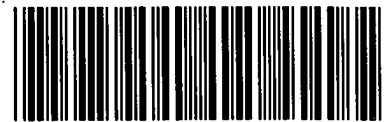


Thales UK Limited

Annual report and financial statements
for the year ended 31 December 2022

Registered number: 00868273

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Company information

Registered number: 00868273

Directors

A C K Cresswell - CEO and Chairman

C B W Shaw - Chief Operating Officer

C Hindle - Financial Director

P Gosling

S J Stratton

L Watson

Company Secretary

M W P Seabrook

Registered Office

350 Longwater Avenue
Green Park
Reading
Berkshire
RG2 6GF

Auditor

Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London
EC4M 7AU

Strategic report

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 Company operates in three major market segments, Aerospace, Defence, and Security, and across both civil and military environments. Within the civil environment, its key capabilities are training, cyber security and commercial avionics. Within the military environment, its key capabilities encompass sonar systems, land and air systems, military avionics, training and simulation, laser systems and radio systems.

We innovate with our customers to build smarter solutions, and we are committed to a culture of customer focus, programme execution and developing our people. Our business is built on strong values which embrace our responsibility to customers, employees, suppliers, local communities and the environment. As a wholly owned subsidiary of Thales SA, the Company is strongly positioned to develop its customer offerings through its unique access to the Group's technological expertise and specialist support networks.

Section 172(1) statement

The Directors have taken account of *The Companies (Miscellaneous Reporting) Regulations 2018* (the Regulations) reporting requirements which apply to the Company.

Key stakeholders of the Company are considered below, along with the way in which the Company engages with them, having regard for the issues which are significant to each stakeholder.

Customers

Our Customers are the reason why the Company exists, and it is vital that we build long term relationships with them through structured engagement, from the initial phase of identifying a Customer's requirements and bidding for the work, to securing new contracts and subsequently delivering the Customer's requirements. Regular performance reviews are held with Customers with which the Company has on-going contracts, and specific delivery requirements such as design, system capability and delivery milestones are regularly reviewed with our Customers as part of this process. Customer acceptance into service of the final system is a key stage of the relationship, and will normally involve close collaboration with our Customers to ensure that their requirements have been met. The Company's largest Customer is the UK Government for which it participates in a number of programmes. The Company also has other national Governments as well as industrial parties among its Customers.

Strategic Report (continued)

Suppliers

The Company maintains close contact with its suppliers and major sub-contractors because they are a key contributor to the Company's ability to meet its Customers' requirements on current and future projects. Additionally, the Company considers that it is essential to work with a range of suppliers and sub-contractors to ensure the sustainability of the business in the medium to longer term. In this regard, it works with these parties to identify new ways of meeting Customers' requirements using alternative sources of material or labour supply, where this can bring an advantage to the business delivery.

Where the Company engages smaller companies to supply materials or capability for a Customer project, care is taken to work with the supplier to ensure that its contribution to the project and financial impacts for the supplier are sustainable. Performance and quality of delivery by suppliers and sub-contractors is managed through a mixture of regular and ad-hoc reviews to monitor progress and identify issues relating to its projects.

The structured relationships the Company has with its suppliers is a key contributor to the Company's ability to deliver to its Customers. The strength of this vital network, including re-scheduling of deliveries where necessary, has been crucial in 2022 in enabling us to ensure continuity of materials and resources for our Customer programmes.

With global pressures on both price and availability of certain of its key supplies, these relationships will continue to play a vital part in the Company's continued ability to procure resources for the future delivery of its customer programmes.

Shareholder

As indicated in Note 26, the Company's immediate parent company is Thales Holdings UK Plc, and the ultimate parent company is Thales SA, a company registered in France.

There is a close engagement between the Company and its ultimate shareholder to ensure that the capability of the Company in delivering for its Customers is supported by the wider Thales Group which provides access to specialist technical knowledge and resources. There are also formal mechanisms for reporting and reviewing both operational and financial performance of the Company, as well as for the provision of an overall governance framework within which the Company operates. Further detail on the Company's governance framework is discussed in the Directors' Report.

Employees

People are the Company's greatest assets. Keeping people safe from harm and creating a healthy and safe environment wherever we operate is our number one priority. Our operating environment and practices continue to embed a number of approaches to safety that were developed and implemented during the COVID-19 pandemic which the company considers will be important to retain.

Strategic Report (continued)

Employees (continued)

With growing competition, attracting and retaining quality workers is key. In 2022, as the global economy has faced increased uncertainty and risks, the ability of the Company to attract and retain such workers has been brought into sharper focus. The Company has therefore significantly increased its efforts to attract new workers whilst, like many companies, it has increased its focus on measures to make the Company attractive to existing employees in order to maximise its ability to retain its skilled and experienced workforce.

In line with this, the Company endeavours to incorporate attractive employment policies and principles with the view to creating a skilled, happy, diverse, proud and motivated workforce. Furthermore, the Company operates respected Graduate and Apprentice programmes and actively supports Science, Technology, Electronics and Mathematics (STEM) subjects in schools.

As part of the Thales group, the Company participates in the share-based payment plan operated by its ultimate parent company, Thales SA, as part of its remuneration for eligible Directors and employees (Note 23). Additionally, the Company participates in Group share offerings to employees, making these available on attractive terms to encourage Company-wide employee participation. This includes qualifying share schemes recognised by HMRC which enable eligible participants to enjoy tax-free contributions to employee share schemes.

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

Further, the Company holds a number of different types of regular briefings for employees led by UK country management as well as local management teams to ensure that current topics, including business performance, are appropriately shared and discussed with employees. For the Company level calls there is an open forum for questions and answers at the end of each call, following which appropriate information is then published on the Company intranet to be shared amongst all employees. Site based briefings are held with business unit teams to share their respective performance and discuss issues both about the Company as a whole as well as their local environment.

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. Thus, wherever possible, impacted employees are encouraged and supported to be re-deployed in other work areas, or on alternative projects for which they have the appropriate skills and experience, in line with the business' needs. 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.

Strategic Report (continued)

Employee gender composition

The Company considers that it is vital to develop a workforce which represents as far as possible the society in which we live, and in which our customers operate, because this is the best way to access all the skills and knowledge the Company needs to deliver to its customers. It is a business priority for Thales in the UK to increase the number of women in the organisation, including those in senior management positions, so that we can better reflect the wider society in which we operate. This means that the Company seeks to have a workforce with a reasonable balance of male and female employees whose appointment and development in roles is driven by skills and ability to perform their role. With a workforce that is around one fifth female, the Company is a long way from being gender-balanced, and our pay gap statistics reflect that reality. However in the 2022 Thales UK Gender Pay Gap Report we have observed a number of improvements in terms of reducing the gender pay gap, albeit that we have some way to go to achieve a workforce that has more evenly balanced pay between genders.

Further details can be found in the Thales UK Gender Pay Gap Report 2022 at the following address:

https://www.thalesgroup.com/sites/default/files/database/document/2023-03/PCS12349%20-%20Pay%20Gap%20Report%202022%20v4%20%5BReduced%20File%20Size%5D_0.pdf

This gender imbalance is the result of a long history of operating in male dominated sectors, and will only change over a protracted period, and the Company is committed to implementing measures that will achieve its objective of having a more gender balanced workforce. In this regard, we have a strong focus on attracting and developing women studying in STEM subjects, and this is reflected in our drive to increase the number of female graduates and apprentices joining the Company.

The table below illustrates the gender composition of our workforce.

	2022	2021
Total employees per Note 8	5,017	4,929
Of which female	972	1,013
Of which male	4,045	3,916
Total employees in senior manager roles (excluding Directors)	789	728
Of which female	126	108
Of which male	663	620
Total Directors	6	6
Of which female	2	2
Of which male	4	4

Disabled and vulnerable 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.

Strategic Report (continued)

Employee networks support

The Company is proud to support various networks of employees as part of our commitment to diversity and inclusion and is actively working to promote diversity. These networks include the LGBT+ network, the Women in Thales network, the Veterans Network and the Graduate Alumni network.

Pension Schemes

The Company sponsors a number of defined benefit pension schemes for eligible former and current employees, as well as contributing on behalf of other current employees to defined contribution pension schemes. The defined benefit pension schemes sponsored by the Company are considered to be a key stakeholder of the Company because of the significant financial provision which these schemes afford to retired employees, but also because of the regulated environment within which this responsibility is executed by the Company. As such, when considering the pension schemes as a stakeholder, the Company maintains a structured engagement with the Trustees of its defined benefit pension schemes as well as with their advisers. This engagement takes the form of participation in Trustee meetings as well as providing business briefings. The Company also provides an interface between the Trustees of the schemes and the Company's ultimate parent which provides support by means of financial guarantees in favour of the schemes. The over-riding objective of the Company's engagement with its defined benefit pension schemes is to ensure that sustainable arrangements are in place to maintain the Company's current and future commitments to members of the schemes, and that this is done in a manner which meets the regulatory requirements on the Company in this regard.

Community

Wherever we operate in the UK, we seek to build strong relationships in the community and maintain a neighbourly spirit. We are proud to support a variety of local and national youth, technology and education causes. The Company donates over £175,000 a year to charities and encourages employees to raise money for the charity of the year, which during 2022 was Asthma + Lung UK.

Ethics, integrity and compliance

The Company has recognised the importance of behaving responsibly, and trading ethically is seen as more important than ever and vital for the protection of the Group's reputation. The Company has had an active ethics programme in the UK for over 19 years and, as a wholly owned subsidiary of Thales SA, the Company is committed to applying the Group policy and standards in relation to ethics, integrity and compliance. Details of the Group policy and its approach to ensuring that all employees are engaged to apply the highest standards of ethics, integrity and compliance can be found at the following address:

<https://www.thalesgroup.com/en/global/corporate-responsibility/ethics-integrity-and-compliance>

The procedures in place to ensure responsible practices and ethical conduct are defined at corporate level and applied systematically throughout the Thales organisation.

Strategic Report (continued)

Ethics, integrity and compliance (continued)

The goal is to identify potential problems early so we can prevent them from occurring. Our employees are the people who put our principles into practice, so we make sure everything is in place to help them support the risk prevention effort. This includes rules and procedures, training, policy and practical guidance documentation, e-learning, face to face learning and training and speak up facilities. The issue is reported upon monthly at Board meetings.

Modern slavery

Thales UK considers that modern slavery and human trafficking is an abhorrent crime that inflicts unacceptable harm on vulnerable adults and children. It fully supports the principles of the UK Modern Slavery Act of 2015 (MSA) and is firmly committed to its implementation. Thales UK is working hard to prevent its engagement in commercial arrangements with any organisation or persons that commit offences under the MSA. Our Modern Slavery Act statement is issued on the Thales Group Website at the following address:

<https://www.thalesgroup.com/en/global/presence/europe/united-kingdom/sustainability-uk/modern-slavery-act-statement>

Decision making

When considering significant business decisions, such as specific site developments or changes in activity, the Company seeks to involve the appropriate stakeholders, and has regard for the potential impacts of decisions, seeking as far as reasonably possible to balance the interests of stakeholders with the objectives of the Company.

During the year the Company made significant decisions in relation to the following matters:

In preparation for the planned disposal of the worldwide Thales Ground Transportation business to Hitachi, which is currently planned to be completed in the second half of 2023, the Company continued to segregate its Ground Transportation operations from the remainder of its continuing operations. As described in the Post Balance Sheet Events section of the Directors' Report, this included activities relating to the transfer of its ownership of Ground Transportation Systems UK Limited (formerly Thales Ground Transportation Systems Limited) to a fellow subsidiary of the Thales SA group of companies. The Company has also put in place measures to minimise retained impacts on the Company after the planned disposal.

The Company also decided to put in place measures that support the longer term move towards hybrid working post-COVID for all employees in roles where this is practical, which comprise a balance of Company site-based working facilities and working from home.

