

Thales Electronics Plc

Annual report and accounts
for the year ended 31 December 2002

Registered number: 497098



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Directors' report

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 2002.

Principal activities

The principal activity of the company is a holding company. No change is currently envisaged to the company's activity.

The subsidiary undertakings held by the company are listed in note 8 to the accounts. Consolidated accounts are not presented as the company takes advantage of the exemption afforded by Section 228 of the Companies Act 1985.

Business review

The directors consider the results for the year to be satisfactory. The directors do not foresee any change in the business of the company in the foreseeable future.

Results and dividends

The audited accounts for the year ended 31 December 2002 are set out on pages 6 to 16. The profit for the year after taxation was £11,376,729 (2001 – profit £63,343,372).

The directors do not recommend the payment of a dividend (2001 –£100,000,000).

Directors

The directors who served during the year were as follows:

Name	Appointed	Resigned
B. Bouquot		20 November 2002
Sir Colin Chandler		2 May 2002
A. Dorrian		
Lord Freeman		
J. Haagen		
A. Lagomarsino		1 March 2002
N. Topazio	1 March 2002	31 October 2002

Mr D. Horne was appointed as a director of the company on 1 January 2003.

Directors' interests

According to the register of directors' interests, no director had any beneficial interests in the shares of the company or held the right to subscribe for shares during the period. The directors did hold shares in the French parent company Thales SA as at 31 December 2002, but have taken advantage of SI 1985/802 not to disclose details in the accounts.

Directors' report (continued)

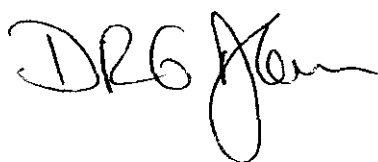
Donations:

No charitable or political donations were made during the year.

Auditors

On 31 July 2002 Arthur Andersen resigned as auditors and Ernst & Young LLP were appointed in their place. Ernst & Young have indicated their willingness to continue in office and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

By order of the Board

A handwritten signature in black ink, appearing to read 'DRG' followed by a stylized flourish.

Director

2 Dashwood Lang Road
Bourne Business Park
Addlestone
Surrey
KT15 2NX

22 July 2003

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. 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 auditors' report

To the Shareholders of Thales Electronics Plc Limited

We have audited the financial statements of Thales Electronics Plc for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes numbered 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As discussed in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion


We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2002 and of the company's result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditors

Becket House
1 Lambeth Palace Road
London
SE1 7EU

22 July 2003

Profit and loss account

For the year ended 31 December 2002

	Notes	2002 £	2001 £
Turnover		-	-
Operating profit	1	441,748	3,112,589
Profit on sale of fixed asset investments	2	-	17,066,948
Amounts written off investments	8	(441,011)	(35,651,000)
Profit/(loss) on ordinary activities before finance charges		737	(15,471,463)
Finance income (net)	3	15,859,523	34,879,777
Profit on ordinary activities before taxation		15,860,260	19,408,314
Tax (charge)/recovery on profit on ordinary activities	6	(4,483,531)	43,935,058
Profit on ordinary activities after taxation		11,376,729	63,343,372
Dividends paid and proposed	7	-	(100,000,000)
Retained profit/(loss) for the year	13	11,376,729	(36,656,628)

The accompanying notes are an integral part of this profit and loss account.

There are no recognised gains or losses during the year other than the profit/(loss) for that period.

Balance sheet
At 31 December 2002

	Notes	2002 £	2001 Restated £
Fixed assets			
Investments	8	168,682,769	189,587,380
		<u>168,682,769</u>	<u>189,587,380</u>
Current assets			
Debtors			
- due within one year	9	902,850,425	619,407,366
- due after more than one year	9	-	817,709
Cash at bank and in hand		10,000,000	117,854,875
		<u>912,850,425</u>	<u>738,079,950</u>
Creditors: Amounts falling due within one year	10	(427,222,312)	(283,731,717)
Net current assets		<u>485,628,113</u>	<u>454,348,233</u>
Total assets less current liabilities		654,310,882	643,935,613
Provisions for liabilities and charges	11	(2,128,993)	(3,130,453)
Net assets		<u>652,181,889</u>	<u>640,805,160</u>
Capital and reserves			
Called-up share capital	12	74,613,177	74,613,177
Share premium account	13	212,214,729	212,214,729
Capital redemption reserve	13	279,324,873	279,324,873
Profit and loss account	13	86,029,110	74,652,381
Shareholders' funds	14	<u>652,181,889</u>	<u>640,805,160</u>

The accounts on pages 6 to 16 were approved by the Board of Directors on 22 July 2003 and signed on its behalf by:



David Horne
Director

The accompanying notes are an integral part of this balance sheet.

Statement of Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding period.

Basis of preparation and change in accounting policy

Financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

In preparing the financial statements for the current year, the group has adopted FRS 19 'Deferred Tax'. The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided for on a partial provisions basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement.

This change in accounting policy has not resulted in a prior year adjustment for the company.

