

ITT DEFENCE LIMITED

Accounts - 31 December 1995

Together with Directors' and Auditors' Reports

Company Registration No: 2803090

ACC/ITTDEF95



DIRECTORS' REPORT

For the year ended 31 December 1995

The directors present their report on the affairs of the company together with the accounts and auditors' report for the year ended 31 December 1995.

Principal Activity and Business Review

The company (incorporated on the 24 March 1993 as Succory Limited, with a subsequent name change to ITT Defence Limited) is a subsidiary of ITT Industries Limited, a UK holding company. Its principal activity is the development of military communication systems and ancillary equipment.

ITT Defence Limited is supported by a fellow group company.

Presently the company is substantially focused on the development phase (PD1) of a specific contract for the UK Ministry of Defence. The contract, a design and development module of a communications system re-equipment programme, was signed in August 1993 and extends into 1997.

On 20 March 1997, the Minister of State for Defence Procurement, announced that proposals for the initial production and support of the BOWMAN combat radio (PD1 represented its development phase) are to be invited from ARCHER - a joint venture company proposed to be formed by ITT Defence Ltd, Siemens Plessey Systems and Racal Radio. This is expected to initially materially decrease the level of activity in ITT Defence Ltd as work is transferred into the ARCHER joint venture.

Results and Dividends

Results for the year are as follows:

	£
Profit/(loss) on ordinary activities after taxation	(557,128)
Retained (loss) for the year	<u>(557,128)</u>

No dividend can be paid in respect of the year ended 31 December 1995.

Directors and their Interests

The following are the directors of the company, including directors who served during the year:

P.G.W. Bedwin, MBE
J.D.B. Craen (Appointed 01 March 1995)
R.J. Harding, CMG
R.B. Lewis II (Resigned 08 November 1996)
T. Mayer, CBE (Chairman)
J.O. Murrell (Appointed 22 January 1997)
M.R. Sambur
Gen. Sir John Stibbon, KCB, OBE

The directors do not have any interests required to be disclosed under Schedule 7 of the Companies Act 1985.

DIRECTORS' REPORT (continued)

Directors' Responsibilities

Company law requires the directors to prepare financial statements 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 year. 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 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.

Fixed Assets

Information relating to changes in tangible fixed assets is given in Note 10 to the accounts.

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee Consultation

The company is firmly committed to continue to secure the full co-operation and involvement of its employees in the business.

This is achieved by communication and consultation with employees and their representatives where appropriate. The methods used include briefing and communication groups, employee information meetings, consultative committees and notice boards.

Auditors

Arthur Andersen have been appointed as auditors to the company until the next Annual General Meeting. A resolution to reappoint them will be proposed at the Annual General Meeting.

DIRECTORS' REPORT (continued)

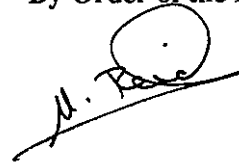
Liability Insurance for Company Officers

As permitted by the Companies Act 1985 (as amended) the company has purchased insurance cover for the directors against liabilities in relation to the company.

Jays Close
Viabes Estate
Basingstoke
Hampshire
RG22 4BW

Date: 07 May 1997

By Order of the Board

A handwritten signature in black ink, appearing to read 'K. Reid', written over a horizontal line.

K. Reid
Company Secretary

AUDITORS' REPORT

TO THE SHAREHOLDERS OF ITT DEFENCE LIMITED

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective Responsibilities of Directors and Auditors

As described on page 2 the company's directors are responsible for the preparation of the financial statements and it is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with 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 judgements 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.

Opinion

In our opinion the financial statements give a true and fair view of the company's state of affairs at 31 December 1995 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors
Abbots House
Abbey Street
Reading
RG1 3BD

Date:

7 May 1997

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 1995

	Notes	1995 £	1994 £
Continuing operations:			
Turnover	2	6,955,686	6,141,784
Cost of sales	5	(8,823,006)	(6,141,784)
Gross profit/(loss)		<u>(1,867,320)</u>	<u>-</u>
Other operating income/(expenses) (net)	6	<u>1,394,311</u>	<u>-</u>
Operating profit/(loss)		<u>(473,009)</u>	<u>-</u>
Bank interest income		17,020	-
Interest payable	7	(357,281)	-
Loss on ordinary activities before taxation		<u>(813,270)</u>	<u>-</u>
Taxation on loss on ordinary activities	8	(256,142)	-
Dividends paid and proposed	9	-	-
Retained loss for the financial year		<u>(557,128)</u>	<u>-</u>
Retained profit at the beginning of the year		<u>-</u>	<u>-</u>
Retained loss at the end of the year		<u><u>(557,128)</u></u>	<u><u>-</u></u>

There are no recognised gains or losses in either year other than the result for each year as shown above.

