under the percentage of completion method usually based on technical milestones.

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. As indicated above, the Company uses the technical milestone/percentage of completion method to determine the appropriate amount of revenue and costs to recognise in a given period. This is normally measured either by stage of progression as determined by the technical milestones recorded, or 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 profit and loss.

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 or 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 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.

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

2 Accounting Policies (continued)

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax is provided using rates of tax that have been enacted or substantively enacted at the reporting date or the date that the temporary differences are expected to reverse.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Retirement benefit costs
In accordance with UK legislation and practice in the countries in which it operates, the Company grants its employees post-employment benefits (pensions, retirement awards, medical care) and other long-term benefits (long-service benefits, long-service awards on departure). For defined contribution schemes and state plans, contributions paid are in full discharge of the liability and are recognised as an expense for the period.

The Company participates in several defined benefit plans, all of which require contributions to be made to separately administered funds.

The operating cost of providing benefits under the defined benefit plans, as calculated periodically by independent actuaries, is charged to the Company's income from operations in the year that those benefits are earned by the employees. Net-interest is calculated by applying a discount rate to the net defined benefit liability or asset. Past service cost and reductions/settlements of plans are fully recognised in the profit and loss account in the period in which they occurred, within operating income. Other changes in the value of the pension scheme assets and liabilities are reported as actuarial gains or losses as they arise in Other Comprehensive Income. The pension scheme surpluses, to the extent they are considered recoverable, or deficits are recognised in full and presented in the Balance Sheet.

2. Accounting Policies (continued)

Short term employee benefits

The costs of short-term employee benefits are recognised in profit or loss in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Share-based payments

Share options granted by the Company's ultimate 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. Thales 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 the 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Finance income

Finance income is recognised in the statement of comprehensive income and comprises interest earned on cash/cash equivalents and other interest bearing financial assets on a time basis, by reference to the principal outstanding and at the interest rate applicable, as well dividend income from subsidiary companies and other companies in which the Company holds an investment which carries the right to receive dividends. Dividends are recognised as investment income when the right to receive payment has been established by the Company.

2. Accounting Policies (continued)

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.

Research and development tax credits

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

Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity.

Investment in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment.

Investment in joint ventures

Investments in joint ventures are stated at cost less provision for impairment. A joint venture is an entity over which the Company exercises joint control with at least one other party. These arrangements require that operating policy decisions are made jointly by the controlling parties.

Investment in associates

Investments in associates are stated at cost less provision for impairment. An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 reviewed on a regular basis, and are listed below:

2 Accounting Policies (continued)

Construction contracts

Construction contract arrangements are accounted for in accordance with IAS 11. This requires judgements to estimate future expected costs to be incurred. Further details on construction contracts are disclosed above in the Company's accounting policies and also in Note 16.

The judgements and estimates regarding recognition are based on estimates of total expected contract revenue and costs, which are subject to revision as the contract progresses. Total expected revenue and cost on a contract reflect management's best estimate of the probable future benefits and obligations associated with the contract. Assumptions to calculate present and future obligations take into account current technology as well as the commercial and contractual positions, assessed on a contract-by-contract basis. The introduction of technologically advanced products exposes the Company to risks of product failure significantly beyond the terms of standard contractual warranties applying to the supply of equipment only.

Further, obligations on contracts may expose the Company to penalties due to late completion of milestones or additional costs due to project modifications, suppliers' or subcontractors' failure to perform or delays caused by unexpected conditions or events.

Whilst the Company makes and regularly reviews assumptions relating to these inherent risks, there is a risk that the actual outcomes against these assumptions may differ over time with the result that financial performance already reported may need to be revised, and estimates of future financial performance may also need to be revised.

Deferred tax recognition

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the level and the likely timing of future taxable profits. Further details on deferred tax asset recognition are disclosed in Note 21.

Impairment of investments

The impairment review of certain investments in the trading subsidiaries is based on discounted future cash flows. Further details on impairment of investments are disclosed in Note 11.