Strategic Report (continued)

Business review

Key financial and other performance indicators

The Company's key performance indicators are as follows:

	2022	2021
	£000	£000
Order intake	941,622	934,455
Revenue	930,420	948,007
Operating (loss) / profit	(35,163)	35,438
Operating cash flow	62,583	4,285

The Company had mixed performance across its key performance indicators during 2022.

2022 Order intake was up compared with the previous year, and was higher than 2022 revenue meaning the Company increased its backlog (£4,960,000) compared to the consumption of backlog in 2021 (£13,552,000) which resulted from orders that were lower than revenue in that year.

Our revenue in the year of £930,420,000 was 1.9% down compared with 2021. This reduction in revenue generation performance includes the solid delivery of many customer programmes, but was constrained by a combination of continued technical and cost-related issues on a small number of programmes.

Operating loss for the year of £35,163,000 (2021: operating profit of £35,438,000) reflects the additional costs experienced in delivering programmes, as well as the impact of lower margin generated from our reduced revenue performance as described above.

Operating cash flow of £62,583,000 in 2022 was a significant upturn compared to £4,285,000 in 2021, driven principally by advance payments received at the end of 2022 on certain new orders, some of which were anticipated in 2023. By contrast, in 2021 programme delivery issues served to constrain anticipated cash inflows from programme receipts.

Strategic Report (continued)

Environmental policy and performance information

Thales UK operates a comprehensive environmental policy complying with legislation, standards and best practice. We operate in a way that seeks to protect the environment, preserve biodiversity and respect natural sites. We are reducing our footprint by minimising our resources, seeking less environmentally harmful alternatives where we can, recycling and preventing pollution wherever possible. In addition, we monitor power and water consumption on all our sites and have programmes in place to reduce consumption, as well as CO₂ emissions, and move to a more sustainable business in line with the UN sustainable development goals.

The Company respects environmental legislation and standards applicable in the UK, and contributes towards the Thales Group strategy for a low carbon future. Further details of the Thales Group strategy for a low-carbon future can be found at the following address:

<https://www.thalesgroup.com/en/global/corporate-responsibility/environment/strategy-low-carbon-future>

In this strategic report the Company has provided certain information regarding energy use and emissions which is required to be reported by large UK companies under legislation introduced in 2019 by the Department for Business, Energy and Industrial Strategy (BEIS), titled the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which came into force on 1 April 2019, and apply to reporting periods commencing on or after that date. The reporting obligations introduced under this legislation, generally referred to as the Streamlined Energy and Carbon Reporting (SECR) require large UK companies to disclose for the reporting period certain energy use and Greenhouse (GHG) gas emissions, along with the methodology applied in calculating emissions as well as stating energy efficiency measures taken in the year.

The mandatory disclosures comprise:

Scope 1 - Direct emissions cover fuels use from transport (where the journey begins or ends in the UK) and combustion of natural gas, and;

Scope 2 - Indirect emissions cover electricity purchased and used for operations (not including energy sold on)

Voluntary disclosures comprise:

Wider scope 1 emissions including other fuel use, refrigerants and manufacturing emissions, and;

Scope 3 emissions - upstream and downstream energy use

Strategic Report (continued)

Environmental policy and performance information (continued)

The following table states the emissions of the Company as required by the mandatory disclosures, stating emissions in tonnes of CO₂ and CO₂ per full time employee (FTE) and Revenue (£) per CO₂e.

	2022	Year on year change (%)	2021
Scope 1 – Direct Emissions – Tonnes CO ₂	4,853.1	0.7%	4,817.8
Scope 2 – Indirect Emissions – Tonnes CO ₂	-	0.0%	-
Total Scope 1 & 2 – Tonnes CO₂	4,853.1	0.7%	4,817.8
Intensity of Emissions - Total Scope 1 & 2 – Tonnes CO₂ / FTE	0.97	(1.0%)	0.98
Average Number of Employees (Note 8)	5,017	1.8%	4,929
Revenue (£) per Tonne CO ₂ e	191,715	(2.6%)	196,771

As indicated in the table, the Company's emissions per FTE reduced in the year to 0.97 Tonnes CO₂/FTE from 0.98 Tonnes CO₂/FTE, a reduction of 1% year on year.

The main reasons for the increase in Scope 1 and stable Scope 2 GHG emissions are summarised below:

Scope 1 – The Company's Scope 1 emissions increased by 0.7% in 2022, despite a larger increase in the average number of employees of 1.8%. The overall emissions increase was the result of the increased use of company vehicles and business mileage as employees resumed necessary business travel following two years of significantly reduced travel during the COVID-19 pandemic. This increase was offset by a reduction in the use of gas and fuel oil to heat business premises.

Scope 2 – The Company sources its electricity from a certified renewable energy supplier to meet its full demand. The renewable energy contract was implemented on 1st September 2020, and therefore all electricity consumed during 2022 and 2021 was from renewable sources.

Strategic Report (continued)

Environmental policy and performance information (continued)

Further emissions detail is provided in the following table.

Year ended 31 December 2022	Quantity	Unit	kg/CO2e	Tonnes CO2
Scope 1				
Gas	10,303,330	kWh	0.18219	1,877.2
Diesel	65,264	litres	2.51233	164.0
Fuel Oil	277,500	litres	3.18	882.4
Company Vehicles & Business Mileage	7,025,562	miles	0.27465	1,929.5
Total Scope 1				4,853.1
Scope 2				
Electricity - Non-Renewable	-	kWh	0.19338	-
Electricity - Renewable	32,175,000	kWh	0	-
Total Scope 2				-
Total Scope 1 & Scope 2				4,853.1
Year ended 31 December 2021	Quantity	Unit	kg/CO2e	Tonnes CO2
Scope 1				
Gas	10,569,800	kWh	0.18316	1,936.0
Diesel	37,465	litres	2.51233	94.1
Fuel Oil	372,573	litres	3.17522	1,183.0
Company Vehicles & Business Mileage	5,815,087	miles	0.27596	1,604.7
Total Scope 1				4,817.8
Scope 2				
Electricity - Non-Renewable	-	kWh	0.21233	-
Electricity - Renewable	32,179,690	kWh	0	-
Total Scope 2				-
Total Scope 1 & Scope 2				4,817.8

Energy Efficiency Measures

Thales UK has initiated a Carbon Net Zero Plan, setting out the areas of focus for energy efficiency with the objective of reaching Net Zero carbon emissions by 2030. The initial target contained in the plan, of reducing Scope 1 & 2 GHG emissions by 25% for 2023 compared with the baseline year of 2018 has now been achieved and surpassed.

Further reductions will be achieved by transitioning the Company's car fleet to zero emissions by 2026 and its light commercial vehicle fleet by 2030.

Further, in the first half of 2021, we conducted detailed energy surveys at our major sites and have identified significant opportunities to reduce energy consumption and reduce CO2 output. The major initiative stemming from this survey is to replace existing gas boilers with air/ground source heat pumps. Coupled with other measures, this will enable the Company to achieve its net zero target from Scope 1 emissions.

Strategic Report (continued)

Energy Efficiency Measures (continued)

The Company's Carbon Net Zero Plan continues to be a dynamic and evolving plan, and it is anticipated that further measures will be identified to improve our overall energy efficiency and carbon impact as the plan out to 2030 matures.

Further details of the Company's Carbon Net Zero Plan can be found at the following address:

<https://www.thalesgroup.com/en/united-kingdom/news/how-thales-delivering-social-value-uk>

Future developments

Growth of export orders remains a key focus for the Company. This approach gives the Company access to markets and customers in which to exploit more fully its technological capability, as well as enabling the Company to compensate more for the continuing budgetary pressures on the UK defence and civil markets. These growth opportunities are an important element for the Company to increase its gross margins and develop new products, in order to grow the self-funded research and development needed to generate even more competitive and profitable products and services for the future.

On 4 August 2021, Thales SA, the Company's ultimate parent, announced in a press release that it had entered into exclusive negotiations with Hitachi Rail (Hitachi) for Hitachi to acquire the Thales Group Ground Transportation Systems Global Business Unit (Ground Transportation Systems or GTS). The press release added that "The completion of the transaction will require the carve-out of the business in several countries, and is subject to usual conditions including regulatory and antitrust clearances. It is expected to close by the end of calendar year 2022 / early in calendar year 2023."

Subsequently, on 10 February 2022, Thales SA and Hitachi signed the legally binding Sale and Purchase agreement to transfer ownership of the Thales GTS business to Hitachi with the intention that the transaction would close by the end of 2022, with the aim that all approvals would be obtained from all the regulatory authorities within the year.

The process of obtaining the regulatory approvals remained on-going throughout 2022, and on 9 December 2022, Thales made a further press release regarding the proposed divestment stating that:

"Thales (Euronext Paris: HO) and Hitachi have been making steady progress towards the completion of the proposed acquisition by Hitachi Rail of Thales's Ground Transportation Systems (GTS) business. Since the project was announced in August 2021, the two Groups have secured more than 2/3 of the regulatory approvals necessary for the transaction to proceed, including achieving merger clearances in 9 out of the 13 required jurisdictions. Hitachi Rail is currently in discussion with the European Commission's Directorate-General for Competition (DG Competition) with a view to securing approval of the transaction in the European Union.

On 8 June 2023, the Competition and Markets Authority (CMA) issued certain documents in relation to its on-going review of the "Anticipated acquisition by Hitachi Rail Limited of Thales SA's Ground Transportation Business". The matters noted in these documents have been taken into account by the Directors in the preparation of these financial statements. More detail is set out in note 12.

Strategic Report (continued)

Future developments (continued)

“Thales and Hitachi Rail strongly believe in the competitive benefits of the transaction, which will deliver value for customers in the rail signalling and mobility sectors in the UK, Europe and globally. The two companies remain committed to working with all regulatory bodies to ensure the successful close of the transaction as soon as possible”.

Research and development

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 ultimate parent company, Thales SA, and with fellow subsidiaries. This co-operation provides access to both expertise and new market opportunities. In 2022, the Company invested £161,823,000 (2021: £142,236,000) in research and development.

Principal risks and uncertainties

The Company is exposed to a number of risks and uncertainties associated with its operational activities.

Management of long-term projects

A significant proportion of the Company's business takes the form of long-term projects. These projects can be highly complex in terms of technology; may require meeting operational, regulatory or contractual requirements which are demanding or difficult to achieve; or may have to deal with unexpected changes during the delivery of the project. Project cost overruns represent the single biggest risk to the Company's operational financial performance.

The actual cost of delivering these projects may significantly exceed the initial cost estimated during the bid phase, which in turn may adversely impact the Company's results and financial position, especially considering these projects are generally based on a fixed, all-inclusive price. In the event of failure to achieve the required performance or meet the scheduled timetable, customers may demand payment of penalties or even terminate the contract.

Since the most complex contracts run over several years, their contribution to the Company's results in the financial year were based on an estimate of costs to complete which may differ materially from the actual costs ultimately incurred.

The Company's long-term projects are subject to a detailed risk assessment and management process. During the delivery of the project, regular reviews are performed to measure the technical, contractual and financial progress of each project, including specific review of any financial variances and the implementation of corrective action plans.

Strategic Report (continued)

Principal risks and uncertainties (continued)

Pension commitments

Defined benefit pension plans are in place for certain of the Company's employees and former employees. At 31 December 2022, the Company's pension commitments amounted to £2,554 million (2021: £3,713 million) with related investments of £2,151 million (2021: £3,037 million) resulting in an accounting deficit of £442 million (2021: £676 million). Changing market parameters can lead to a substantial increase or decrease in the amount of the pension deficit and the annual costs of the defined benefit plans.

The Company has introduced six-monthly reporting on its pension plan commitments and regularly examines the sensitivity of the pension commitments to possible market changes. The plan assets are managed by trustees in accordance with applicable regulation and in consultation with the parent company, Thales SA. The plan assets are invested with regard to the long-term maturity of the commitments they cover. Refer to Note 20 of the financial statements for further information.