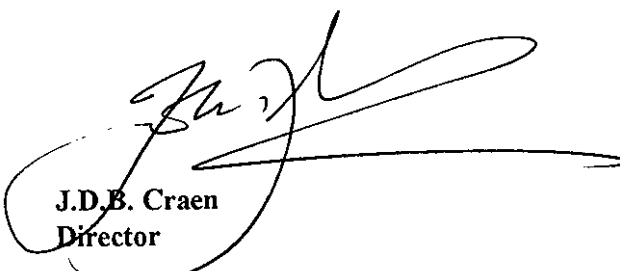
The accompanying notes are an integral part of this profit and loss account.

BALANCE SHEET

31 December 1995

	Notes	1995 £	1994 £
Fixed assets			
Tangible assets	10	<u>186,689</u>	<u>201,638</u>
Current assets			
Stock and work-in-progress	11	1,520,918	2,719,144
Debtors	12	3,714,674	785,268
Cash at bank and in hand		<u>36,328</u>	<u>106,037</u>
		5,271,920	3,610,449
Creditors: Amounts falling due within one year	13	<u>(5,915,737)</u>	<u>(3,712,087)</u>
Net current liabilities		<u>(643,817)</u>	<u>(101,638)</u>
Total assets less current liabilities		<u>(457,128)</u>	<u>100,000</u>
Creditors: Amounts falling due after more than one year		-	-
Provisions for liabilities and charges	14	<u>-</u>	<u>-</u>
Net assets		<u><u>(457,128)</u></u>	<u><u>100,000</u></u>
Capital and reserves			
Called-up share capital	15	100,000	100,000
Profit and loss account		<u>(557,128)</u>	<u>-</u>
Shareholders' funds - all equity	16	<u><u>(457,128)</u></u>	<u><u>100,000</u></u>

Signed on behalf of the Board



J.D.B. Craen
Director

Date: 07 May 1997

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

NOTES TO THE ACCOUNTS

31 December 1995

1. Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, are set out below:

a) *Basis of accounting*

- (i) The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.
- (ii) A fellow group undertaking has confirmed that it will continue to provide financial support to enable the company to perform its business objectives, operate in a lawful and proper manner and satisfy all third party obligations as they become due. This support will be provided for the foreseeable future and, in any case, not less than twelve months from the date of approval of these accounts. On this basis, the directors consider it appropriate to prepare the financial statements on a going concern basis.

b) *Tangible fixed assets*

Tangible fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of fixed assets on a straight-line basis over their estimated useful lives, as follows:

Plant and machinery - 3 - 20 years

c) *Stock and long term contracts*

Stocks and Work-in-progress are stated at the lower of cost and net realisable value.

Net realisable value is based on amounts expected to be reimbursed to the company, either by the contractee or by other ITT worldwide companies.

In accordance with SSAP 9, Stocks and Long Term Contracts, turnover and related costs are recognised as contract activity progresses. Invoicing is in accordance with a milestone payment plan, with invoices being raised once the customer has provided written confirmation that the milestone has been completed in accordance with contractual requirements and turnover is recognised in line with invoiced amounts. In the opinion of the directors, invoiced amounts are a reasonable reflection of the stage of completion of the contract. Provision is made for all foreseeable losses on long term contracts based on the directors' best estimate of such losses. Long term contract balances included within stock represent costs incurred, net of amounts transferred to cost of sales, after deducting foreseeable losses.

d) *Taxation*

Corporation tax is provided on taxable profits at the current rate.

Tax losses may be surrendered into the ITT Industries Ltd group for relieving against other group companies' profits. Full value is obtained for such surrenders.

Deferred taxation, which arises primarily on timing differences between capital allowances and book depreciation, is provided for in full if material, because the directors have concluded, on the basis of reasonable evidence, that there is likely to be a net reversal of these timing differences in the foreseeable future.

NOTES TO THE ACCOUNTS (continued)

1. Accounting policies (continued)

e) *Translation of foreign currencies*

Items transacted in foreign currencies are recorded in sterling using the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end are translated at year-end exchange rates. Foreign currency gains and losses are credited or charged to the profit and loss account as they arise.

f) *Turnover*

Turnover, which is stated net of VAT and trade discounts, comprises the value of sales invoiced to third parties. In respect of long term contracts, invoicing is in accordance with a milestone payment plan, with invoices being raised once the customer has provided written confirmation that the milestone has been completed in accordance with contractual requirements.

g) *Leases*

The company enters into operating leases. Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on that basis.

h) *Research and Development*

Expenditure on research and development is written off as incurred.

i) *Pensions*

It is the general policy of the company and group to provide for and fund pension liabilities on a going concern basis, on the advice of external actuaries, by payments to separate trustee administered funds. Independent actuarial valuations on a going concern basis are carried out every year. The amount calculated so as to produce a substantially level percentage of the current and future pensionable payroll, with variations from regular costs being allocated to the profit and loss account over the estimated average remaining working lives of scheme members. Any difference between amounts charged in the profit and loss account and paid to the pension fund is shown in the balance sheet as a liability or asset.