Post-retirement benefits

The determination of the pension cost and retirement benefit obligation for defined benefit schemes is dependent upon the selection of certain assumptions which include the discount rate, inflation rate, salary growth, mortality and expected return on scheme assets. Further details on post-retirement benefits are disclosed in Note 20.

Goodwill

Goodwill arising on acquisitions before and after the date of transition to IFRS is subject to regular reviews for potential impairment. Further details on Goodwill are set out in Note 10.

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

New and amended standards adopted by the Company

The Company transitioned from EU-adopted IFRS to FRS 101 for all periods presented. There were no material amendments on the adoption of FRS 101.

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning in 1 January 2015 that have had a material impact on the Company

4 Revenue

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

	2015 £000	2014 £000
Sale of goods	356,327	389,792
Revenue from construction contracts	345,694	332,040
Rendering of services	241,830	276,182
Revenue per Statement of Comprehensive Income	943,851	998,014
Interest receivable	7,331	4,927
Total Revenue	951,182	1,002,941

5. Operating profit

Operating profit is stated after charging/(crediting):

	2015 £000	2014 £000
Net foreign exchange losses	1,505	889
Research and development costs	88,321	88,004
Research and development tax credit	(9,511)	(8,799)
Depreciation of property, plant and equipment (Note 13)	18,434	10,557
Amortisation of intangible assets (Note 10)	8,555	11,100
Impairment of intangible assets (Note 10)	-	4,293
Operating lease expenses	3,923	5,186
Cost of stocks recognised as an expense	275,716	226,227
Auditor's remuneration for audit services		
- Mazars LLP	-	253
- Ernst & Young LLP	848	505
Auditor's remuneration for other assurance services		
- Mazars LLP	-	50
- Ernst & Young LLP	2	12
Auditor's remuneration for tax services		
- Ernst & Young LLP	43	40

6. Interest receivable and similar income

	2015 £000	2014 £000
Interest receivable	7,331	4,927
Dividends from equity investments	12,104	23,319
	19,435	28,246

7. Interest payable and similar charges

	2015 £000	2014 £000
Interest on pension fund liabilities (Note 20)	30,500	27,000
Interest paid to group companies	3,955	4,385
	34,455	31,385

8. Staff costs

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

	2015 Number	2014 Number
Production	3,597	3,822
Distribution	1,024	1,011
Sales	208	222
Administration	292	360
	5,121	5,415

	2015 £000	2014 £000
Their aggregate remuneration comprised:		
Wages and salaries	265,964	278,825
Social security costs	34,043	29,098
Defined contribution pension costs	9,194	8,603
Defined benefit pension costs (Note 20)	20,700	19,100
Share based payment expense	1,313	271
Other payroll costs	10,885	9,490
	342,099	345,387

8 Staff costs (continued)

	2015 £000	2014 £000
Directors remuneration		
Remuneration of directors	2,886	3,134
Pension scheme contributions	333	552
Compensation to directors for loss of office	11	-
Number of directors accruing benefits under the following schemes:		
Money purchase schemes	8	8
Defined benefit schemes	9	8
The number of directors who exercised share options	11	5
The number of directors who received share options under long term incentive schemes	14	10

Details of the highest paid director		
Remuneration	550	364
Pension scheme contributions	-	42

9 Taxation

	2015 £000	2014 £000
Current tax:		
UK Corporation tax current year	1,926	-
Adjustments in respect of prior years	(1,348)	(2,433)
Foreign tax	48	(26)
Total current tax	626	(2,459)
Deferred tax		
Origination and reversal of temporary differences charge	(20,307)	4,735
Adjustments in respect of prior year	(191)	-
Total deferred tax	(20,498)	4,735
Total tax charge on loss on ordinary activities	(19,872)	2,276