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, other than entering into foreign currency hedging transactions as outlined below. These are all managed directly through the Thales Group treasury function.

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.

Inflation risk

At present, there is an increased level of macroeconomic uncertainty compared with recent years, including cost and wage inflation. This is beginning to show initial signs of impact in our own operational costs, particularly in relation to our supply chain. We are actively monitoring the situation and continue to put contingency measures in place to manage these risks. We believe we understand the short-term risks and have appropriate measure in place to mitigate the impacts on our financial performance. However, the long-term impacts remain uncertain, and we will continue to monitor the situation closely, and take action to protect the Company from cost increases where possible, for example, taking advantage of Thales Group support in managing the cost of employment and of procuring materials from third parties.

Strategic Report (continued)

Principal risks and uncertainties (continued)

Foreign currency risk

The Company has transactional currency exposures arising from sales or purchases by the Company in currencies other than the entity's functional currency. The Company uses forward currency contracts to hedge 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.

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. The Company's exposure to credit risk in respect of trade and other receivables is the carrying amount as disclosed in Note 16.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents 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. A large portion of the Company's trade is with the UK Ministry of Defence. The Company recognises that this constitutes a significant concentration of credit risk to one party but believes that as the customer is a UK government agency this is not a significant risk.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates is minimal as it charges a premium to group companies on any interest rate it bears on its balances with Thales SA. Additionally, the Company is in a net cash positive position, and so is protected from risk of increase interest expense, whilst a substantial part of its group balances receivable are at fixed interest rates.

Liquidity risk

As part of a large global group which operates a centralised treasury function, the Company's liquidity risk is low. In accordance with the group pooled bank account arrangements, the Company prepares regular cash flow forecasts to ensure that there are the necessary funds in place to enable financial liabilities to be met as they fall due.

Strategic Report (continued)

Principal risks and uncertainties (continued)

Other non-financial risks

Global security risk

On 24 February 2022, Russia launched an invasion of Ukraine, which has led to an on-going military conflict between the two countries. In response to this action by Russia, the UK Government and many other national governments have imposed specific sanctions on Russia and Belarus, and on a number of individuals, which, inter alia, prevent certain trading and other business activities with Russia, Belarus, and the sanctioned individuals in the current circumstances.

In this regard, the Company has reviewed its operations to confirm that it has in place the necessary controls to ensure compliance with the UK Government sanctions. Additionally, the Company has assessed the potential impact on its operational activities due to these sanctions and considers that any changes resulting from compliance with these sanctions are likely to have a minimal impact on its operational activities, taking due account of mitigation actions where appropriate.

Outbreak of contagious diseases risk


The Company has a formal business continuity management programme and business continuity plans, which are regularly reviewed to ensure that they are up to date, and which identify the responsibilities of nominated individuals and ways of working to enable the Company to assess rapidly emerging threats, including contagious diseases, and to put in place mitigation plans to guide the Company's response and to minimise the impacts on its people and the business.

Information technology and security risk

As a business which is strongly reliant on effective and secure IT systems, the Company has a structured approach to all aspects of managing its information and security risks. This approach includes clearly documented policies on the way that employees access the system with controlled access rights, through to the way that information is used and stored, and transmitted internally and externally. The Company has a disaster recovery plan in place as part of the business continuity management programme to ensure continuity of activities should an unplanned incident occur impacting the IT data processing system.

The Company is cognisant of the ever-growing range of threats by unauthorised persons and organisations to compromise the security of Information Technology systems and the information that they manage. In this regard, the Company has in place security procedures which comply with recognised external standards, including Cyber Essentials Plus and ISO27001.

Approved by the Board on 18 October 2023 and signed on its behalf:



C Hindle, Director
350 Longwater Avenue
Green Park
Reading
RG2 6GF

Directors' Report

The Directors present their annual report and financial statements, together with the auditor's report, for the year ended 31 December 2022.

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, future developments, research and development activities, financial instruments, policy with regard to employment of disabled persons, and engagement with employees and with customers, suppliers and others. The Company's performance in terms of energy use and related Scope 1 and Scope 2 Greenhouse Gas (GHG) emissions is included in the strategic report along with details of the Company's actions to reduce its GHG emissions.

Governance

The Company meets the criteria requiring it to report on Corporate Governance under the Companies (Miscellaneous Reporting Regulations) 2018, and the Directors have set out below the approach adopted by the Company to Corporate Governance.

The Company has not adopted a specific Governance Code in the UK. The Directors carry out their statutory duties under Section 172 of The Companies Act 2006 to promote the interests of the Company in accordance with the Corporate Governance arrangements of Thales Group, and the Company and Board operate within the framework of that Governance, which is in place throughout the Thales Group. The key principles of the framework are:

- The Board is empowered to run the business of the Company subject to the delegated authority rules that are flowed down to it from the Group and Global Business Units and policies that are set at Group level. Regulatory compliance is under the responsibility of the Board.
- The Board is led by the Chief Executive Officer, who reports directly to the Chairman and CEO of the Thales Group and he is supported by the Chief Operating officer. Minutes of statutory meetings and key decisions of the Directors are recorded and retained by the Company Secretary.
- Monthly, quarterly and bid pre-approval reviews with senior management of the Group and Global Business Unit Leaders. In particular, regular reviews are held with the senior management of Thales SA, the Company's ultimate parent, to identify and review any issues, and to report the performance of the entity.
- UK central functions design and deliver additional and specific policies and programmes to meet UK specific responsibilities to employees and its wider stakeholders.
- The Board also sets remuneration policies designed to support the long-term success of the Company with appropriate and fair levels of remuneration to attract and retain high-quality employees in all areas of the Company, within the policies and principles of the Thales Group.
- A Group led internal audit function reviews different aspects of the UK operations, including organisational and governance.

Directors' Report (continued)

Governance (continued)

As with all large complex groups, the manner in which the Group's business activities are organised changes from time to time. When such changes occur, significant attention is given to recording and documenting changes to existing policies and procedures. Thales SA has, since 2008, referred voluntarily to the Corporate Governance Code for Listed Companies published by the Afep and Medef bodies (<https://afep.com/wp-content/uploads/2018/06/Afep-Medef-Code-revision-June-2018-ENG.pdf>) as indicated in the Thales Universal Registration Document 2022 (<https://www.thalesgroup.com/en/investor/regulated-information>).

Directors' remuneration

The disclosures required by Schedule 7 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in respect of directors' remuneration are provided in Note 8 to the financial statements.

Dividends

The Directors do not recommend the payment of a dividend (2021: £Nil).

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 trading performance of the Company in the year to 31 December 2022, resulting in an operating loss of £35,163,000 (2021: operating profit of £35,438,000). The Company had net assets at 31 December 2022 of £849,084,000 (2021: £725,448,000). This increase in the Company's net assets in the period was driven principally by an actuarial gain on the pension scheme, net of deferred tax impacts, of £170,156,000 (2021: actual gain £479,186,000). The Directors have also considered the Company's backlog of unfulfilled orders which is in excess of £2,000,000,000 (2021: in excess of £2,000,000,000) and is to be delivered in the immediate to medium term in addition to further orders which the Company will pursue with customers in this period.

In addition to the considerations above, the Directors have assessed the Company's ability to meet its pension and other obligations for the twelve months from the date of signing this report, and have concluded these can be met from funds generated by the business and current resources, and it is not anticipated that the Company will need to increase its existing funding arrangements with Thales Group. In addition, the Company's ultimate parent, Thales SA, has provided a guarantee to the UK pension scheme of £1,275,000,000 (2021: £1,275,000,000).

Directors' Report (continued)

Going concern accounting basis (continued)

In view of the above, the Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the twelve months from the date of signing this report and therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

The Directors who served during the year, and to the date of this report, were as follows:

Name

A C K Cresswell

C B W Shaw

C Hindle (Appointed 1 August 2023)

E A McCrorie (Resigned 1 August 2023)

P Gosling

S J Stratton

L Watson

Directors' liabilities

The Company has liability insurance policies to provide financial protection against certain insurable risks. The Company has not granted any indemnity against liability to its Directors during the year or at the date of approving the Directors' report.

Post balance sheet events

The Directors of the Company noted that on 31 January 2023, the Company transferred its ownership of the entire issued share capital of Ground Transportation Systems UK Limited (formerly Thales Ground Transportation Systems Limited) to a fellow subsidiary of the Thales SA group of companies. The company to which the Company transferred its 100% holding of the shares of Ground Transportation Systems UK Limited is Centelec UK Limited. Centelec UK Limited was incorporated on 21 January 2022, and is the entity in which Thales SA is grouping the majority of its Ground Transportation businesses in preparation for the planned disposal of the worldwide Thales Ground Transportation business to Hitachi which is currently planned to be completed in the second half of 2023. More detail is set out in note 12.

The Directors of the Company also noted that on 8 June 2023, the Competition and Markets Authority (CMA) issued certain documents in relation to its on-going review of the "Anticipated acquisition by Hitachi Rail Limited of Thales SA's Ground Transportation Business". The matters noted in these documents have been taken into account by the Directors in the preparation of these financial statements. More detail is set out in note 12.

Directors' Report (continued)

After the year end the Company has resolved a third party claim in relation to a contract, the impact of which has been reflected within these financial statements. More information regarding the resolution of this claim is included in Note 19.

During the period since 31 December 2022 the Company has consulted with employees who are members of the Thales UK Pension Scheme (TUPS), which is a Defined Benefit Pension (see Note 20), with a view to implementing a new basis of accrual of future pension benefits under a new Defined Contribution Scheme. Consequently, the TUPS will be closed to future benefit accrual after 30 September 2023.

The financial impacts of this change of pension provision will first impact in the year to 31 December 2023, and have no impact on the amounts and disclosures for the year ended 31 December 2022.

Donations

During the year ended 31 December 2022 no political donations were paid (2021: £Nil).

Charitable Donations

During the year ended 31 December 2022 the Company made charitable donations amounting to £175,000 (2021: £175,000).

Disclosure of information to the auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information of which the auditor is 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 18 October 2023 and signed on its behalf:



C Hindle, Director

350 Longwater Avenue
Green Park
Reading
RG2 6GF

Statement of directors' responsibilities

The Directors are responsible for preparing the Directors' report, the Strategic 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 judgments 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;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- 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 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.

Approved by the Board on 18 October 2023 and signed on its behalf:



C Hindle, Director

350 Longwater Avenue
Green Park
Reading
RG2 6GF

Independent auditor's report to the members of Thales UK Limited

Opinion

We have audited the financial statements of Thales UK Limited (the 'company') for the year ended 31 December 2022 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our audit procedures to evaluate the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the company's ability to continue as a going concern;
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Evaluating the directors' method to assess the company's ability to continue as a going concern;
- Reviewing the directors' going concern assessment, which incorporated severe but plausible scenarios;
- Evaluating the key assumptions used and judgments applied by the directors in forming their conclusions on going concern; and
- Reviewing the appropriateness of the directors' disclosures in the financial statements.

Independent auditor's report to the members of Thales UK Limited (continued)

Conclusions relating to going concern (continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent auditor's report to the members of Thales UK Limited (continued)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Independent auditor's report to the members of Thales UK Limited (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

Based on our understanding of the company and its industry, we considered that that the principal risks of non-compliance with laws and regulations related to the employment regulation and health and safety regulation, anti-bribery, corruption and fraud, money laundering, and environmental reporting, and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as: tax legislation, pension legislation, the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to the posting of manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates in particular in relation to estimated costs to completion on long term contracts and contract provisions, revenue recognition (which we pinpointed to the accuracy, occurrence and cut-off assertions) and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

Independent auditor's report to the members of Thales UK Limited (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.