2. Segment information

All sales for the year were within the UK, and substantially from the company's principal continuing activity, being the development of military communications systems and ancillary equipment.

3. Loss on ordinary activities before taxation

	1995	1994
This is stated after the following charges:	£	£
Depreciation	96,511	42,332
Staff costs	1,528,273	1,310,714
Operating lease rentals	76,088	47,644
Auditors' remuneration - audit services	7,800	7,800

During the year the auditors charged £24,250 for non-audit services (1994 - £Nil).

NOTES TO THE ACCOUNTS (continued)

4. Staff costs

Particulars of employees (including executive directors) are as shown below:

	1995	1994
	£	£
Employee costs during the year amounted to:		
Wages and salaries	1,298,502	1,088,615
Social security costs	166,817	155,281
Other pension costs	62,954	66,818
	<u>1,528,273</u>	<u>1,310,714</u>

The average weekly number of persons employed by the company during the year was as follows:

	1995 Number	1994 Number
Direct labour	33	24
Indirect labour - administration	5	4

Directors' remuneration was paid in respect of directors of the company as follows:

	1995	1994
	£	£
Director fees	30,000	30,000
Other emoluments (including pension contributions)	187,306	80,427
	<u>217,306</u>	<u>110,427</u>

The directors' remuneration shown above included an amount of £95,616 (1994 - £74,374) excluding pension contributions in respect of the highest paid director.

The Chairman received £10,188 (1994 - £11,125) excluding pension contributions.

Directors received emoluments (excluding pensions and pension contributions) in the following ranges:

	1995 Number	1994 Number
£ 0 - £ 5,000	2	2
£10,001 - £ 15,000	3	3
£70,001 - £ 75,000	-	1
£75,001 - £ 80,000	1	-
£95,001 - £100,000	1	-

Interests of directors in contracts with the company:

Mr. T. Mayer has a controlling interest in Eldonray Limited, from which the company obtained consultancy services amounting to £29,944 during the year (1994 - £30,561).

Mr. R.J. Harding has a controlling interest in Sujanara Limited, from which the company obtained consultancy services amounting to £42,445 during the year (1994 - £41,428).

NOTES TO THE ACCOUNTS (continued)

5. Cost of sales

Cost of sales includes the foreseeable loss of £1,740,025 on the product development (PD-1) phase of the Bowman contract with the UK Ministry of Defence (MOD).

6. Other operating income/(expenses) (net)

	1995 £	1994 £
Administration and general	(345,714)	-
Contract loss recovery	1,740,025	-
Net equals other operating income	<u>1,394,311</u>	<u>-</u>

The contract loss recovery income relates to an arrangement whereby a fellow group company has undertaken to meet the excess of cost over turnover on the company's principal contract.

7. Interest payable

	1995 £	1994 £
On loans from group undertakings wholly repayable within five years	<u>357,281</u>	<u>-</u>

8. Tax on loss on ordinary activities

	1995 £	1994 £
The tax charge/(credit) is based on the loss for the year and comprises:		
Corporation tax at 33%	(250,444)	-
Deferred taxation arising from		
- capital allowances	(5,698)	-
- other timing differences	-	-
	<u>(256,142)</u>	<u>-</u>

9. Dividends paid and proposed

No dividends were paid or proposed in 1995 or 1994.

NOTES TO THE ACCOUNTS (continued)

10. Tangible fixed assets

The movement in the year was as follows:

	Plant and machinery £	Total £
Cost		
Beginning of year	249,551	249,551
Additions	81,562	81,562
Disposals	-	-
End of year	<u>331,113</u>	<u>81,562</u>
Depreciation		
Beginning of year	47,913	47,913
Charge	96,511	96,511
Disposals	-	-
End of year	<u>144,424</u>	<u>144,424</u>
Net book value		
Beginning of year	<u>201,638</u>	<u>201,638</u>
End of year	<u>186,689</u>	<u>186,689</u>

11. Stock and Work-in-Progress

	1995 £	1994 £
Long term contract balance		
- net cost less foreseeable losses	<u>1,520,918</u>	<u>2,719,144</u>

The balances identified here substantially represent work-in-progress on the company's contract with the MOD as mentioned in the Directors' Report on Page 1.