9 Taxation (continued)

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

	2015 £000	2014 £000
Profit for the year before tax	57,222	31,873
Profit for the year multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	11,587	6,853
Effects of:		
Expenses not deductible for tax purposes	1,298	1,803
Imputed interest adjustment – UK to UK	1,329	-
Non-taxable dividend received	(2,451)	(5,014)
Movement in unrecognised deferred tax	(33,791)	(2,386)
Deferred tax rate change impact movement	2,506	(326)
Adjustments to prior year (current tax)	(1,348)	(2,433)
Adjustments to prior year (deferred tax)	(191)	-
Foreign tax	-	(26)
Group relief surrendered for nil payment	1,189	3,805
Total tax charge for the year	(19,872)	2,276

In addition to the amount credited to the statement of comprehensive income, deferred tax has been (credited) / charged directly to equity as detailed below:

Changes in equity	2015 £000	2014 £000
Revaluation of cash flow hedges	343	632
Remeasurement of pension plan	(31,500)	-
Deferred tax (gain) / charge reported in equity	(31,157)	632

The rate of corporation tax reduced from 21% to 20% effective from 1 April 2015. Further reductions to 19% and 18%, effective from 1 April 2017 and 1 April 2020 respectively, were included in the Finance Act (No.2) 2015 which was enacted on 18 November 2015. The deferred tax balances as at 31 December 2015 have been calculated at the above rates corresponding to the expected years of reversal. The Chancellor announced in the Budget on 16 March 2016 that the full rate of UK corporation tax would reduce by a further 1% to 17% from 1 April 2020. The effect of this subsequent reduction on deferred tax balances has not been reflected in these financial statements due to the relevant legislation not having been substantively enacted at the reporting date. A reduction to 17% would reduce the Company's deferred tax asset by £405,000.

10 Intangible assets

	Goodwill	Development costs	Computer software and licences	Patents and trademarks	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2015	38,084	85,447	27,891	2,033	153,455
Additions	-	4,650	-	15	4,665
At 31 December 2015	38,084	90,097	27,891	2,048	158,120
Depreciation and impairment					
At 1 January 2015	1,617	72,573	25,111	1,708	101,009
Charge for the year	-	5,697	2,780	78	8,555
At 31 December 2015	1,617	78,270	27,891	1,786	109,564
Carrying amount					
At 31 December 2015	36,467	11,827	-	262	48,556
At 31 December 2014	36,467	12,874	2,780	325	52,446

Goodwill has been allocated for impairment testing purposes to individual cash-generating units. The Company tests annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the cash generating unit has been determined on a value in use basis, using cash flow projections for three years. The assumptions are based on past experience and expected future development and a 2.0% long term growth rate has been applied to the forecast cash flows. The discount rate applied is a post-tax rate based on the Thales Group weighted average cost of capital of 8.5%.

The carrying amount of goodwill has been allocated to the following cash generating units; Thales Optronics £8,215,000 (2014: £8,215,000) and Thales e-Securities £28,252,000 (2014: £28,252,000).

Development costs capitalised relate to technologies developed by the Company in respect of established market opportunities where the Company has decided to invest. The amortisation period is determined by the business case for the market opportunity in respect of which the development of a product is carried out but is normally limited to a maximum of five years, and amortisation begins when the asset is ready for use.

11 Investments in subsidiaries

The Company has investments in the following subsidiary undertakings. All subsidiaries listed are incorporated in the UK and have a 100% holding by Thales UK Limited.

Subsidiary	Principal activity
Thales Optronics Holdings Limited	Holding company
Thales Properties Limited	Property management
Thales Transport and Security Limited	Transportation systems
nCipher Limited	Holding company
XPI Simulation Limited	Simulation equipment
Thales Air Defence Limited	Non-trading
Thales Missile Electronics Limited	Non-trading
Thales Underwater Systems Limited	Non-trading
Thales Naval Limited	Non-trading
Quintec Associates Limited	Non-trading
Thales Training & Consultancy Limited	Non-trading
Thales Insurance & Risk Management (UK) Limited	Non-trading
Thales Corporate Services Limited	Non-trading
Thales Research & Technology (UK) limited	Non-trading
Thales e-Security Limited	Non-trading
Thales ATM Limited	Non-trading
Thales Information Systems Limited	Non-trading
Thales Training & Simulation Limited	Non-trading
Thales Avionics Limited	Non-trading
Thales One Limited	Non-trading