Gavin Barclay (Oct 19, 2023 09:49 GMT+1)

Gavin Barclay (Senior statutory auditor)

for and behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London
EC4M 7AU

19 October 2023

Statement of total comprehensive income for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Continuing operations			
Revenue	4	930,420	948,007
Cost of sales		<u>(867,115)</u>	<u>(821,607)</u>
Gross profit		63,305	126,400
Distribution costs		(54,368)	(51,036)
Administrative expenses		(37,811)	(35,629)
Other operating expenses		<u>(6,289)</u>	<u>(4,297)</u>
Operating (loss) / profit	5	(35,163)	35,438
Interest receivable and similar income	6	32,015	32,378
Impairment of goodwill	10	(3,480)	(1,392)
Interest payable and similar charges	7	<u>(16,649)</u>	<u>(20,456)</u>
(Loss) / Profit on ordinary activities before taxation		(23,277)	45,968
Tax (charge) / credit	9	<u>(3,952)</u>	<u>1,059</u>
(Loss) / Profit for the financial year		<u>(27,229)</u>	<u>47,027</u>
Other comprehensive income			
Items that cannot be reclassified to profit or loss			
Re-measurement of pension plan gain	20	170,156	461,300
Tax relating to re-measurement of pension plan		-	17,886
		<u>170,156</u>	<u>479,186</u>
Items that can be reclassified to profit or loss			
Net movement on cash flow hedges		<u>(18,760)</u>	<u>(2,195)</u>
		(18,760)	(2,195)
Other comprehensive income for the year, net of tax		<u>151,396</u>	<u>476,991</u>
Total comprehensive income for the year		<u>124,167</u>	<u>524,018</u>

All operations are classed as continuing.

The notes on pages 32 to 78 form an integral part of these financial statements.

Statement of financial position at 31 December 2022

	Note	2022 £000	2021 £000
Fixed assets			
Intangible assets	10	2,861	6,438
Investments in subsidiaries	11	102,063	102,207
Investments in joint ventures and associates	13	14,985	14,985
Tangible assets	14	161,582	177,742
Deferred tax asset	21	132,471	132,480
		<u>413,962</u>	<u>433,852</u>
Current assets			
Assets held for sale	12	170,471	170,471
Stocks	15	117,211	126,756
Debtors, amounts falling due within one year	16	1,285,746	1,269,208
Debtors, amounts falling due after one year	16	629,663	703,267
Cash and cash equivalents		14	603
		<u>2,203,105</u>	<u>2,137,825</u>
Total assets		<u>2,617,067</u>	<u>2,571,677</u>
Creditors: amounts falling due within one year			
Creditors	17	1,064,250	918,637
Lease liabilities falling due within one year	18	9,639	9,751
Net current assets		<u>1,129,216</u>	<u>1,209,437</u>
Total assets less current liabilities		<u>1,543,178</u>	<u>1,643,289</u>
Lease liabilities falling due after one year	18	92,281	100,927
Provisions for liabilities	19	160,083	140,914
Retirement benefit obligations	20	441,730	676,000
		<u>694,094</u>	<u>917,841</u>
Total liabilities		<u>1,767,983</u>	<u>1,846,229</u>
Net assets		<u>849,084</u>	<u>725,448</u>

Statement of financial position (continued) at 31 December 2022

Registered number: 00868273

	Note	2022 £000	2021 £000
Equity			
Called up share capital	22	1,274,280	1,274,280
Share premium account		92,906	92,906
Cash flow hedge reserve		(36,708)	(17,948)
Share-based payment reserve		-	531
Pension reserve		(837,384)	(1,007,540)
Retained earnings		355,990	383,219
Total equity		849,084	725,448

The notes on pages 32 to 78 form an integral part of these financial statements.

The financial statements on pages 27 to 31 were approved by the Board of Directors and authorised for issue on

18 October 2023. They were signed on its behalf by:



C Hindle, Director

Statement of changes in equity - Year ended 31 December 2022

	Called up share capital £000 (Note 22)	Share premium account £000	Cash flow hedge reserve £000	Share-based payment reserve £000	Pension reserve £000	Retained earnings £000	Total equity £000
At 1 January 2022	1,274,280	92,906	(17,948)	531	(1,007,540)	383,219	725,448
Loss for the year	-	-	-	-	-	(27,229)	(27,229)
<u>Other comprehensive income:</u>							
Movement on cash flow hedges	-	-	(18,760)	-	-	-	(18,760)
Re-measurement of pension plan (Note 20)	-	-	-	-	170,156	-	170,156
Deferred tax	-	-	-	-	-	-	-
Total comprehensive income	-	-	(18,760)	-	170,156	(27,229)	124,167
Share-based payment settlement	-	-	-	(531)	-	-	(531)
At 31 December 2022	1,274,280	92,906	(36,708)	-	(837,384)	355,990	849,084

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

The cash flow hedge reserve represents the difference between the market value and the initial fair value of financial instruments held by the Company in respect of future receipts and payments. When the cash flow transaction concludes, the reserve is released to either P&L or against assets depending on whether the cash flow was against a balance sheet item or an item of income or expense.

The share-based payment reserve has reduced to nil (2021: £531,000) as the active remaining incentive scheme are treated as cash-settled, these relate to schemes operated by Thales SA for eligible group employees in which the Company participates (Note 22).

The pension reserve represents the effects of the revaluation of the Thales UK pension scheme, to reflect the full pension liability disclosed on the balance sheet. Retained earnings include all current and prior period retained profits and losses.

The notes on pages 32 to 78 form an integral part of these financial statements.

Statement of changes in equity (continued) - Year ended 31 December 2021

	Called up share capital £000 (Note 22)	Share premium account £000	Cash flow hedge reserve £000	Share-based payment reserve £000	Pension reserve £000	Retained earnings £000	Total equity £000
At 1 January 2021	1,274,280	92,906	(15,753)	1,340	(1,486,726)	336,192	202,239
Profit for the year	-	-	-	-	-	47,027	47,027
<u>Other comprehensive income:</u>							
Movement on cash flow hedges	-	-	(2,195)	-	-	-	(2,195)
Re-measurement of pension plan (Note 20)	-	-	-	-	461,300	-	461,300
Deferred tax	-	-	-	-	17,886	-	17,886
Total comprehensive income	-	-	(2,195)	-	479,186	47,027	524,018
Share-based payment settlement	-	-	-	(809)	-	-	(809)
At 31 December 2021	1,274,280	92,906	(17,948)	531	(1,007,540)	383,219	725,448

Notes to financial statements

for the year ended 31 December 2022

1. Corporate information

Thales UK Limited is a private company limited by shares incorporated and domiciled in England & Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report. Information on its ultimate parent is presented in Note 26. The financial statements of Thales UK Limited for the year ended 31 December 2022 were authorised for issue by the Board of Directors on 18 October 2023 and the balance sheet was signed on the Board's behalf by C Hindle.

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 on page 34). 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. The financial statements have been prepared under the historical cost convention, other than some items which have been measured using an alternative methodology where required by certain IFRSs, for example derivative financial instruments which are required under IFRS 9 to be held at fair value. In all cases where an alternative methodology is required, this has been stated in the relevant note.

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 401 of the Companies Act 2006 because it is a wholly owned subsidiary of Thales SA, which prepares publicly available consolidated financial statements.

The recognition, measurement and disclosure requirements of International Accounting Standards in conformity with the requirements of the Companies Act 2006 have been applied to the financial statements, except for certain disclosure exemptions detailed below and, where necessary, amendments have been made in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups Regulations 2008/410 ('Regulations').

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2022, and have been consistently applied to all periods presented. There were no new accounting standards introduced in the year which were applicable to the Company.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

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

- (a) 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;
- (b) the requirements of paragraphs 10(d), 10(f), 16, 38A-38D, 40A-40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- (c) the requirements of IAS 7 Statement of Cash Flows;
- (d) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (e) the requirements of paragraph 17 and 18 of IAS 24 Related Party Disclosures;
- (f) 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
- (g) 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.
- (h) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based Payment
- (i) 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 B67 of IFRS 3 Business Combinations;
- (j) the requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- (k) the requirements of IFRS.7 Financial Instruments: Disclosures;
- (l) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- (m) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

Notes to financial statements (continued)

for the year ended 31 December 2022

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 trading performance of the Company in the year to 31 December 2022, resulting in an operating loss of £11,942,000 (2021: operating profit of £35,438,000). The Company had net assets at 31 December 2022 of £872,305,000 (2021: £725,448,000). This increase in the Company's net assets in the period was driven principally by an actuarial gain on the pension scheme, net of deferred tax impacts, of £170,156,000 (2021: actual gain £479,186,000). The Directors have also considered the Company's backlog of unfulfilled orders which is in excess of £2,000,000,000 (2021: in excess of £2,000,000,000) and is to be delivered in the immediate to medium term in addition to further orders which the Company will pursue with customers in this period.

In addition to the considerations above, the Directors have assessed the Company's ability to meet its pension and other obligations for the twelve months from the date of signing this report, and have concluded these can be met from funds generated by the business and current resources, and it is not anticipated that the Company will need to increase its existing funding arrangements with Thales Group. In addition, the Company's ultimate parent, Thales SA, has provided a guarantee to the UK pension scheme of £1,275,000,000 (2021: £1,275,000,000).

In view of the above, the Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the twelve months from the date of signing this report and therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Intangible assets

Goodwill

The UK Companies Act requires goodwill to be reduced by provisions for amortisation on a systematic basis over 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 loss for the year was stated after recognising an impairment charge of £3,480,000 (2021: £1,392,000) in the year (Note 10), and hence goodwill is not deemed to have an indefinite useful life.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Intangible assets (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.

For the purpose of impairment testing undertaken in lieu of amortisation as explained above, 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 (the higher of an asset's fair value less costs of disposal (sometimes called net selling price) and its value in use) 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.

On disposal of an acquired business, the attributable amount of goodwill is included in determining the profit or loss on disposal.

Research and development

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. The expenditure is normally written off as incurred, unless the following conditions are satisfied:

- an asset is created that can be identified;
- the development cost of the asset can be measured reliably.
- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.
- its ability to use or sell the intangible asset.
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

In such cases, an internally generated intangible asset is recognised and amortised on a straight-line basis over its useful life as described above.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Intangible assets (continued)

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. This is only applicable to purchased assets.

Software

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

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

Investments

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.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Investments (continued)

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.

An impairment loss is recognised immediately in profit and loss.

Due to the nature of the Company's holdings, which the Company considers to be aligned with the Company's strategic activities, the Company does not consider its investments in subsidiaries, associates and joint ventures to result in significant changes to the Company's risk exposure.

Combination of businesses under common control

From time to time, in order to promote the efficient operation of the Company's business activities, the Company acquires all operating assets and liabilities from certain of its subsidiaries as well as the associated trading activities. The on-going conduct of the transferred business is managed and reported in the future by the Company.

As there are no changes to the shareholder group at the time of such transactions, these transactions do not classify as a business combination as defined under IFRS 3 'Business Combinations', but as a combination of businesses under common control. The value of assets and liabilities transferred is recognised at the balance sheet carrying value to determine the consideration receivable by the transferor from the Company. The acquired assets and assumed liabilities are recognised at the value of the consideration. 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 occurs.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at historical cost, net of depreciation and any provision for impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on all tangible fixed assets at rates calculated to write off the historical cost, less estimated residual value, if any, of each asset on a straight-line basis over its expected useful life, as follows:

Long-term leasehold premises	50 years
Plant and machinery, furniture and vehicles	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 de-recognition 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 qualifying assets to a state where they are ready to be used are capitalised as part of the costs of the asset.

Right-of-use assets represent the rights acquired under lease agreements, and are subject to an annual amortisation charge in the statement of income which will amortise on a straight-line basis the initial value recognised for each right of use asset over the shorter of its economic life and the lease period, less any guaranteed termination sum to be received by the Company on expiry of the lease term.

Further detail on right-of-use leased assets is provided in the accounting policy below on leases.

Impairment of tangible and intangible assets excluding goodwill

At each reporting date the Company reviews the carrying amounts of its 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.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill (continued)

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.

Impairment losses are reversed in subsequent periods when an increase in the asset'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 asset at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

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.

