

# **EADS Defence and Security Systems Limited**

## **Report and Financial Statements**

31 December 2008

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COMPANIES HOUSE

# EADS Defence and Security Systems Limited

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Registered No. 04191036

## **Directors**

L R Tyler  
P J Watson  
C Paynter  
R S Southwell  
H Guillou

## **Secretary**

P K Langdon

## **Auditors**

Ernst & Young LLP  
One Bridewell Street  
Bristol  
BS1 2AA

## **Registered Office**

Quadrant House  
Celtic Springs  
Coedkernew  
Newport  
NP10 8FZ

## Directors' report

The directors present their annual report and financial statements for the year ended 31 December 2008.

### Results and dividends

The loss for the year amounted to £1,287,000 (2007 – loss for the year £15,747,000). The directors do not recommend the payment of a final dividend.

### Principal activities and Business review

The company's principal activity is the provision of secure communication solutions that address the demands of the defence market, homeland security and other government departments. The company's offer spans initial feasibility and concept studies, through design architecture, integration, manufacturing, and implementation and through life support.

The unique offering encompasses fixed networks; deployed networks; satellite and ground segment communications; security management and consultancy; and managed services. In order to deal with the complexities of its addressed markets, the company employs highly skilled engineers, project managers and business administration personnel.

The Company's primary markets are in Defence and Homeland security, where our systems and products are designed to operate to the highest standards of reliability and safety. In 2005 the UK government published its Defence Industrial Strategy (DIS), which shaped the future of the UK defence market. The requirement for the maintenance of UK specific industrial capability in the fields of Cryptography and Information Assurance are supported by the technological developments that the company is investing in, and provides opportunity to reinforce the company's leading position in this field in the UK. The company has embarked on a significant research and development programme to develop the ECTOCRYP product suite that provides secure transmission of both data and voice traffic.

EADS Defence and Security Systems Limited supports the EADS Central function for key account marketing and international sales. The company is the UK base for the office of the Chief Technical Officer, "CTO". The CTO is the focal point for Research and Technology (R&T), development of design and manufacturing tools and innovation across the EADS group. The Systems Design Centre ("SDC") supports EADS as a Lead System Integrator ("LSI").

### *DII*

Throughout 2008 EADS Defence and Security Systems Limited has continued to deliver its DII(f) workshare, driving significant improvement initiatives re Programme Delivery methods. The contract value has grown organically, and a further increment was awarded to EADS in early January 2009. EADS is the lead supplier of fixed infrastructure networks, and network security to the programme which will provide a common Information Technology solution to all UK Ministry of Defence sites.

### *FiRecontrol*

The FiRecontrol programme is a £380m contract for the UK Department of Communities and Local Government (DCLG).

FiRecontrol will give all fire and rescue services in England access to systems and technology which will result in greater resilience and collaboration, better information, and incident support for fire fighters and a better service to the public.

User Acceptance Testing (UAT) took place during August 2008 on equipment that is required in the fire stations prior to full installation. All tests were successfully completed.

On November 25, 2008 it was announced that the FiRecontrol programme is aiming to achieve cut over to the first three Regional Control Centres in the North East, Midlands and South West in summer 2010, with the full system expected to be in place by spring 2012.

## **Directors' report**

### *ISO20000*

October 2008 saw EADS Service Management group awarded ISO 20000 certification for IT service management. EADS joins a small and elite group of companies across the world that have proven themselves in delivering capability and best practice in IT Service Management.

ISO/IEC 20000 is the first worldwide standard specifically aimed at IT Service Management. It describes an integrated set of management processes for the effective delivery of services to the business and its customers.

### *Ectocryp*

On 16 December 2008, the Ectocryp Development Team successfully completed the Security Enforcing Functionality (SEF) Testing as witnessed by CESG. This completed EADS' element of the certification process. Vulnerability Testing was undertaken and completed in early January 2009 and full and final certification was issued by the CESG on 29 January 2009.

### *Project Adam*

The two year programme 'Project Adam' for the development of the Quadrant Campus concluded in June 2008. Site moves were completed and employees were migrated from the separate facilities of Glyndwr House and Queensway Meadows to the Quadrant site.

The site development includes a leading edge technology centre, which is intended to act as a showpiece for EADS in the UK, and Wales as a centre of excellence for defence technology.

The decision to proceed with, and support this development demonstrates the belief and confidence both corporately and politically in EADS Defence and Security Systems Limited as a technology leader in the UK, and is an important milestone towards being recognised as a Large Systems Integrator. The site was officially opened in August 2008.