Thales Training & Simulation Limited holds investments in the following UK subsidiaries:

Thales Training & Simulation (Eagle Middle Wallop) Limited – 100%	Training Services
Thales Training & Simulation (Merlin) Limited – 100%	Training Services
Thales Training & Simulation (Ace Holdings) Limited – 100%	Training Services

Thales Training & Simulation (Ace Holdings) Limited holds an investments in the following UK subsidiary:

Thales Training & Simulation (Ace) Limited – 100%	Training Services

Thales Training & Simulation Limited also has investments in three non UK companies as follows:

The Advanced Arabian Simulation Company – incorporated in Saudi Arabia -100%	Training Services
International Training Company – incorporated in Thailand -100%	Training Services
Eurofighter Simulation Systems GmbH – incorporated in Germany -26%	Training Services

11 Investments in subsidiaries (continued)

Thales Optronics (Holdings) Limited has a 100% investment in the following UK subsidiary:

Thales Optronics Limited	Non-trading

Thales Optronics Limited has a 100% investments in the following UK subsidiaries:

Thales Optronics (Staines) Limited	Non-trading
Thales Optronics (Taunton) Limited	Non-trading
Thales Optronics (Bury St Edmunds) Limited	Non-trading
Thales AFV Systems Limited	Non-trading

Thales Transport and Security Limited has investments in the following UK companies:

Citylink Telecomms Holdings Limited – 33%	Non-trading
Network Information Services Limited – 50%	Non-trading
Thales Ground Transportation Systems UK Limited – 100%	Non-trading

Thales Information Systems Limited has a 100% investment in the following UK subsidiary:

Thales Information Systems Finance Limited	Non-trading

Thales e-Security Limited has a 100% investment in the following UK subsidiary:

nCipher Corporation Limited	Non-trading

Thales One Limited has a 100% investment in the following UK subsidiary:

Thales Communications Limited	Non-trading

11 Investment in subsidiaries (continued)

	Total £000
Cost	
At 1 January 2015 and 31 December 2015	729,529
Amounts written off	
At 1 January 2015 and 31 December 2015	160,456
Net book value	
At 31 December 2015	569,073
At 31 December 2014	569,073

The Company has reviewed its investment net carrying values at 31 December 2015 and concluded that there is no impairment in the net carrying value of these investments. The value in use was determined using a post-tax discount rate of 8.5% to assess the present value of estimated future cash flows attributable to individual cash generating units within the investee companies.

This process requires the Company to form a number of judgements about uncertain future events which will impact the eventual value and timing of future cash flows. These judgements include, but are not limited to, assessments about future technological developments by the Company and the wider market, the cost to deliver existing and future products to customers, as well as customers' operational requirements and available budgets.

12. Investments in joint ventures and associates

	Investments in joint ventures*	Investments in associates	Total
	£000	£000	£000
Cost			
At 1 January 2015	-	6,133	6,133
At 31 December 2015	-	6,133	6,133
Net book value			
At 31 December 2015	-	6,133	6,133
At 31 December 2014	-	6,133	6,133

*Investments in joint ventures are held at nominal values.