12. Debtors - Amounts falling due within one year

	1995 £	1994 £
Trade Debtors	1,423,903	84,134
Amounts owed by holding company and fellow subsidiary undertakings	1,910,613	701,034
Income tax debtor	94,120	-
Corporation tax debtor	250,444	-
Prepayments and accrued income	29,896	100
Deferred tax (see Note 14)	5,698	-
	<u>3,714,674</u>	<u>785,268</u>

NOTES TO THE ACCOUNTS (continued)

13. Creditors - Amounts falling due within one year

	1995 £	1994 £
Trade creditors	880,724	496,499
Amounts owed to holding company and fellow subsidiary undertakings	4,522,217	2,121,454
VAT	109,706	548,271
Other creditors	40,333	355,729
Accruals and deferred income	362,757	190,134
	<u>5,915,737</u>	<u>3,712,087</u>

Amounts owed to holding company and fellow subsidiary undertakings include an amount of £4,327,898 (1994 - £622,411) due to the immediate holding company which is interest bearing, interest being payable on normal commercial terms.

14. Provisions for liabilities and charges

There is no unprovided deferred tax liability at either year end. The full deferred tax asset at 31 December 1995 has been recognised within debtors since, in the opinion of the directors, the amount is recoverable in less than one year.

Deferred taxation

	1995 £	1994 £
Deferred taxation is attributable to		
- excess of book depreciation of fixed assets over tax allowances	(5,698)	-
Deferred tax asset	<u>(5,698)</u>	<u>-</u>

The movement in deferred taxation comprises:

	1995 £	1994 £
Beginning of year	-	-
Charge (credited) to the profit and loss account in respect of		
- capital allowances	(5,698)	-
End of year	<u>(5,698)</u>	<u>-</u>

NOTES TO THE ACCOUNTS (continued)

15. Called-up share capital

	1995 £	1994 £
Authorised: 10,000,000 Ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>
Allotted, called-up and fully paid: 100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

16. Reconciliation of movement in shareholders' funds

	1995 £	1994 £
Loss for the financial year	(557,128)	-
New share capital subscribed	-	99,900
Opening shareholders' funds	<u>100,000</u>	<u>100</u>
Closing shareholders' funds	<u>(457,128)</u>	<u>100,000</u>

17. Financial commitments

a) Capital commitments

	1995 £	1994 £
Contracted for but not provided	-	23,000
Authorised but not contracted for	-	52,000
	<u>-</u>	<u>75,000</u>

b) Pension arrangements

The company contributes to various defined benefit and defined contribution pension plans operated by the company's immediate parent, ITT Industries Limited, covering substantially all employees. ITT Defence Limited's policy is to fund the current costs of these plans as they accrue, and to provide amortisation and interest on prior service liabilities in accordance with independent actuarial recommendations. The most recent actuarial valuation was prepared as at 31 December 1995 in accordance with SSAP24 "Accounting for Pension Costs".

The company's total pension expense for the year, including its share of prior service costs, amounted to £62,954 (1994 - £66,818).

Full details of the pension plans referred to above are included in the accounts of the parent company, ITT Industries Limited.

NOTES TO THE ACCOUNTS (continued)

17. Financial commitments (continued)

c) *Banking facilities*

The company is a subsidiary of ITT Industries Limited and participates in a group banking set-off service and facility. In connection therewith the company, in common with other members of the group, has given unlimited cross-guarantees. The net amount outstanding to the bank at year end was £1,131,034 (1994 - Nil)

d) *Leases*

The company has entered into non-cancellable operating leases, the payments for which extend over a period up to 3 years. The total annual rental (net of incentives) for 1995 was £76,088 (1994 - £47,644). The lease agreements provide that the company will pay all insurance and repairs.

The minimum annual rentals under the foregoing leases are as follows:

	1995	1994
	£	£
Operating leases which expire		
- within 1 year	5,949	7,962
- within 2-5 years	80,152	46,458
- after 5 years	-	-
	<u>86,101</u>	<u>54,420</u>

18. Cash flow statement

The company is a subsidiary undertaking of ITT Industries, Inc. As permitted by Financial Reporting Standard 1 (Revised 1996) no cash flow statement is presented for the company since the results of the company are included in the consolidated financial statements of ITT Industries, Inc., which are publicly available.

19. Parent and ultimate holding company

The company is a wholly-owned subsidiary of ITT Industries Limited, registered in England and Wales. The smallest group in which these results are consolidated is that headed by ITT Industries Limited. The accounts of ITT Industries Limited are available from Companies House, Cardiff, Wales.

The largest group in which the results of the company are consolidated is that headed by ITT Industries, Inc., whose accounts are available from 4 West Red Oak Lane, White Plains, NY10604, United States of America.

Prior to the de-merger of ITT Corporation on 20 December 1995, the ultimate parent undertaking was ITT Corporation.