The company has taken advantage of the exemption from preparing consolidated accounts afforded by Section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of Thales SA, a company incorporated in France which prepares consolidated accounts which are publicly available. The company is also, on this basis, exempt from the requirement of FRS 1 to present a cash flow statement.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Statement of Accounting Policies (continued)

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

Notes to the Accounts

1 Operating profit

	2002 £	2001 £
Administrative expenses	289,612	1,820,848
Costs associated with the takeover of the company by Thomson-CSF	-	51,230
Release of debt	254,197	-
Exchange (loss)/ gain	(102,061)	1,240,511
Operating profit	441,748	3,112,589

2 Profit on sale of fixed asset investments

	2002 £	2001 £
<u>Profit/(loss) on disposal of subsidiaries:</u>		
Thales IT&S Holdings Ltd.	-	5,999,999
Thales Overseas Holdings Ltd.	-	(5,646,177)
Thales e-Security Ltd.	-	(4,195,300)
Thales Antennas Ltd.	-	16,975,000
Fibreform Ltd.	-	(574)
Data Communications	-	(166,000)
<u>Profit on disposal of associates:</u>		
Camelot Group plc	-	4,050,000
Camelot International Services Ltd.	-	50,000
	-	17,066,948

Notes to the Accounts (continued)

3 Finance income (net)

Investment income

	2002 £	2001 £
Interest receivable from group companies	3,224,777	1,977,421
Dividends received	16,204,406	37,132,333
Other interest receivable and similar income	176,016	3,042,029
	<u>19,605,199</u>	<u>42,151,783</u>

Interest payable and similar charges

Bank loans and overdrafts	120,453	3,212,816
Interest payable to fellow group companies	3,625,223	4,059,190
	<u>3,745,676</u>	<u>7,272,006</u>

Finance income (net)

Interest payable and similar charges	3,745,676	7,272,006
Less: Investment income	<u>(19,605,199)</u>	<u>(42,151,783)</u>
	<u>(15,859,523)</u>	<u>(34,879,777)</u>

4 Profit on ordinary activities before taxation

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

	2002 £	2001 £
Exchange loss/(gain)	<u>102,061</u>	<u>(1,240,511)</u>

For the year ended 31 December 2002 auditors' remuneration for audit services has been borne by a fellow subsidiary.

5 Employees and directors' emoluments

The directors received no remuneration for their services in respect of the company in either the current or preceding year. The company had no employees other than the directors.

Notes to the Accounts (continued)

6 6 Tax on profit on ordinary activities

(a) The tax charge comprises:

	2002 £	2001 £
UK Corporation tax		
Adjustments in respect of prior years (see (b) below)	3,665,822	(43,117,349)
Deferred tax		
Origination and reversal of timing differences	817,709	(817,709)
Tax on profit on ordinary activities	<u>4,483,531</u>	<u>(43,935,058)</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2001 - 30%). The differences are reconciled below:

	2002 £	2001 £
Profit on ordinary activities before tax	15,860,260	19,408,314
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 - 30%)	4,758,078	5,822,494
Income and expenses not deductible for tax purposes	(5,361,876)	(6,569,543)
Tax overprovided in previous years	3,665,822	(43,117,349)
Group loss relief surrendered for no consideration	603,798	747,049
Total current tax (note 6(a))	<u>3,665,822</u>	<u>(43,117,349)</u>

(c) Factors that may affect future tax charges

As a UK resident company in the Thales Group the company is eligible to surrender group relief to, or claim group relief from, other Thales plc Group companies. These claims or surrenders may be made with or without charge.

(d) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2002 £	2001 £
Included in debtors (note 9)		
Other timing differences	-	817,709
At 1 January 2002	817,709	
Deferred tax credit in profits and loss account (note 6(a))	<u>(817,709)</u>	
At 31 December 2002	<u>-</u>	

Notes to the Accounts (continued)

7 Dividends paid and proposed

	2002 £	2001 £
Interim of nil p paid (2001 – 33.5p paid))	-	100,000,000

8 Fixed asset investments

	2002 £	2001 £
Subsidiary undertakings	150,775,826	171,710,437
Associated companies	17,906,943	17,876,943
	<u>168,682,769</u>	<u>189,587,380</u>

Fixed asset investments are carried at cost less any provision for impairment in value. In the opinion of the directors the investments are not worth less than the amount stated above

Subsidiary undertakings

The company has investments in the following subsidiary undertakings. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

	Country of incorporation	Holding	%
Controls and Communications Ltd	England & Wales	Ordinary shares	100
Decca Ltd	England & Wales	Ordinary shares	100
Racal Data Communications Group Ltd	England & Wales	Ordinary shares	100
Saracen Insurance Ltd	Bermuda	Ordinary shares	100
Thales Corporate Services Ltd	England & Wales	Ordinary shares	100
Thales Instruments Group Ltd	England & Wales	Ordinary shares	100
Thales Properties Ltd	England & Wales	Ordinary shares	100
Thales Research Ltd	England & Wales	Ordinary shares	100
Thales Universite Ltd	England & Wales	Ordinary shares	100

Cost	£
At 31 December 2001	304,998,018
Additions	5,501,000
Disposals	(38,390,600)
At 31 December 2002	<u>272,108,418</u>

Amounts written off

At 31 December 2001	133,287,581
Provision for impairment	441,011
Disposals	(12,396,000)
At 31 December 2002	<u>121,332,592</u>

Notes to the Accounts (continued)

8 Fixed asset investments (continued)

Net book value

At 31 December 2002	<u>150,775,826</u>
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At 31 December 2001	<u>171,710,437</u>
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Subsidiary companies

During the year the company sold its investments in Thales e-Transactions Limited on 31 December 2002 to Thales IT&S Holdings Limited for a consideration of £25,995,000.