The Company has investments in the following joint ventures:

Name of joint venture	Holding	Nature of activities	Place of business
UAV Tactical Systems Limited	49%	Manufacturing	England
Aquila Air Traffic Management Services Limited:	50%	Services support	England
A400M Training Services Limited	51%	Services support	England

The Company has investments in the following associates:

Name of associate	Holding	Nature of activities	Place of business
Airtanker Holdings Limited	13.33%	Holding company	England
Airtanker Services Limited	22.33%	Services support	England
Airtanker Equity Bridge Loan Limited	13.33%	Treasury services	England
Airtanker 1 Limited	13.33%	Dormant	England

13. Tangible assets

	Long-term leasehold premises £000	Plant, machinery, furniture and vehicles £000	Total £000
Cost or fair value			
At 1 January 2015	17,222	209,415	226,637
Additions	-	24,598	24,598
Disposals	-	(7,177)	(7,177)
Transfers from group undertakings	-	3,193	3,193
At 31 December 2015	17,222	230,029	247,251
Accumulated depreciation and impairment			
At 1 January 2015	14,157	151,041	165,198
Charge for the year	42	18,392	18,434
Disposals	-	(3,474)	(3,474)
Transfers from group undertakings		1,261	1,261
At 31 December 2015	14,199	167,220	181,419
Carrying amount			
At 31 December 2015	3,023	62,809	65,832
At 31 December 2014	3,065	58,374	61,439

The amount of borrowing costs capitalised during the year ended 31 December 2015 was £Nil (2014: £Nil).

The Company has outstanding capital commitments as explained in Note 24.

14. Stocks

	2015 £000	2014 £000
Raw materials and consumables	12,931	9,136
Work-in-progress	85,229	75,073
Finished goods and goods for resale	3,207	4,364
	101,367	88,573

The amount of write down of stocks recognised as an expense in cost of sales is £651,000 (2014: £2,769,000).

15. Debtors

	2015 £000	2014 £000
Amounts receivable from the sale of goods from third parties – net of provision	145,568	154,019
Amounts receivable from group undertakings within one year	7,894	45,685
Amounts receivable from the sale of goods – net of provision	153,462	199,704
Amounts receivable from construction contract customers (note 16)	72,987	52,911
Loan due from parent company	868,229	618,500
Derivative financial instruments	17,634	15,208
Deferred tax assets	81,092	29,437
Other debtors	107,607	58,794
	1,301,011	974,554

The loan due from parent company is not interest bearing and is repayable on demand.

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

A provision has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience. The table below shows the movement in this provision during the year.

	2015 £000	2014 £000
At 1 January	1,550	2,274
Unutilised amounts reversed	(122)	(1,518)
Charge for the year	425	794
At 31 December	1,853	1,550

15. Debtors (continued)

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
2015:					
Amounts receivable from the sale of goods	153,462	120,283	18,857	9,417	4,905
2014:					
Amounts receivable from the sale of goods	199,704	157,784	28,921	5,668	7,331

Based on the credit quality of the Company's customer base, the Directors consider that the above amounts remain recoverable, having taken due regard for the level of provisions made.

Amounts receivable from the sale of goods are predominantly denoted in sterling. Underlying amounts denoted in currencies other than sterling included above are mainly in Euros, 2015: €35,889,654 (2014: €39,800,000) and US$, 2015:$14,573,073 (2014: $36,100,000). These balances have been translated at the applicable closing exchange rate.

16. Construction contracts

	2015 £000	2014 £000
Contracts in progress at date of Balance Sheet:		
Amounts due from contract customers included in trade and other receivables	72,987	52,911
Amounts due to contract customers included in trade and other payables	(17,917)	(12,473)
	55,070	40,438
Contract costs incurred plus recognised profits less recognised losses to date	3,044,075	2,599,972
Less: progress billings	(2,989,005)	(2,559,534)
	55,070	40,438

At 31 December 2015, retentions held by customers for contract work amounted to £Nil (2014: £Nil). Advances received from customers for contract work amounted to £251,077,000 (2014: £210,138,000).

At 31 December 2015, amounts of £Nil (2014: £Nil) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

17. 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.

18. Creditors

Current

	2015 £000	2014 £000
Trade payables	104,005	70,833
Advances from customers	251,077	210,138
Amounts due to construction contract customers (note 16)	17,917	12,473
Amounts owed to group undertakings	669,486	833,284
Derivative financial instruments	12,225	9,067
Other creditors	81,731	86,130
Accruals and deferred income	103,087	106,580
	1,239,528	1,328,505

The amounts owed to group undertakings are repayable on demand.