All financial instruments are initially recognised at fair value plus, in the case of financial assets and financial liabilities not held at fair value through profit or loss, directly attributable transaction costs.

The Company classifies all financial liabilities as other financial liabilities measured at amortised cost. Financial liabilities are initially recognised at fair value, net of directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price.

Financial assets

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); or
- Financial assets at fair value through profit or loss.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Financial assets (continued)

The Company has no financial assets designated at fair value through OCI with recycling on derecognition.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets measured at amortised cost comprise trade receivables, contract assets and receivables from the parent company, other group undertakings and associates.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Company elected to classify irrevocably its non-listed and non-wholly owned equity investments under this category.

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.

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.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Impairment of financial assets – expected credit losses

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. The Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Assets held for sale

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. They are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

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 cost of sales in the statement of comprehensive income. Un-invoiced research and development fully funded by customers is carried forward as work in progress.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

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.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments, such as forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

A hedge is considered effective if the changes in the cash flow of the hedged item and the hedging instrument offset each other. The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of total comprehensive income.

The Company uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised as other income or expense. On 1 January 2018 the Company elected to adopt IFRS 9, including requirements relating to the accounting treatment of hedge contracts.

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.

Notes to financial statements (continued)

for the year ended 31 December 2022

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.

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. 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.

Revenue recognition

The Company's principles of revenue recognition were the following:

Unbundling of multiple performance obligations within a single contract

Some contracts include the supply to the customer of distinct goods and services (for instance contracts combining build followed by operation and maintenance). In such situations, IFRS 15 requires the contract to be segmented into separate components ("performance obligations"), with each component being accounted for separately, with its own revenue recognition method and margin rate.

The contract price is allocated to each performance obligation in proportion to the specific selling price of the underlying goods and services. This allocation reflects the share of the price to which Thales expects to be entitled in exchange for the supply of these goods or services. The contract price is the total financial consideration which the Company expects to be paid for undertaking the performance obligations in the contract with the customer. Further details are set out below.

Options notified by the customer for the supply of distinct additional goods or services are generally accounted for separately.

Notes to financial statements (continued)
for the year ended 31 December 2022

2. Accounting policies (continued)

Revenue recognition (continued)

Evaluation of revenue allocated to performance obligations

Revenue includes contractual income from claims only when it is highly probable that such claims will be accepted by the customer.

Contractual amendments negotiated with customers are included in the selling price only when they become legally enforceable.

Variable consideration included in the selling price is taken into account only to the extent that it is highly probable that a significant reversal in the amount of revenue already recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Where variable consideration is included in a contract, it is normally calculated by reference to a specified index within the contract such that the movement in the index after inception of the contract up to specified dates in the contracts will be measured and a price adjustment calculated accordingly. This type of mechanism is ultimately a post cost adjustment which inherently involves an element of risk when estimating at the start of the contract what the movement in the index during the life of the contract will be, and consequently the Company takes a cautious position during the early years of a contract to incorporate an amount of variation in price within the additional revenue on that contract so as to minimise the risk that the variable consideration could subsequently result in a reversal of revenue recognised.

Penalties for late delivery or for the improper execution of a contract are recognised as a deduction from revenue.

If the financing component is deemed significant, the selling price is adjusted to reflect a "cash" selling price for the goods and services provided. A financing component exists when either the Company or customer obtains a significant benefit of financing, through contractual terms.

Recognition of revenue over time or at a point in time

Revenue associated with each performance obligation identified within a contract is recognised when the obligation is satisfied, i.e. when the control of the promised goods or services is transferred to the customer.

To demonstrate that the transfer of goods is progressive and revenue can be recognised over time, the following cumulative criteria are required:

- The goods sold have no alternative use, and
- The Company has an irrevocable right to payment (corresponding to costs incurred, plus a reasonable profit margin) for the work performed to date, in the event of termination for reasons other than the Company's failure to perform as promised.

Notes to financial statements (continued)
for the year ended 31 December 2022

2. Accounting policies (continued)

Revenue recognition (continued)

These criteria are fulfilled by the vast majority of the Company's contracts that include the design and delivery of complex goods.

Revenue from the sale of goods with an alternative use, and/or for which the Company has no right to payment in case of termination for convenience by the customer, is recognised when the goods are delivered to the customer. This essentially concerns equipment and spare parts.

Revenue from service contracts is generally recognised over time, as the customer simultaneously receives and consumes the benefits of these services provided by the Company.

Percentage of completion method:

The percentage of completion method generally used by the Company is expense-based, with revenue recognised based on the costs incurred to date in relation to the total costs expected upon completion.

Margin recognition:

Where pre-contract costs, including bid costs, have been agreed by the customer as reimbursable to the Company, even if the contract in question does not subsequently proceed, these costs are treated as project costs and charged to the statement of comprehensive income over the contract term and hence are recognised in the contract margin. In all other cases bid costs are expensed as incurred under distribution costs in the statement of comprehensive income.

Expected losses on contracts are fully recognised as soon as they are identified.

Order backlog and balance sheet presentation for contracts with customers

Order backlog corresponds to the amount of the selling price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) at the balance sheet date.

The cumulated amount of revenue accounted for, less progress payments and accounts receivable is determined on a contract-by-contract basis. If this amount is positive, the balance is recognised under "contract assets" in the balance sheet. If it is negative, the balance is recognised under "contract liabilities".

Reserves for onerous contracts (reserves for loss at completion) are excluded from contract assets and liabilities and presented under "contract costs" in provisions for liabilities.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Revenue recognition (continued)

The timing of revenue recognition, billings and cash collections results in billed accounts receivables and unbilled receivables (contracts assets) and customer advances and deposits (contract liabilities) on the balance sheet. Amounts are billed in accordance with agreed-upon contractual terms either at periodic intervals or upon the achievement of contractual milestones.

Generally billing occurs after revenue has been recognised, as the receipt of consideration is frequently conditional on meeting certain contractual milestones, resulting in contract assets (Note 16).

The Company also receives advances from customers or down payments before revenue has been recognised and these are treated as contract liabilities until the associated revenue is recognised (Note 17).

These assets and liabilities are reported in the balance sheet on a contract by contract basis at the end of each reporting period.

Changes in these contract assets and liabilities during the year ended 31 December 2022 were not materially impacted by any other factors.

Taxation

The tax charge / (credit) comprises current and deferred tax. The 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 (such as cash flow hedges or pension reserves) 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.

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.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Leases

The Company has in place lease agreements in respect of property and vehicles.

Leases are accounted for in accordance with the requirements of IFRS 16 'Leases'. Where the Company has a contract with another party which meets the qualifying criteria as set out in IFRS 16, the Company recognises in its statement of financial position a right of use asset and a corresponding lease liability to the third party (the lessor).

A leased asset's value is initially recognised as the present values of future cash outflows, discounted using an appropriate risk weighted discount rate, in line with the length of the lease. A lease asset and lease liability are then created upon initial recognition.

The lease liability represents the Company's obligation to make future lease payments to the lessor, including the amount of any optional increases or reductions in lease period which the Directors consider to be reasonably certain, less any lease incentives receivable. The lease liability incurs interest at a rate which is determined based on the inherent rate of interest in the lease, or if this cannot be determined, at a lease specific incremental borrowing rate, and the interest incurred using this rate is charged in the statement of income, and the amount of any lease payments made by the Company to the lessor, after adding interest to the lease liability, is used to amortise the carrying value of the lease liability in the statement of financial position.

Future lease commitments to be paid are disclosed in the financial statements and notes after making a deduction for interest which will arise in future accounting periods, such that the lease principal which remains outstanding at each reporting date is allocated between amounts due within less than twelve months and amounts due after more than twelve months. These are then presented in the statement of financial position under Current Liabilities and Non-current Liabilities, respectively. Leases of low-value assets or short-term leases are immediately expensed in profit or loss.

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.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Retirement benefit costs (continued)

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 statement of comprehensive income 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.

Where the year-end pension valuation in accordance with IAS 19 indicates that there is a potential surplus on the Company's defined benefit scheme, the impact of this surplus is assessed in accordance with IFRIC 14 (Note 20) to determine what share of the surplus is attributable to the Company, along with the associated taxation impacts.

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 cash settled and equity-settled share-based payments to certain employees. The Thales Group uses a binomial model to measure the fair value of the benefit at date of grant to the employees. The fair value of cash settled instruments are recognised evenly over the four year vesting period within the statement of comprehensive income. The cumulative liability generated is then settled at the end of the rights vesting period when the invoiced cost is received from Thales group.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Share-based payments (continued)

With equity settled instruments, the fair value is also recognised evenly over the four year vesting period within the statement of comprehensive income. However, a provision builds up within the share based payment reserve in equity. This provision is then settled at the end of the rights vesting period when the invoiced cost is received from Thales group.

Where share payment instruments do not ultimately vest (i.e. when an employee leaves the company before the end of the vesting period), the liability or provision ultimately reverses back to the statement of comprehensive income.

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.

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.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

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.

Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires the Company to make estimates and judgments that affect the application of policies and reported amounts. Estimates and judgments may both require relevant assumptions to be adopted, and these estimates and judgments, along with the related assumptions are continually evaluated based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from those anticipated through estimates and judgments. The estimates and judgments which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities recognised in the financial statements are reviewed on a regular basis and are listed below.

Sources of estimation uncertainty

Revenue from contracts with customers

Revenue from contracts with customers is accounted for in accordance with IFRS 15. This requires judgments to estimate future expected costs to be incurred. Further details on revenue from contracts with customers are disclosed above in the Company's accounting policies, Note 2.

The judgments 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 costs on a contract reflect management's best estimate of the total contract value (including estimates of variable consideration, as described on page 44) 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.

In addition, 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.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Significant accounting judgments, estimates and assumptions (continued)

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 materially with the result that financial performance already reported may need to be revised, with a cumulative adjustment to revenue and operating profit being recognised when the assumptions are updated and estimates of future financial performance may also need to be revised.

Valuation of hedge instruments

As described in the Strategic report (page 15), the Company uses foreign currency contracts to manage its exposure to exchange rate fluctuations. Although in the current period the reported values are low, there is potential for changes based on large currency shifts or increased use of foreign currency contracts. As such they are a source of estimation uncertainty with a potentially significant impact. However as explained on page 15, the Company applies currency risk management policies applied by Thales Group treasury function across all Thales entities, and consequently the likelihood of significant exposure is low. Further details on hedge instruments are disclosed in Note 16 and Note 17.

Provisions for liabilities

Accounting for provisions is based on estimates of the extent and probability of occurrence of future events. As far as possible, these are also based on experience or external opinions. Certain provisions, such as those relating to contract costs, can be subject to significant estimation uncertainty. This is due to the complexity involved in determining the range and value of possible outcomes. A significant change in projected or actual outcomes versus the assumptions currently made might have a significant impact on the financial statements. Further details on provisions are disclosed in Note 19.

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. In addition, estimation is required in adjusting the recognised accounting surplus or deficit for the present value of minimum funding requirements as required by IFRIC 14. Further details on post-retirement benefits are disclosed in Note 20.

Notes to financial statements (continued)

for the year ended 31 December 2022

2. Accounting policies (continued)

Significant accounting judgments, estimates and assumptions (continued)

Judgment made in applying accounting policies

Right-of-use assets

Right of Use Assets are recognised as required by IFRS 16. The value attributed to each Right-of-Use Asset is calculated by reference to relevant assumptions regarding the expected future costs of continuing to occupy specific leased sites, and it is assumed that current levels of site occupation, duration and the costs of carrying out projected dilapidations work prior to handing leased properties back to the landlord on lease termination will be in line with current estimates. It is assumed that the current interest rate assumptions will continue to apply. A significant change in projected outcomes versus the assumptions currently made might require a revised value for the Right-of-Use Asset and liability to be recognised. (See Note 14 for Right-of-Use assets and Note 18 for lease liabilities).