### *Corporate social responsibility*

EADS Defence and Security Systems Limited is committed to conducting business in a socially responsible way ensuring we meet the highest standards of customer fulfilment, employee satisfaction, environmental protection, business ethics, sustainability and community support. We aim to achieve this through sponsorship, charity work and forming relations with local schools. The company has identified its carbon footprint, collates KEPI data, implemented carbon reduction initiatives and is accredited to ISO 14001. We continually invest in our safety management system and programmes across all business and is accredited to OHSAS 18001:2007.

## **Future developments**

The directors aim to maintain the management policies, which have resulted in substantial growth in recent years. The company continues to pursue contracts in both UK and export markets, with the aim of continuing growth through expansion in its market share for current activities, and developing new products and technology through Research and Development.

## **Risks and Uncertainties**

### *Government contracts*

As a Government Contractor the company is subject to financial audits regarding the performance and accounting of some of its contracts. These audits may result in adjustment to costs and prices on such contracts.

## **Directors' report**

### *Fixed Price contracts*

A significant portion of the company's revenues are derived from fixed price contracts. The majority of these relate to the manufacture of previously developed technologies, which typically have less risk associated with them than design and development programmes. An inherent risk in any fixed price contract is that actual costs may exceed those projected at the time of contract acceptance.

To mitigate performance related risks, the company manages its projects through structured methods and the application of the company GATE process reviews.

### *Export controls*

An element of the company's sales is derived from the export of its products. The export of these products may be subject to licensing and export controls, no assurance can be given that these will not become more restrictive, or that political factors or changing international circumstances will not result in the company being unable to obtain the necessary export licences.

The company follows strict guidelines and policies to ensure adherence to these regulations.

## **Directors**

The directors who served during the year are listed on page 1.

## **Directors' qualifying third party indemnity provisions**

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

## **Political and charitable donations**

During the year, the company made charitable donation of £3,000 (2007 – nil) to a local hospice.

## **Research and development**

The company recognises the importance of investing in research and development programmes, and that product development and innovation is a continuing process. The company commits resources to research and development to assist in securing the competitive position in the communication solutions defence market.

## **Employee involvement**

There is a continuing commitment throughout the company to provide employees with information and to consult on matters of concern with a view to ensuring an awareness of the financial and economic factors affecting the performance of the group. Regular meetings are held involving directors, managers and supervisors to convey information about the business. A staff forum exists as the formal vehicle for consultation and communication of information to staff. The 2007 employee opinion survey results have been analysed by the Cost Focus group and as a result of the findings an innovation mindset and process tool has been developed called "Inca" which is intended to promote innovation capture throughout the business.

Most employees participate directly in the success of the business through the company incentive scheme.

## Directors' report

### Disabled employees

The company gives full consideration to applications from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development, and promotion to disabled employees wherever appropriate.

### Creditor payment policy

It is the company's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the company and its suppliers, provided that all terms and conditions have been complied with. At 31 December 2008 the company had an average of 45 days (2007 – 30 days) purchases outstanding in trade creditors.

### Environment

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the company's activities. Initiatives designed to minimise the company's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

### Auditors

The company has by elective resolution dispensed with the obligation to appoint auditors annually in accordance with section 386 (1) of the Companies Act 1985. Therefore the auditors, Ernst & Young LLP, will be deemed to be reappointed for each succeeding year.

### Directors' statement as to disclosure of information to Auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



PJ Watson

Director

9.11.09

## **Statement of directors' responsibilities in respect of the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of the affairs of the company and of the profit or loss of the company 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included in the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EADS DEFENCE AND SECURITY SYSTEMS LIMITED**

We have audited the company's financial statements for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 24. 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**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 AUDITOR'S REPORT TO THE MEMBERS OF EADS DEFENCE AND SECURITY SYSTEMS LIMITED (Continued)**

## **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

*Ernst & Young LLP*

Ernst & Young LLP

Registered auditor

Bristol

*10 November 2009*

**Profit and loss account**

for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
<b>Turnover</b>	2	107,288	100,450
Cost of sales		(95,881)	(83,481)
<b>Gross profit</b>		11,407	16,969
Administrative expenses:			
Before exceptional items		(22,567)	(22,133)
<b>Operating loss</b>	3	(11,160)	(5,164)
Exceptional item – debt forgiveness	4	28,000	-
Interest receivable	7	-	69
Impairment of investment	4,12	(8,000)	(3,000)
Interest payable	8	(10,127)	(7,652)
<b>Loss on ordinary activities before taxation</b>		(1,287)	(15,747)
Tax on loss on ordinary activities	9	-	-
<b>Loss for the financial year</b>	19	(1,287)	(15,747)

All of the company's activities relate to continuing operations.