All trade payables will be paid within the next 12 months.

The Directors consider that the carrying amount of trade payables approximates their fair value based on the nature of the underlying obligations.

19. Provisions

	Accrued contract costs £000	Post-sale rectification and support costs £000	Restructuring £000	Total £000
At 1 January 2015	30,797	35,244	14,788	80,829
Additional provision in the year	3,271	9,749	4,526	17,546
Utilisation in the year	(3,928)	(2,405)	(10,512)	(16,845)
Unused amounts reversed	(1,348)	(165)	(2,371)	(3,884)
At 31 December 2015	28,792	42,423	6,431	77,646

The provision for accrued contract costs relates to certain onerous contracts where it is anticipated that total costs to be incurred in completing the associated works will exceed the total contracted revenues at completion.

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

The Company is committed to certain restructuring plans which will be completed in 2016 whereby a number of activities are being reorganised to achieve a more effective balance of capacity and skills to manage anticipated future work load.

20. 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.

Defined contribution schemes

The total cost charged to income in relation to defined contribution schemes amounted to £9,194,000 (2014: £8,603,000) representing contributions payable to the schemes by the Company at rates specified in the rules of the plan.

Defined benefit schemes

The Thales Group in the UK operates three defined benefit schemes. Two are sponsored by Thales UK Limited, namely the Thales UK Pension Scheme (TUPS) and the Avimo Pension Scheme, and the third scheme, a Railways Pension Scheme, is sponsored by Thales Transport and Security Limited.

Pension obligations recognised in the balance sheet

	2015 £000	2014 £000
Net obligation at 1 January	**(877,000)**	**(626,900)**
Current service cost	(15,900)	(13,800)
Past service credit	500	-
Administrative expenses	(5,300)	(5,300)
Interest expense on defined benefit obligation	(109,800)	(118,400)
Interest income on plan assets	79,300	91,400
Total net interest cost	(30,500)	(27,000)
Defined benefit cost included in the profit and loss before tax	(51,200)	(46,100)
Actuarial gains/(losses) included in other comprehensive income	134,800	(277,500)
Employer contributions	83,700	73,500
Net obligation at 31 December	**(709,700)**	**(877,000)**

20. Retirement benefit schemes (continued)

Changes in defined benefit obligations and plan assets

	2015	2014
	£000	£000
Obligations at 1 January	**(3,035,100)**	**(2,615,600)**
Current service cost	(15,900)	(13,800)
Past service credit	500	-
Interest expense	(109,800)	(118,400)
Plan participants' contribution	(9,200)	(9,200)
Experience gains/(losses)	107,600	(200)
Actuarial gains/(losses) on financial assumptions	104,000	(373,900)
Actuarial gains/(losses) on demographic assumptions	-	(600)
Benefit payments from plan	103,600	96,300
Benefits paid by employer	400	300
Obligations at 31 December	**(2,853,900)**	**(3,035,100)**
Plan assets at 1 January	**2,158,100**	**1,988,700**
Interest income	79,300	91,400
Employer's contribution	83,700	73,500
Plan participants' contribution	9,200	9,200
Benefit payments from plan	(103,600)	(96,300)
Benefits paid by employer	(400)	(300)
Fund costs	(5,300)	(5,300)
Experience (loss)/gains	(76,800)	97,200
Plan assets at 31 December	**2,144,200**	**2,158,100**

20. Retirement benefit schemes (continued)

Actuarial assumptions used

The actuarial assumptions are the following:

	2015	2014
Discount rate	3.96%	3.68%
Future salary increases	4.02%	3.86%
Future retail price inflation	3.02%	2.86%
Future 5% LPI pension increases	2.80%	2.70%
Future 2.5% LPI pension increases	2.20%	2.20%

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

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2015	2014
Equities	31%	34%
Gilts and corporate bonds	56%	55%
Property	12%	9%
Cash / other	1%	2%
Total	100%	100%

The equity and debt instruments have quoted prices in active markets.