Deferred tax recognition

Deferred tax assets on tax losses 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 judgment is required to determine the amount of such 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 investments in certain trading subsidiaries associates and joint ventures is based on discounted future cash flows. Further details on impairment of investments are disclosed in Note 11, notably in relation to the cumulative opening provision for impairment, as there was no additional impairment considered necessary in the current year.

Recoverability of contract assets

Contract assets are assessed for potential impairment in accordance with IFRS 9. This requires judgment in determining the recoverability of contract assets and the appropriate level of impairment to be recognised against each asset.

Impairment of goodwill

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired based on the value of the discounted future cash flows. Judgments are made in preparing and assessing such long term projections.

Notes to financial statements (continued)

for the year ended 31 December 2022

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

The accounting policies adopted for the year are consistent with those applied for the year ended 31 December 2021.

None of the standards, interpretations and amendments which are effective for accounting periods beginning after 1 January 2022, and which have not been adopted early, are expected to have a material effect on the financial statements.

4. Revenue

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

2022	Aerospace £000	Defence & Security £000	Total Company £000
UK	65,592	598,593	664,185
Rest of Europe	26,635	115,572	142,207
North America	3,055	27,401	30,456
South America	-	1,476	1,476
Asia	2,598	51,030	53,628
Africa	3,181	29,602	32,783
Australia	1,047	4,638	5,685
Total sales under contracts with customers	102,108	834,554	930,420

2021	Aerospace £000	Defence & Security £000	Total Company £000
UK	61,953	576,196	638,149
Rest of Europe	23,946	127,557	151,503
North America	3,407	31,620	35,027
South America	-	-	-
Asia	1,781	76,173	77,954
Africa	604	35,021	35,625
Australia	187	9,562	9,749
Total sales under contracts with customers	91,878	856,129	948,007

Notes to financial statements (continued)

for the year ended 31 December 2022

5. Operating profit / (loss)

Operating profit is stated after charging / (crediting):

	2022	2021
	£000	£000
Net foreign exchange losses	2,571	3,859
Research and development costs	161,823	142,236
Research and development tax credit	(21,037)	(18,491)
Depreciation of leasehold property, plant & equipment (Note 14)	17,609	15,533
Depreciation of Right-of-use assets (see Note 14)	9,825	9,489
Amortisation of intangible assets (Note 10)	1,312	161
Cost of stocks recognised as an expense including amounts written down (Note 15)	190,321	184,589
Impairment of goodwill (Note 10)	3,480	1,392
Auditor's remuneration for audit services	694	620
	<u>694</u>	<u>620</u>

6. Interest receivable and similar income

	2022	2021
	£000	£000
Interest receivable	31,160	29,640
Dividends from equity investments	855	2,738
	<u>32,015</u>	<u>32,378</u>

7. Interest payable and similar charges

	2022	2021
	£000	£000
Interest on leases	2,834	2,949
Interest on pension fund liabilities (Note 20)	11,300	15,300
Interest paid to group companies	2,515	2,207
	<u>16,649</u>	<u>20,456</u>

Notes to financial statements (continued)

for the year ended 31 December 2022

8. Staff costs

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

	2022	2021
	Number	Number
Production	3,815	3,679
Distribution	893	928
Sales	141	144
Administration	168	178
	5,017	4,929

	2022	2021
	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	305,624	290,362
Social security costs	35,920	34,066
Defined contribution pension costs (Note 20)	14,464	13,172
Defined benefit pension costs (Note 20)	23,300	25,400
Share-based payment expense (Note 23)	2,418	1,149
Other payroll costs	11,162	6,270
	392,888	370,419

Notes to financial statements (continued)

for the year ended 31 December 2022

8. Staff costs (continued)

	2022	2021
	£000	£000
Directors' remuneration		
Remuneration of Directors	2,613	2,236
Payments for loss of office	-	-
Long term incentives and stocks	288	247
Pension scheme contributions	101	91
Number of Directors accruing benefits under the following schemes:		
Money purchase schemes	2	1
Defined benefit schemes	2	2
The number of Directors who exercised share options	-	-
The number of Directors who received share options and share-based unit incentives under long term incentive schemes	<u>6</u>	<u>6</u>
Details of the highest paid Director		
Remuneration	731	629
Payment for loss of office	-	-
Long term incentives and stocks	200	165
Pension scheme contributions	<u>-</u>	<u>-</u>

During the year the highest paid Director accrued additional pension benefits amounting to £nil (2021: £nil).

The highest paid Director exercised no share options in Thales SA, the ultimate parent company, during the year but did receive share-based units under long term incentive plans.

The Directors of the Company are deemed to be the key management personnel.

Notes to financial statements (continued)

for the year ended 31 December 2022

9. Taxation

	2022	2021
	£000	£000
Current tax:		
UK corporation tax current year	3,997	3,514
Adjustments in respect of prior years	(74)	(568)
Foreign tax	20	49
Total current tax charge	<u>3,943</u>	<u>2,995</u>
Deferred tax		
Origination and reversal of temporary differences	48	(4,216)
Adjustments in respect of prior years	(39)	162
Total deferred tax charge / (credit)	<u>9</u>	<u>(4,054)</u>
Total tax charge / (credit) on ordinary activities	<u>3,952</u>	<u>(1,059)</u>

Notes to financial statements (continued)

for the year ended 31 December 2022

9. Taxation (continued)

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

	2022	2021
	£000	£000
(Loss) / Profit for the year before tax	(23,277)	45,968
(Loss) / Profit for the year multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	(4,423)	8,734
Effects of:		
Expenses not deductible for tax purposes	3,075	1,728
Imputed interest adjustment – UK to UK	39	24
Non-taxable dividend received	(162)	(520)
Movement in unrecognised deferred tax	1,985	(3,396)
Deferred tax rate change impact movement	(466)	(9,215)
Adjustments to prior years (current tax)	(74)	(568)
Adjustments to prior years (deferred tax)	(39)	162
Foreign tax	20	49
Double tax relief	-	(49)
Surrender of R&D tax credit for nil payment	3,997	1,992
Total tax charge / (credit) for the year	3,952	(1,059)

In addition to the amount charged / (credited) to the income statement, deferred tax has been (credited) / charged directly to Other Comprehensive Income as detailed below:

	2022	2021
	£000	£000
Changes in equity		
Re-measurement of pension plan	-	(17,886)
Deferred tax (credit) reported in equity	-	(17,886)

Following the 2022 autumn statement, it was decided to maintain the increase in corporation tax rate to 25% with effect from 1 April 2023. The higher rate has been substantially enacted following the third reading of the Finance Bill Autumn 2022 on 30 November 2022.

The deferred tax balances as at 31 December 2022 have been calculated at 25% as this is the rate that has been substantively enacted at the Balance Sheet Date.

Notes to financial statements (continued)

for the year ended 31 December 2022

10. Intangible assets

	Goodwill	Development costs	Computer software and licences	Patents and trademarks	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2022	8,215	79,506	28,828	538	117,087
Additions	-	1,060	156	-	1,216
Disposals	-	-	-	-	-
At 31 December 2022	8,215	80,566	28,984	538	118,303
Amortisation and impairment					
At 1 January 2022	2,113	79,506	28,502	529	110,650
Charge for the year	-	1,060	243	9	1,312
Disposals	-	-	-	-	-
Impairment	3,480	-	-	-	3,480
At 31 December 2022	5,593	80,566	28,745	538	115,442
Carrying amount					
At 31 December 2022	2,622	-	239	-	2,861
At 31 December 2021	6,102	-	326	9	6,437

Goodwill has been allocated for impairment testing purposes to individual cash-generating units (CGUs) or groups of CGUs at which level the benefits of the acquisitions accrue. The Company tests annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the CGU (or group of CGUs) has been determined on a value in use basis, using cash flow projections. The assumptions are based on past experience and expected future development. The discount rate applied is a post-tax rate of 8.0%. All of the carrying amount of goodwill at 1 January 2022 was allocated to the cash generating unit Thales Optronics (2021: £6,102,000). The Company has one product line in its Optronics business unit where the business case for that product has indicated the need to impair the goodwill, since the present value of its future cash flows is less than the carrying amount of the goodwill. The Optronics business specialises in high resolution optronic equipment for a variety of imaging applications on customer programmes. The recoverable amount of this product line now matches the carrying value of the goodwill above after recognising an impairment charge of £3,480,000 in the year against the opening carrying value for the year.

As indicated in the Company's accounting policy in relation to goodwill, the Company does not amortise goodwill carried in the balance sheet. Making an annual amortisation charge for the goodwill in the year would not have been appropriate since the impairment charge recognised in the year is higher than a systematic amortisation charge would have been, namely £410,000, assuming that the goodwill has a life of up to 20 years.

Notes to financial statements (continued)

for the year ended 31 December 2022

11. Investments in subsidiaries

The Company has investments in the following subsidiary undertakings. All subsidiaries listed are incorporated in the UK and the Company holds 100% of the ordinary shares unless otherwise stated. The registered address for all subsidiaries is, except as otherwise stated in the table below, the same as Thales UK Limited, which can be found on page 1.

Subsidiary	Principal activity
Thales Properties Limited	Property management
Ground Transportation Systems UK Limited (formerly Thales Ground Transportation Systems Limited)	Transportation systems
Aveillant Limited	Drone detection
Thales DIS CPL UK Limited (formerly Safenet UK Limited)	Digital Security
Thales DIS UK Limited (formerly Gemalto UK Limited)	Digital Security
XPI Simulation Limited	Non-trading
Thales Reading 1 Limited	Non-trading
Thales Missile Electronics Limited	Non-trading
Thales Air Defence Limited (Registered in Northern Ireland and registered address: Alanbrooke Road, Castlereagh, Belfast, BT6 9HB)	Non-trading
Thales Naval Limited	Non-trading
Thales Corporate Services Limited	Non-trading
Thales e-Security Limited	Non-trading
Thales ATM Limited	Non-trading
Thales Avionics Limited	Non-trading
Thales Training & Simulation Limited	Non-trading
Ground Transportation Systems UK Limited has investments in the following UK companies:	
GTS Quadrant Limited (formerly Thales GTS UK Limited) – 100%	Non-trading
Citylink Telecommunications Holdings Limited – 33% (Registered address: 10 Fleet Place, London, EC4M 7QS)	Dissolved 18 March 2023
Network Information Services Limited – 50%	Non-trading
Thales Training & Simulation Limited holds investments in the following UK subsidiaries:	
Thales Training & Simulation (Eagle Middle Wallop) Limited – 100%	Non-trading
Thales Training & Simulation (Merlin) Limited – 100%	Non-trading
Thales Training & Simulation (Ace Holdings) Limited – 100%	Non-trading
Thales Training & Simulation (Ace Holdings) Limited holds an investment in the following UK subsidiary:	
Thales Training & Simulation (Ace) Limited – 100%	Non-trading
Thales Training & Simulation Limited also has investments in two non-UK companies as follows:	
The Advanced Arabian Simulation Company – incorporated in Saudi Arabia - 40%	Training Services
Eurofighter Simulation Systems GmbH – incorporated in Germany -26%	Dissolved 1 January 2023
Thales DIS UK Limited has an investment in Multos Limited – 100%	
Multos Limited has an investment in Maosco Limited – 100%	Digital Security Dissolved 30 May 2023

Notes to financial statements (continued)
for the year ended 31 December 2022

11. Investments in subsidiaries (continued)

	Total £000
Cost	
At 1 January 2022	573,385
Additions	-
Cost alignment*	(144)
At 31 December 2022	573,241
Impairment	
At 1 January 2022	471,178
Impairment for the year	-
At 31 December 2022	471,178
Carrying amount	
At 31 December 2022	102,063
At 31 December 2021	102,207

*The cost alignment above relates to the Company's investment in one of its fully-owned subsidiaries. The Company reviewed the carrying cost and the cost alignment recorded in the year reflects the finalisation of the provisional cost of investment.