**Statement of total recognised gains and losses**

for the year ended 31 December 2008

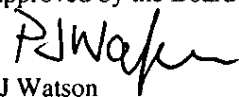
The company has no recognised gains or losses other than the loss for the year and, therefore, no separate Statement of Total Recognised Gains and Losses has been presented.

**Balance Sheet**

At 31 December 2008

	Notes	2008 £000	2007 £000
<b>Fixed assets</b>			
Intangible assets	10	39,384	48,853
Tangible assets	11	21,851	14,315
Investments	12	9,346	17,346
		<u>70,581</u>	<u>80,514</u>
<b>Current assets</b>			
Stocks	13	52,172	23,282
Debtors due within one year	14	70,739	70,160
Debtors due in more than one year	14	7,885	6,078
Cash at bank and in hand		924	1,447
		<u>131,720</u>	<u>100,967</u>
<b>Creditors: amounts falling due within one year</b>	15	(126,681)	(102,224)
<b>Net current assets/ (liabilities)</b>		<u>5,039</u>	<u>(1,257)</u>
<b>Total assets less current liabilities</b>		<u>75,620</u>	<u>79,257</u>
<b>Creditors: amounts falling due after more than one year</b>			
Long-term loans	16	(30,000)	(31,500)
		<u>45,620</u>	<u>47,757</u>
<b>Provisions for liabilities and charges</b>	17	(350)	(1,200)
<b>Net assets</b>		<u>45,270</u>	<u>46,557</u>
<b>Capital and reserves</b>			
Called up share capital	18	100	100
Share premium	19	113,030	113,030
Merger reserve	19	(3,444)	(3,444)
Profit and loss account	19	(64,416)	(63,129)
<b>Total equity shareholders' funds</b>	19	<u>45,270</u>	<u>46,557</u>

Approved by the Board on and signed on its behalf by:



PJ Watson

Director

Date

9.11.09

## Notes to the financial statements

for the year ended 31 December 2008

### 1. Accounting policies

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

#### Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company does not prepare group financial statements as it is exempt from doing so by Section 248 of the Companies Act 1985, by virtue of its EU parent preparing group financial statements.

#### Cash flow statement

The company has relied on the exemptions provided in Financial Reporting Standard 1 (revised) and has therefore not produced a cash flow statement.

#### Going concern

These financial statements have been prepared on the going concern basis because the company's ultimate parent undertaking has agreed to provide financial support to enable the company to meet its debts as they fall due.

#### Goodwill

Goodwill is the difference between the fair value of the consideration for the acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its expected useful economic life.

#### Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. The cost of tangible fixed assets represents their purchase cost, together with any incidental costs of acquisition. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing on the date of acquisition, of each asset evenly over their expected useful lives, as follows:

Leasehold land and buildings	–	over the lease term
Plant and machinery	–	5 to 10 years
Furniture, fixtures and fittings	–	5 to 10 years
Other equipment	–	5 to 6 years

Assets under construction are not depreciated until they are brought into use.

Assets bought under finance leases are depreciated over the shorter of the lease term and the asset's expected useful life.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable.

## Notes to the financial statements

for the year ended 31 December 2008

### 1. Accounting policies (continued)

#### Investments

Investments are stated at cost less provision for permanent diminution in value.

#### Stocks

Raw materials, consumables and goods for resale are stated at purchase cost on a first-in, first-out basis.

Work in progress and finished goods are stated at the cost of direct materials and labour, plus attributable overheads based on a normal level of activity.

#### Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated to reflect the proportion of work carried out at the year end, by recording turnover and related costs (as defined in stocks above) as contract activity progresses. Full provision is made for losses on all contracts in the year in which they are first foreseen. Turnover in respect of long-term contracts is calculated to fairly reflect the level of completion of the contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer.

Advance payments received from customers are shown as payments received on account in creditors until there is a right of set-off against the value of work undertaken. Progress payments received are deducted from the value of work carried out, any excess being included within payments received on account.