The discount rates are obtained by reference to market yields on high quality bonds (Government bonds and high quality corporate bonds with maturity dates equivalent to those of the plans being measured). In this context, the Group refers to the Iboxx Corporate AA index, adjusted in accordance with the duration of the scheme commitments.

20. Retirement benefit schemes (continued)

At 31 December 2015, the sensitivity of the net obligation to a change in the discount rate is as follows:

Sensitivity in basis points	+ 0.10%	-0.10%	+ 0.25%	-0.25%	+ 0.50%	-0.50%
Decrease / (increase) in net obligation (£ millions)	£51.1	(£52.3)	£125.6	(£133.3)	£244.0	(£275.0)

An increase / (decrease) of the inflation rate of 25 basis points would generate an increase / (decrease) of the commitment by £125,600,000 (2014: £150,000,000).

Regulatory framework

The funded UK schemes are subject to UK legislation including the payment of levies to the pension protection fund as set out in the Pension Act 2004.

Funding

Thales is subjected to funding obligations due to defined benefit pension commitments.

In accordance with the regulation in force, the funding level of pension commitments of the Thales UK schemes is measured every three years. Following this measurement, a new funding plan and/or the provision of guarantees in favour of the plan is decided, in coordination with the trustees.

The last actuarial valuation of the Company's main retirement benefits scheme was carried out at December 2014 and finalised in September 2016. Following the valuation, the Company's ordinary contributions rate is 16.8% of pensionable salary. A funding level has been agreed with the trustees whereby the Company agreed to pay additional contributions of £61,800,000 per annum from 1 August 2016 to 31 December 2028.

The Company has agreed the following funding objectives with the Scheme's trustees:

1. To return the on-going funding level of the schemes to 100% of the projected past service liabilities within a period of 14 years measured in accordance with statutory funding requirements; and
2. Once the funding level of the schemes are 100% of the projected past service liabilities, to maintain funding at least at this level.

In addition, parent company guarantees with a value of £770,000,000 are in place covering future liabilities under the schemes.

21. Deferred tax

Deferred tax asset:	**Capital allowances £'000**	**Pensions £'000**	**Cash flow hedges £'000**	**Tax losses £'000**	**Other £'000**	**Total £'000**
As at 1 January 2015	30,069	-	-	-	-	30,069
Deferred tax charged to the statement of comprehensive income	18,135	-	-	1,789	574	20,498
Deferred tax charged to equity	-	31,500	-	-	-	31,500
As at 31 December 2015	48,204	31,500	-	1,789	574	82,067

Deferred tax liability:	**Capital allowances £'000**	**Pensions £'000**	**Cash flow hedges £'000**	**Tax losses £'000**	**Other £'000**	**Total £'000**
As at 1 January 2015	-	-	(632)	-	-	(632)
Deferred tax charged to equity	-	-	(343)	-	-	(343)
As at 31 December 2015	-	-	(975)	-	-	(975)

Net Deferred tax asset / liability

	2015 £000	**2014 £000**
Deferred tax asset	82,067	30,069
Deferred tax liability	(975)	(632)
Net deferred tax asset	81,092	29,437

A deferred tax asset totalling £136,630,000 (2014: £250,539,000) has not been recognised on tax losses and pensions. This asset may be recovered if sufficient taxable profits arise in the future.

22. Share capital

	2015 £000	**2014 £000**
Authorised		
490,000,000 (2014: 490,000,000) ordinary shares of £1 each	490,000	490,000
Allotted, called-up and fully-paid		
481,937,600 (2014: 481,937,600) ordinary shares of £1 each	481,938	481,938

23. Share based payments

Share options

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

There have been no grants of share options to UK based employees since 2011.