12. Investment held for sale

Ground Transportation Systems UK Limited

The investment classified as held for sale as at 31 December 2022 is the Company's investment in Ground Transportation Systems UK Limited, which was classified as such in anticipation of the planned divestment of the business within the Thales Group disposal of its Ground Transportation activities to Hitachi, as described in the Strategic Report on page 7.

Further, as indicated in the Directors' report on page 19, the Company subsequently transferred its ownership of the entire issued share capital of Ground Transportation Systems UK Limited (formerly Thales Ground Transportation Systems Limited) to a fellow subsidiary of the Thales SA group of companies. The company to which the Company transferred its 100% holding of the shares of Ground Transportation Systems UK Limited is Centelec UK Limited. Centelec UK Limited was incorporated on 21 January 2022, and is the entity in which Thales SA is grouping the majority of its Ground Transportation businesses in preparation for the planned disposal of the worldwide Thales Ground Transportation business to Hitachi which is currently planned to be completed in the second half of 2023.

Notes to financial statements (continued)
for the year ended 31 December 2022

12. Investment held for sale (continued)

The transfer on 31 January 2023 by Thales UK Limited of its ownership of the entire issued share capital of Ground Transportation Systems UK Limited to Centelec UK Limited did not result in any impact on the carrying value of the investment held by the Company in Thales UK Limited. Consequently, there is no impact on the net book value at 31 December 2022, as recorded above.

The impact of the CMA review, which is referred to in the Directors' Report on page 19, on the carrying value of the Company's investment in the shares of Ground Transportation Systems UK Limited, which was classified as held for sale at 31 December 2022, is considered below.

At the year end, in accordance with the Company's policy on impairment of investments on page 37, the Directors reviewed the carrying amounts of its investment in Ground Transportation Systems UK Limited to determine whether there is any indication that this investment may have suffered an impairment loss.

The 2022 impairment review was performed by applying discounted cash flow valuation techniques based on the projected future trading of Ground Transportation Systems UK Limited and comparing the valuation derived in this way with the net book value at 31 December 2022 as disclosed above. This method was adopted because the aggregate net assets of Ground Transportation Systems UK Limited at 31 December 2022 are deemed by the Directors of the Company to be lower in value than the above net book value as held in the Company's books. The same method of conducting the annual impairment review was also used at 31 December 2021.

Taking due account of the ongoing CMA review of the "Anticipated acquisition by Hitachi Rail Limited of Thales SA's Ground Transportation Business", the Directors concluded that specific sensitivity analysis was required in relation to the valuation of Ground Transportation Systems UK Limited in order to assess whether there might be a risk of impairment of the Company's carrying value of investments as shown in the statement of financial position. Having considered the potential range of valuation outcomes indicated by this sensitivity analysis, along with the valuation analysis for the remainder of the Company's investments, the Directors concluded that the ongoing CMA review does not result in an impairment for the Company's investment as shown in the statement of financial position.

Notes to financial statements (continued)
for the year ended 31 December 2022

13. Investment in joint ventures and associates

	Investments in joint £000	Investments in associates £000	Total £000
Cost			
At 1 January 2022	-	-	14,985
Additions	-	-	-
At 31 December 2022	-	-	14,985
Net book value			
At 31 December 2022	-	14,985	14,985
At 31 December 2021	-	-	14,985

The Company has investments in the following joint ventures held at nominal values:

Name of joint venture	Holding	Nature of activities	Place of business
Aquila Air Traffic Management Services Limited	50%	Military ATM supply & service	England
A400M Training Services Limited	51%	A400M Training	England
UAV Tactical Systems Limited	49%	Manufacture of electronic components	England

A400M Training Services Limited is managed as a joint venture under the joint control arrangements with the other shareholder Airbus Military SL.

The Company has investments in the following associates:

Name of associate	Holding	Nature of activities	Place of business
Airtanker Holdings Limited	15.38%	Voyager Aircraft supply	England
Airtanker Services Limited	23.51%	Voyager Aircraft service	England

The Company's interest in the equity of its Joint Venture and Associate investment companies and its share of their respective earnings is included in the consolidated financial statements of the Company's ultimate parent, Thales SA.

None of these investments recorded an operating loss for the most recent period for which published accounts are available.

Notes to financial statements (continued)

for the year ended 31 December 2022

14. Tangible Assets

	Right of Use Assets – Vehicles	Right of Use Assets - Buildings	Long Term Leasehold Premises	Plant, Machinery, Furniture & Vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At 31 December 2021	4,435	123,497	9,937	304,281	442,150
Additions	657	3,551	5	12,589	16,802
Disposals	(792)	(9,098)	-	(433)	(10,323)
At 31 December 2022	4,300	117,950	9,942	316,437	448,629
Amortisation and Impairment					
At 31 December 2021	2,038	25,070	8,876	228,424	264,408
Charge for the year	1,092	8,733	183	17,426	27,434
Disposals	(792)	(3,712)	-	(291)	(4,795)
At 31 December 2022	2,338	30,091	9,059	245,559	287,047
Carrying Amount					
At 31 December 2022	1,962	87,859	883	70,878	161,582
At 31 December 2021	2,397	98,427	1,061	75,857	177,742

Right-of-use assets represent the rights acquired under lease agreements which meet the qualifying criteria of IFRS 16 'Leases', and are stated net of accumulated depreciation.

There were no borrowing costs capitalised during the year ended 31 December 2022 (2021: £Nil).

There was no temporary idle property, plant and equipment at 31 December 2022 (2021: £Nil).

At 31 December 2022, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £1,748,000 (2021: £4,554,000).

Notes to financial statements (continued)
for the year ended 31 December 2022

15. Stocks

	2022	2021
	£000	£000
Raw materials and consumables	14,046	25,603
Work-in-progress	97,139	58,823
Finished goods and goods for resale	6,026	42,330
	<u>117,211</u>	<u>126,756</u>

Stocks are stated after provisions for impairment of £8,300,136 (2021: £321,218).

A review of recoverable amounts on stocks was also undertaken during the year which resulted in a reversal of provision previously recognised of £361,296 (2021: £1,133,888)

This is included in cost of stocks recognised as an expense (Note 5).

16. Debtors

	2022	2021
	£000	£000
Debtors, amounts falling due within one year		
Amounts receivable from third parties – net of provision	157,018	140,832
Amounts receivable from group undertakings within one year	20,584	17,682
Amounts receivable – net of provision	177,602	158,514
Contract assets	232,045	183,658
Loan due from ultimate parent company	542,256	542,278
Amounts receivable from parent company	165,509	228,707
Loans due from group undertakings	-	22,802
Loan to joint ventures	12,991	4,837
Derivative financial instruments – cash flow hedges	11,487	11,443
Corporation tax	2,485	2,634
Other debtors	141,371	114,335
	<u>1,285,746</u>	<u>1,269,208</u>
Debtors, amounts due after one year		
Loans due from group undertakings falling due after one year	604,789	540,224
Loan notes receivable from associates	24,874	30,563
	<u>629,663</u>	<u>570,787</u>
Total Debtors	<u>1,915,409</u>	<u>1,839,995</u>

Notes to financial statements (continued)

for the year ended 31 December 2022

16. Debtors (continued)

Total contract assets have increased by £30.8m, which is primarily attributable to the timing of invoicing resulting in an increase in unbilled revenue.

All loans receivable from group undertakings within one year are repayable on demand. Interest is calculated at six-month LIBID plus a margin of 0.20% in months 1-12, rising to 0.25% in months 13-24; and 0.30% for months 25-42.

The loan receivable from the ultimate parent company represents a deposit repayable on 17 June 2024, and carries an interest rate of 0.77% p.a. This was an extension of two previous loans which were combined into a new amendment dated 15 June 2022.

The loan receivable from group undertakings is a term loan with a fixed settlement date and a fixed interest rate, which was signed on 31 March 2021. Thales UK Ltd entered into this new loan agreement with Thales USA which combined two previous loans, for a new amount of \$720,000,000. This loan matures on 31 March 2027. Interest accrues on the loan at a rate of 4.69% pa and is paid twice yearly on 31 March and 30 September.

Loan notes receivable from associates as at 31 December 2022 are repayable by 31 March 2035 and attract interest at SONIA plus 7%.

The loan to joint venture represents a flexible facility which can be drawn on to a maximum amount of £25m, and is repayable on 31 December 2025. The loan carries an interest rate of 3.75%. This was an extension of a previous loan signed in a new agreement dated 1 April 2020.

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 and services, including all intercompany receivables and loan assets, using an expected credit loss model, with parameters based on past default experience. The table below shows the movement in this provision during the year.

Management have assessed the probability of default on receivables from group undertakings including subsidiaries, it has not considered that there has been a significant increase in credit risk since the amounts were first advanced. Therefore an expected credit loss has not been recognised in respect of these amounts.

	2022	2021
	£000	£000
At 1 January	3,496	3,496
Unutilised amounts reversed	(149)	-
Charge for the year	2,333	-
At 31 December	<u>5,680</u>	<u>3,496</u>

Notes to financial statements (continued)

for the year ended 31 December 2022

17. Creditors

Current	2022	2021
	£000	£000
Trade payables	77,308	73,852
Trade payables owed to group undertakings	18,407	14,493
Contract liabilities	555,133	474,971
Loans owed to group undertakings	210,651	260,777
Derivative financial instruments – cash flow hedges	113,774	36,152
Bank overdraft	546	4,621
Other creditors	1,488	15,795
Other taxes and social security	54,635	32,156
Accruals and deferred income	32,308	5,820
	<u>1,064,250</u>	<u>918,637</u>

The increase in contract liabilities of £73.6m since 2021 is primarily the result of customer advances received during the year.

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

The loans owed to group undertakings consist of current accounts as part of the Thales group cash pooling arrangement. They are non-interest-bearing and have no fixed date of repayment.

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

Notes to financial statements (continued)

for the year ended 31 December 2022

18. Lease liabilities

At the year end the Company had the following liability to make future lease payments. These are presented as the aggregate gross amount of payments committed under each lease with an allowance calculated to exclude future interest at the applicable rate for each lease.

At 31 December 2022

	Gross Payments	Interest not yet incurred	Net obligation
	£000	£000	£000
Lease payments due in less than 12 months	9,876	(237)	9,639
Lease payments due between 12 months and 5 years	37,781	(2,915)	34,866
Lease payments due after 5 years	75,299	(17,884)	57,415
Total lease payments due	122,956	(21,036)	101,920
Amounts shown in Current Liabilities			9,639
Amounts shown in Non-current Liabilities			92,281
Total lease payments due			101,920

At 31 December 2021

	Gross Payments	Interest not yet incurred	Net obligation
	£000	£000	£000
Lease payments due in less than 12 months	9,987	(236)	9,751
Lease payments due between 12 months and 5 years	39,873	(3,102)	36,771
Lease payments due after 5 years	84,686	(20,530)	64,156
Total lease payments due	134,546	(23,868)	110,678
Amounts shown in Current Liabilities			9,751
Amounts shown in Non-current Liabilities			100,927
Total lease payments due			110,678

The total cash outflow during the year in relation to the above leases was £10,414,000 (2021: £10,583,000).

The Company did not have any short term or low value leases in the current or prior year.

Notes to financial statements (continued)
for the year ended 31 December 2022

19. Provisions

	Contract Costs £000	Warranty costs £000	Restructuring costs £000	Total £000
At 31 December 2021	121,279	16,334	3,301	140,914
Additional provision in the year	72,586	2,972	4,000	79,558
Utilisation in the year	(49,437)	(5,746)	(5,206)	(60,389)
At 31 December 2022	144,428	13,560	2,095	160,083

The provision for 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. It is anticipated that the amounts provided for will be paid out over a period of 1 – 2 years.

The provision for contract costs also includes an amount in relation to a customer claim which had been previously made against the Company by a third party regarding the delivery of one of its major contracts. Since the year end the relevant amount in the balance stated above has been agreed with the third party in question. This confirmation removes the material uncertainty which had existed in relation to this matter at the previous year end.