#### 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; 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 years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### Government grants

Government grants in respect of capital are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

## Notes to the financial statements

for the year ended 31 December 2008

### 1. Accounting policies (continued)

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

#### Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

#### Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and depreciated over their useful lives. Capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest element of the rental obligations is charged in the profit and loss account over the year of the lease and represents a constant proportion of the balance of capital repayments outstanding.

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

#### Pensions

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

### 2 Turnover

Turnover, excluding VAT, comprises sales to customers. The company records transactions as sales when the delivery of products or performance of services takes place in accordance with the terms of sale, except in relation to long-term contracts where turnover represents the sales value of work done in the year, including estimates in respect of amounts not invoiced.

Continuing turnover is attributable to one activity, the provision of secure communication solutions.

Analysis by geographical market:

	2008	2007
	£000	£000
UK	106,612	98,608
Rest of Europe	642	1,646
USA/Canada	27	170
Asia	7	26
	<u>107,288</u>	<u>100,450</u>

## Notes to the financial statements

for the year ended 31 December 2008

### 3. Operating loss

This is stated after charging/ (crediting):

	2008 £000	2007 £000
Depreciation of owned fixed assets	2,543	2,120
Loss on fixed asset retirement	478	-
Depreciation of assets held under finance leases and hire purchase contracts	26	74
Amortisation of goodwill	9,469	9,469
Operating lease rentals – other	1,420	941
Operating lease rentals – land and buildings	2,607	1,177
Foreign exchange loss/(gain)	1,706	(433)
Auditors' remuneration	85	78
Research and development	6,158	1,296
Government grants received	(1,500)	(920)
Dilapidation release (note 17)	(850)	-
	<u>          </u>	<u>          </u>

### 4. Exceptional items

	2008 £000	2007 £000
Exceptional item - Debt forgiveness	28,000	-
Impairment of investment	(8,000)	(3,000)
	<u>          </u>	<u>          </u>

Debt forgiveness of £28m was granted in December 2008 against the £31.5m loan from EADS NV which was raised in order to finance the acquisition of EADS Test & Services (UK) Limited in 2004.

This amount has been presented as an exceptional item, owing to the unusual nature and (see note 12) significance to the financial statements.

The investment in EADS Test & Services (UK) Limited was impaired further during 2008.

### 5. Directors' emoluments

	2008 £000	2007 £000
Emoluments	301	289
Company contributions to money purchase pension schemes	45	28
	<u>          </u>	<u>          </u>
	346	317
Highest paid director:		
Emoluments	191	183
Company contributions to money purchase pension schemes	32	19
	<u>          </u>	<u>          </u>
	223	202

## Notes to the financial statements

for the year ended 31 December 2008

### 5. Directors' emoluments (continued)

Number of directors in company pension schemes:

	2008 No.	2007 No.
Defined contribution schemes	2	2

### 6. Staff costs

	2008 £000	2007 £000
Wages and salaries	39,373	32,864
Social security costs	4,238	3,682
Other pension costs	2,474	1,945
	<u>46,085</u>	<u>38,491</u>

Average monthly number of employees during the year:

	2008 No.	2007 No.
Administration	94	74
Engineering	422	332
Project management	251	242
Sales and marketing	50	49
	<u>817</u>	<u>697</u>

### 7. Interest receivable

	2008 £000	2007 £000
Interest on amounts owed from fellow subsidiary	-	69

### 8. Interest payable

	2008 £000	2007 £000
Interest on amounts owed to group undertakings	10,126	7,649
Finance charges payable under finance leases and hire purchase contracts	1	3
	<u>10,127</u>	<u>7,652</u>



## Notes to the financial statements

for the year ended 31 December 2008

### 9. Tax on loss on ordinary activities

#### (a) Analysis of charge in year

	2008 £000	2007 £000
Total current tax being:		
UK corporation tax on losses for the year	-	-
Total current tax	-	-
Total deferred tax being:		
Origination and reversal of timing differences	-	-
Tax on loss on ordinary activities	-	-

#### (b) Factors affecting tax charge for year

The differences between the tax assessed for the year and the standard rate of corporation tax are explained as follows:

	2008 £000	2007 £000
Loss on ordinary activities before tax	(1,287)	(15,747)
Loss on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 28.5% (2007 30%)	(367)	(4,724)
Effects of:		
(Income) / Expenses not deductible for tax purposes	(4,032)	2,353
Origination and reversal of timing differences	(196)	(227)
Losses carried forward	4,595	2,598
Current tax charge for year	-	-

#### (c) Deferred tax

The company has tax losses which give rise to an unrecognised deferred tax asset of £13,789,000 (2007 – £9,963,000). This deferred tax asset has not been recognised due to the inherent uncertainty over the magnitude and timing of future taxable profits.