The weighted average share price at the date of exercise for share options exercised during the period was €54.95 (2014: €45.41). The options outstanding at 31 December 2015 had exercise prices in the range €26.34 to €44.77, and the weighted average remaining contractual life of 4.1 years (2014: 4.3 years).

Plan of free shares and performance shares awards

The Company participates in the Thales SA group free share and performance share award plans.

These plans are divided in two sub plans:

Free shares:
All designated beneficiaries of the plan will be granted shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

Performance shares:
The shares granted are subject to the attainment of internal performance conditions over three financial years following the allocation date. The rights are validated by the Board following the three relevant years' financial statements. The number of shares vested will not exceed the number of shares initially allotted.

Shares granted in 2011, 2012, and 2013:
- the three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 25% and 15% weighting respectively;

- all designated beneficiaries of this sub-plan will be granted validated shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

Shares granted in 2014:
- the three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 15% and 25% weighting respectively;

- all designated beneficiaries of this sub-plan will be granted validated shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

23 Share based payments (continued)

Shares granted in 2015:
In 2015, Thales Group stopped free share grants, and replaced them with a Share units plan indexed to the value of the Thales share, including units subject to performance conditions. This plan is divided into two sub plans.

Share units plan subject to presence conditions
Each granted unit gives right to the settlement of a monetary value at the end of a four-year vesting period, subject to compliance with the employment conditions stipulated under the plan's rules.

This monetary value will be calculated at the end of the vesting period, and will be set equal to the average daily opening share price over the vesting period. The extreme stock market price variations in the increase or in the reduction will be neutralised.

At the end of the vesting period, the amount owed to the beneficiaries who meet the presence conditions is equal to the number of granted units multiplied by the value of the unit. Half of the payment will be done in shares, while the other half will be paid in cash.

Share units plan subject to presence conditions and performance conditions
Performance units follow the same rules as units regarding the vesting period and the presence conditions, but the number of units finally allocated will depend on the attainment of internal performance conditions over the three financial years following the allocation date. The rights are validated by third during the Board meeting closing the three years financial statements. The number of granted validated units will not exceed the number initially allotted.

The three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 15% and 25% weighting respectively.

At 31 December 2015, the following options, shares and units were outstanding:

- 58,108 share options at a weighted average exercise price of €47.52
- 268,590 free shares of which 68,280 are performance shares
- 45,720 share units of which 10,200 are performance units

The estimated fair value of units issued in 2015 was €2,610,612 (2014 €2,133,525), as calculated by applying a binomial option pricing model.

The expense arising from share, share option and share unit plans was £1,313,000 (2014:£271,000)

24. Capital commitments

At 31 December 2015, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £9,506,000 (2014: £17,210,000).

25. Operating lease arrangements

The Company as lessee

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

	2015 £000	2014 £000
- Within one year	2,940	2,920
- In the second to fifth years inclusive	3,209	2,421
	6,149	5,341

Operating lease payments represent rentals payable by the Company for vehicles and office equipment.

26. 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 registered 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 Tour Carpe Diem, 31 Place des Corolles – CS 20001, 92098 Paris La Defense Cedex, France.

Trading transactions

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

	Sales of goods		Purchases of goods		Amounts owed by related parties		Amounts owed to related parties	
	2015	2014	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Joint ventures	6,667	11,468	31,854	4,040	9,014	939	3,294	4,397
Associates	8,207	13,279	-	-	22,605	18,252	-	-

Provisions for doubtful debts relating to related parties were £Nil (2014: £Nil). The expense recognised in the year in respect of bad and doubtful debts due from related parties was £Nil (2014: £Nil).

Sales of goods to related parties were made at the Company's usual list prices. Purchases were made at market price discounted to reflect the quantity of goods purchased and the relationships between the parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the company, is provided in note 8.

27. Events after the Balance Sheet date

On 1 April 2016, Thales Holdings Plc novated a loan note receivable of £232 million in Thales Holding Corporation, a company incorporated in the USA, to Thales UK Limited.