On 23 December 2002 the company increased its investment in Thales Universite Limited by £5,500,000.

On 31 December 2002 the company acquired the outstanding 50% of Racal Insurance Services Limited that it did not already own from Marsh Limited for a consideration of £500.

Other participating interests

The company has investments in the following associated undertakings.

	Country of incorporation	Holding	%
Camelot Group Plc	England & Wales	Ordinary shares	20.00
Satellite Information Services (Holding) Ltd	England & Wales	Ordinary shares	21.96
£			

Cost

At 31 December 2001	32,561,943
Additions	30,500
Reclassification	(500)
At 31 December 2002	<u>32,591,943</u>

Amounts written off

At 31 December 2001 and 31 December 2002	<u>14,685,000</u>
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Net book value

At 31 December 2002	<u>17,906,943</u>
At 31 December 2001	<u>17,876,943</u>

Notes to the Accounts (continued)

9 Debtors

	2002 £	2001 £
Amounts falling due within one year:		
Amounts owed by group undertakings	892,879,383	602,421,819
Other debtors	9,971,042	15,271,547
Prepayments and accrued income	-	1,714,000
	<u>902,850,425</u>	<u>619,407,366</u>
Amounts falling due in more than one year:		
Deferred Taxation	-	817,709

10 Creditors: Amounts falling due within one year

	2002 £	2001 £
Bank loans and overdrafts	48,291,017	94,477
Amounts owed to group undertakings	368,893,440	273,918,196
Other creditors	197,961	203,183
Accruals and deferred income	9,839,894	9,515,861
	<u>427,222,312</u>	<u>283,731,717</u>

11 Provisions for liabilities and charges

	Other provisions
At 31 December 2001	3,130,453
Utilised in year	(1,001,460)
Balance at 31 December 2002	<u>2,128,993</u>

Other provisions relate to the disposal of the Racal Data Group, Racal Instruments Group, Racal Messenger Limited and Thales Support Services Limited. It is expected that the majority of this expenditure will be incurred in the next financial year and all of it within two years.

12 Share capital

	2002 £	2001 £
<i>Authorised</i>		
1,600,000,000 ordinary shares of 25p each	<u>400,000,000</u>	<u>400,000,000</u>
<i>Allotted, called-up and fully paid</i>		
298,452,708 ordinary shares of 25p each	<u>74,613,177</u>	<u>74,613,177</u>

Notes to the Accounts (continued)

13 Reserves

	Share premium account £	Capital redemption reserves £	Profit and loss account £	Total £
At 31 December 2001	212,214,729	279,324,873	74,652,381	566,191,983
Retained profit for the year	-	-	11,376,729	11,376,729
At 31 December 2002	<u>212,214,729</u>	<u>279,324,873</u>	<u>86,029,110</u>	<u>577,568,712</u>

14 Reconciliation of movements in shareholders' funds

	2002 £	2001 £
Profit for the financial period	11,750,438	63,343,372
Dividends paid and proposed on equity shares	-	(100,000,000)
Net addition to shareholders' funds	11,750,438	(36,656,628)
Opening shareholders' funds	640,805,160	677,461,788
Closing shareholders' funds	<u>652,555,598</u>	<u>640,805,160</u>

15 Contingent liabilities

The company has issued a guarantee, not limited in value, in respect of the due and punctual performance of two subsidiaries under various agreements in relation to a European defence project.

A deed has been signed between the company and Camelot Group Plc whereby the company has to provide further funding to a maximum of £10 million if the net asset value of Camelot Group Plc falls below £50 million and the cash value of Camelot Group Plc falls below £25 million for the period during and six months after the expiry or termination of the second running licence.

The company has issued two guarantees, not limited in value, in respect of the performance of a subsidiary company and of an associated company of their respective obligations under various agreements in relation to a United Kingdom defence project. The guarantee in respect of the associated company's obligations is joint and several with the other shareholders of that company.

The company has issued two guarantees to secure fellow subsidiaries' overdrafts and group banking facilities under a 'mass' bank account arrangement.

16 Ultimate parent company

The ultimate parent company is Thales SA a company incorporated in France. This is also both the largest and smallest group which includes the company and for which consolidated financial statements are prepared. Copies of the group financial statements of Thales SA are available from 173 Boulevard Haussmann, 75415 Paris Cedex 08, France.

17 Related party transactions

In accordance with the exemption in Financial Reporting Standard No. 8 "Related Party Disclosures", transactions with other undertakings within, and investee related parties of, the Thales group have not been disclosed in these accounts.