## Notes to the financial statements

for the year ended 31 December 2008

### 10. Intangible assets

	<i>Goodwill</i>	<i>Development expenditure</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At 1 January 2008 and at 31 December 2008	94,690	10,977	105,667
Amortisation:			
At 1 January 2008	56,814	-	56,814
Provided during the year	9,469	-	9,469
At 31 December 2008	66,283	-	66,283
Net book value:			
At 31 December 2008	28,407	10,977	39,384
At 31 December 2007	37,876	10,977	48,853

In accordance with FRS 10 the goodwill arising on the acquisition of the UK branch of EADS Defence and Security Network SAS has been capitalised as an intangible asset and is being amortised evenly over the directors' estimate of its useful economic life, being 10 years. Provision is made for any impairment.

Development expenditure is treated in accordance with SSAP 13.

## Notes to the financial statements

for the year ended 31 December 2008

### 11. Tangible fixed assets

	<i>Leasehold Improvements</i>	<i>Plant and machinery</i>	<i>Furniture, fixtures and fittings</i>	<i>Other equipment</i>	<i>Assets under construction</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:						
At 1 January 2008	1,738	1,615	3,064	10,832	6,442	23,691
Additions	-	-	-	-	10,558	10,558
Transfers	1,154	-	7,278	1,346	(9,778)	-
Retirements	-	-	(427)	(80)	-	(507)
At 31 December 2008	2,892	1,615	9,915	12,098	7,222	33,742
Depreciation:						
At 1 January 2008	1,073	1,264	1,340	5,700	-	9,377
Provided during the year	145	57	662	1,679	-	2,543
Retirements	-	-	(21)	(8)	-	(29)
At 31 December 2008	1,218	1,321	1,981	7,371	-	11,891
Net book value:						
At 31 December 2008	1,674	294	7,934	4,727	7,222	21,851
At 31 December 2007	665	351	1,724	5,133	6,442	14,315
					2008	2007
					£000	£000
Net book value of assets held under finance leases					-	26

## Notes to the financial statements

for the year ended 31 December 2008

### 12. Investments

	<i>Subsidiary undertakings</i>	<i>Other investments</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At 1 January 2008 and at 31 December 2008	34,110	3,000	37,110
Amounts provided:			
At 1 January 2008	16,764	3,000	19,764
Impairment during the year	8,000	-	8,000
At 31 December 2008	24,764	3,000	27,764
Net book value:			
At 31 December 2008	9,346	-	9,346
At 31 December 2007	17,346	-	17,346

Details of the investments are as follows:

<i>Subsidiary undertakings</i>	<i>Holding</i>	<i>Proportion of shares held</i>	<i>Nature of business</i>
EADS Test & Services (UK) Limited	Ordinary shares	100%	Manufacture of electronic instruments
<i>Other Investments</i>			
Remote Operations Limited	Ordinary shares	25%	Software developers

During the year to 31 December 2008 EADS Test & Services (UK) Limited made a loss of £1,206,078 (2007 loss £1,348,688) and had capital and reserves of £11,993,076 (2007 £13,199,154).

## Notes to the financial statements

for the year ended 31 December 2008

### 13. Stocks

	2008 £000	2007 £000
Raw materials and consumables	329	247
Long-term contract balances	51,843	23,035
	<u>52,172</u>	<u>23,282</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

	2008 £000	2007 £000
Long-term contract balances consist of:		
Costs to date less provisions for losses	51,843	23,035
	<u>51,843</u>	<u>23,035</u>

### 14. Debtors

	2008 £000	2007 £000
Trade debtors	3,858	9,729
Other taxes and social security costs	5,768	-
Amounts owed by group undertakings	3,602	3,370
Other debtors	2,596	4,014
Prepayments and accrued income	1,186	562
Amounts recoverable on long-term contracts	61,614	58,563
	<u>78,624</u>	<u>76,238</u>
Amounts due after more than one year included above:		
Amounts recoverable on long-term contracts	6,985	3,638
Government grants receivable	900	2,440
	<u>7,885</u>	<u>6,078</u>
Due in more than one year		
	<u>7,885</u>	<u>6,078</u>
Due within one year	<u>70,739</u>	<u>70,160</u>

## Notes to the financial statements

for the year ended 31 December 2008

### 15. Creditors: amounts falling due within one year

	2008 £000	2007 £000
Obligations under finance lease and hire purchase contracts	-	16
Trade creditors	14,305	4,389
Amounts owed to group undertakings	98,970	69,307
Other taxes and social security costs	1,325	2,826
Customer payment on account	1,373	13,100
Accruals and deferred income	10,708	12,586
	<u>126,681</u>	<u>102,224</u>

### 16. Loans

	2008 £000	2007 £000
Amounts due to group undertakings	<u>30,000</u>	<u>31,500</u>

The company secured £28m debt forgiveness against the £31.5m loan from EADS NV. The remaining £3.5m balance on the loan is due for repayment in December 2009 and is held as current liability at December 31 2008, and is included in amounts owed to group undertakings (note 15).

On November 18 2008 EADS Defence and Security Systems Limited entered into a revised loan agreement with its parent company EADS NV, and secured a 5 year long term loan for £30m at an interest rate of Libor plus 2%.

### 17. Provisions for liabilities and charges

	Total £000
At 1 January 2008	1,200
Provisions arising during the year	350
Provisions released during the year	(1,200)
At 31 December 2008	<u>350</u>

Provision is made in respect of anticipated dilapidation costs payable under operating lease contracts.

During the year, the company exited premises at Queensway Meadows and released the previously held £1.2m dilapidation provision. The premises at Queensway Meadows is now let by the landlord to Atlas Elektronik Limited, and as part of the exit agreement, EADS Defence and Security Systems Limited, agrees to make good further alterations made to the building when Atlas Elektronik Limited exit the building, at a future date yet to be determined. A provision of £350,000 has been made against the costs of further alterations.

## Notes to the financial statements

for the year ended 31 December 2008

### 18. Share capital

	2008	2007	2008	2007
<i>Authorised, allotted, called up and fully paid</i>	<i>No.</i>	<i>No.</i>	<i>£000</i>	<i>£000</i>
Ordinary shares of £0.01 each	10,000,001	10,000,001	100	100

### 19. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Share premium</i>	<i>Merger reserve</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2007	100	113,030	(3,444)	(47,382)	62,304
Loss for the year	-	-	-	(15,747)	(15,747)
At 1 January 2008	100	113,030	(3,444)	(63,129)	46,557
Loss for the year	-	-	-	(1,287)	(1,287)
At 31 December 2008	100	113,030	(3,444)	(64,416)	45,270

### 20. Other financial commitments

At 31 December 2008 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and Buildings</i>	<i>Land and Buildings</i>	<i>Other</i>	<i>Other</i>
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases that expire:				
In two to five years	-	-	1,420	941
In over five years	2,414	2,414	-	-
	2,414	2,414	1,420	941

### 21. Pension commitments

The company operates a defined contribution pension scheme, The Cogent Pension Plan, for its directors and employees. The assets of the scheme are held separately from those of the company in an independently administered fund. All contributions have been remitted to the pension scheme in the year.

### 22. Contingent liabilities

The company has provided guarantees in the normal course of its business of £32,525,000 (2007 – £32,501,727).

## Notes to the financial statements

for the year ended 31 December 2008

### 23. Related party transactions

As at the balance sheet date the company was a wholly owned subsidiary undertaking of EADS NV, a company registered in the Netherlands which prepares published consolidated financial statements, the company has pursuant to paragraph 17 of Financial Reporting Standard 8: "Related Party Disclosures", not included details of transactions with other companies which are subsidiaries of the EADS NV group. There are no other related party transactions, except for the amounts noted below.

A Service Agreement was written in June 2006 between EADS Defence and Security Systems Limited and Atlas Elektronik UK Limited. The Service Agreement framed the provision of functional and management services to Atlas Elektronik UK Limited by EADS Defence and Security Systems Limited for which it charged a fee of £1,331,283 for the year ended 31 December 2008 (2007 £1,814,458) This agreement was entered into for a period of one year commencing on 1 July 2006 although the Service Agreement has now extended beyond this term.

### 24. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is EADS Defence and Security Systems (Holdings) Limited (formerly EADS Telecom UK Limited), which does not prepare group financial statements.

In the directors' opinion, the company's ultimate parent undertaking and controlling party is EADS NV which is incorporated in the Netherlands. Copies of the group financial statements, which include the company, are available from either Le Carre, Beech Avenue 130-132, 1119 PR Schiphol-Rijk, The Netherlands, or 37, Boulevard de Montmorency, 75781 Paris, Cedex 16, France.