The provision for warranty costs relates to anticipated costs to be borne by the Company in respect of rectification and support of products which have already been delivered to customers in fulfilment of its contractual obligations. In the normal course of business it is anticipated that warranty provisions will be utilised within five years. The amount of the provision stated above is not discounted, on the grounds that the timing of such flows is not fixed, and any impact is considered by the Company to be insignificant.

The Company is committed to certain restructuring plans which it anticipates will be completed in 2023 whereby a number of activities are being reorganised to achieve a more effective balance of capacity and skills to manage anticipated future workload. Re-structuring costs are normally paid out within one year of the balance sheet date.

Notes to financial statements (continued)

for the year ended 31 December 2022

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 £14,464,000 (2021: £13,172,000) 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 four defined benefit schemes. Three of these schemes are sponsored and governed by Thales UK Limited, namely the Thales UK Pension Scheme (TUPS), the Thales Information Systems Scheme, plus the Avimo Pension Scheme, and the fourth scheme, a Railways Pension Scheme, is sponsored by Thales Ground Transportation Systems Limited. The data below relates only to the schemes sponsored by Thales UK Limited.

Pension obligations recognised in the balance sheet

	2022	2021
	£000	£000
Net obligation at 1 January	(676,000)	(1,193,600)
Current service cost	(17,387)	(20,100)
Past service credit / (cost)	-	-
Administrative expenses	(5,913)	(5,300)
	(23,300)	(25,400)
Interest expense on defined benefit obligation	(65,900)	(53,500)
Interest income on plan assets	54,600	38,200
Total net interest cost	(11,300)	(15,300)
Defined benefit cost included in the profit and loss before tax	(34,600)	(40,700)
Actuarial gains/(losses) included in other comprehensive income	170,156	461,300
Employer contributions	98,714	97,000
Net obligation at 31 December	(441,730)	(676,000)

Notes to financial statements (continued)

for the year ended 31 December 2022

20. Retirement benefit schemes (continued)

Changes in defined benefit obligations and plan assets

	2022	2021
	£000	£000
Obligations at 1 January	(3,712,600)	(4,082,300)
Current service cost	(17,387)	(20,100)
Past service credit / (cost)	-	-
Interest expense	(65,900)	(53,500)
Plan participants' contribution	(6,100)	(6,500)
Experience adjustments	(174,487)	57,800
Actuarial gains on financial assumptions	1,312,600	149,300
Actuarial (losses) /gains on demographic assumptions	(29,700)	103,100
Benefit payments from plan	138,500	139,000
Benefits paid by employer	613	600
Obligations at 31 December	(2,554,461)	(3,712,600)
Plan assets at 1 January	3,036,600	2,888,700
Interest income	54,600	38,200
Employer's contribution	98,102	97,000
Plan participants' contribution	6,100	6,500
Benefit payments from plan	(138,500)	(139,000)
Benefits paid by employer	-	(600)
Fund costs	(5,913)	(5,300)
Experience gains /(losses)	(900,053)	151,100
Plan assets at 31 December	2,150,936	3,036,600
Change in asset ceiling / onerous liability		
Asset ceiling / onerous liability at 1 January	-	-
Interest income	-	-
Re-measurements - changes in asset ceiling / onerous liability*	(38,205)	-
Exchange rate impacts	-	-
Asset ceiling / onerous liability at 31 December	(38,205)	-

*The re-measurement shown above is an adjustment to the defined benefit asset in accordance with IFRIC 14, taking into account the minimum funding requirement of the defined benefit plans. More information on the funding obligation is included further in this note.

Notes to financial statements (continued)
for the year ended 31 December 2022

20. Retirement benefit schemes (continued)

Main actuarial assumptions used

The actuarial assumptions are the following:

	2022	2021
Discount rate	4.79%	1.82%
Future salary increases	4.12%	4.42%
Future consumer price index inflation	3.12%	2.72%

The increase in the discount rate from 2021 to 2022 derived from an increase in corporate bond yields over the period. The discount rates were 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 Company referred to the iBoxx Corporate AA index, adjusted in accordance with the duration of the scheme commitments.

In determining the pension liabilities, the Company used mortality assumptions which were based on published mortality tables. The actuarial table used for all schemes was: SAPS S2 P year of birth tables, with appropriate weightings to reflect the scheme membership, and a future improvements assumption in line with the CMI 2020 (core) model.

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

	2022	2021
Equities	5%	28%
Investment Grade Credit	14%	19%
Alternative Growth	45%	34%
Matching assets (gifts) and cash	36%	19%
Total	100%	100%

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

The increase in the discount rate to 4.79% for 2022 compared with 1.82% for 2021 was the most significant factor in the fall in the defined benefit obligation during the year.

Notes to financial statements (continued)

for the year ended 31 December 2022

20. Retirement benefit schemes (continued)

The defined benefit net obligation of £441,730,000 as at 31 December 2022 is based on the actuarial assumptions detailed above. The impact of a change in the actuarial assumptions on the defined benefit net obligation would be as follows:

Sensitivity in basis points	+ 0.10%	-0.10%	+ 0.25%	-0.25%	+ 0.50%	-0.50%
(Decrease) / increase in net obligation (£ millions)	(£29.9)	£30.5	(£73.6)	£77.4	(£143.9)	£158.8

An increase of the retail price inflation rate of 25 basis points would increase the commitment by £44,400,000 and a reduction of 25 basis points would reduce the commitment by £30,200,000.

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.

Maturity profile of defined benefit obligations

The weighted average duration of the scheme benefit obligations is 13 years (2021: 17 years).

Notes to financial statements (continued)
for the year ended 31 December 2022

20. Retirement benefit schemes (continued)

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 2021 and finalised in June 2022. Following the valuation, the Company's ordinary contributions rate increased from 19.8% to 28.9% of pensionable salary for Section 1 of the Scheme and increased from 19.6% to 28.2% for Section 2. A funding level has been agreed with the trustees whereby the Company agreed to pay additional contributions of £75,000,000 per annum until 31 December 2034 in line with the agreed recovery plan. The additional contributions of £75,000,000 are at the same level as the previous actuarial valuation, but the period of payments has been extended from 31 December 2028 to 31 December 2034.

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, the TUPS pension scheme is supported by a Thales SA parent company guarantee with a value of £1,275,000,000 (2021: £1,275,000,000).

Notes to financial statements (continued)

for the year ended 31 December 2022

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 2022	53,447	79,033	-	-	-	132,480
Deferred tax charged to the income statement	(9)	-	-	-	-	(9)
Deferred tax charged to other comprehensive income	-	-	-	-	-	-
As at 31 December 2022	<u>53,438</u>	<u>79,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,471</u>

Deferred tax liability:	Capital allowances £000	Pensions £000	Cash flow hedges £000	Tax losses £000	Other £000	Total £000
As at 1 January 2022	-	-	-	-	-	-
Deferred tax charged to other comprehensive income	-	-	-	-	-	-
As at 31 December 2022	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Net deferred tax asset / (liability)

	2022 £000	2021 £000
Deferred tax asset	132,471	132,480
Deferred tax liability	-	-
Net deferred tax asset	<u>132,471</u>	<u>132,480</u>

A deferred tax asset totalling £146,188,000 (2021: £182,044,000) has not been recognised on tax losses and pensions. This asset may be recovered if sufficient taxable profits arise in the future.

There are no significant temporary differences associated with the Company's investments in subsidiaries, joint ventures and associated undertakings.

Notes to financial statements (continued)

for the year ended 31 December 2022

22. Share capital

	2022 £000	2021 £000
<i>Authorised</i>		
1,274,279,768 (2021: 1,274,279,768) ordinary shares of £1 each	<u>1,274,280</u>	<u>1,274,280</u>
<i>Allotted, called-up and fully paid</i>		
1,274,279,768 (2021: 1,274,279,768) ordinary shares of £1 each	<u>1,274,280</u>	<u>1,274,280</u>

Share capital represents the nominal value of the shares that have been allotted. All shares rank equally, and carry the right to vote at meetings of the Company's shareholders as well as the right to receive dividends and share in the residual proceeds of the Company's assets on a winding up.

23. Share based payments

Thales UK employees participate in the share-based payment schemes of Thales SA as detailed below:

Phantom share plans - awards made in 2018, 2019, 2020, 2021, 2022

A description of the scheme is provided below.

Phantom Share plans

This plan will deliver phantom shares to the beneficiaries at the end of a four-year period. The initial fair value of these phantom shares will correspond to the opening price of the Thales' shares on the Paris Stock Exchange Euronext on the date they were granted.

Phantom shares are linked to internal performance conditions, which will be validated each year by the Thales Board of Directors. For valuation purposes, we have assumed that these performance conditions will be met at 100%. This figure may be revised during each year of the vesting period and the corresponding expense will be adjusted accordingly.

At 31 December 2022, 89,611 phantom shares, granting the right to a cash payment after a four-year vesting period were outstanding, of which all are subject to performance conditions. The weighted average remaining contractual life of phantom shares outstanding at 31 December 2022 was 26 months (2021: 31 months).

The expense arising in the year from phantom share plans was £2,418,000 (2021: £1,149,000). The weighted average share price at the date of exercise for phantom shares vested during the year was €110.75 (2021: €84.02).

Notes to financial statements (continued)

for the year ended 31 December 2022

24. Payments under service arrangements

At the date of the statement of financial position the Company had outstanding commitments under service arrangements which fall due as follows:

	2022	2021
	£000	£000
Payments due in less than 12 months	4,645	4,623
Payments due between 12 months and 5 years	17,289	18,121
Payments due after 5 years	-	3,667
	<hr/>	<hr/>
	21,934	26,411

The main service agreements held by the Company with third parties relate to the provision of warehouse space, stock management and logistics services, and to a lesser extent, the service element in relation to car leases.

25. Contingent liabilities

There are contingent liabilities in the event of a claim for breach or non-performance of the terms of certain contracts against which bank guarantees have been issued amounting to £24,187,486 (2021: £37,213,938). In addition, in the normal course of business there are advance payment bank guarantees amounting to £78,635,259 (2021: £92,279,878) and other bank guarantees amounting to £44,761,124 (2021: £43,594,272).

The Company has also issued guarantees in its own name to third parties amounting to £95,290,847 (2021: £100,969,273), and to Thales SA of £2,568,044,473 (2021: £2,213,013,175) which includes a £1,275,000,000 counter guarantee to Thales SA in respect of the Thales UK pension scheme.

The Company has also issued Letters of Support in favour of certain subsidiaries to provide additional comfort regarding the provision of financial support to assist these subsidiaries in meeting their liabilities as and when they fall due, but only to the extent that money is not otherwise available to these subsidiaries to meet such liabilities. Where such Letters of Support are provided, the requirement for such additional comfort is reviewed annually, and each Letter of Support is valid for a period of at least 12 months from the date of signature of the recipient company's balance sheet.

26. Related party transactions

The immediate parent company is Thales Holdings UK Plc, a company incorporated in England and Wales. The ultimate parent company, which is also the ultimate controlling party, 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.

Notes to financial statements (continued)

for the year ended 31 December 2022

26. Related party transactions (continued)

Trading transactions

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

	Sale of goods		Purchase of goods		Amounts owed by related parties		Amounts owed to related parties	
	2022	2021	2022	2021	2022	2021	2022	2021
	£000	£000	£000	£000	£000	£000	£000	£000
Joint ventures	7,026	5,384	15,732	16,884	16,651	4,837	1,734	-
Associates	33,070	29,956	-	-	24,936	30,563	-	-

Expected credit losses attributable to related parties were £nil (2021: £nil). The expense recognised in the year in respect of bad and doubtful debts due from related parties was £nil (2021: £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.

The remuneration of the Directors is provided in Note 8.

27. Events after the balance sheet date

On 31 January 2023, the Company transferred its ownership of the entire issued share capital of Ground Transportation Systems UK Limited (formerly Thales Ground Transportation Systems Limited) to a fellow subsidiary of the Thales SA group of companies. The company to which the Company transferred its 100% holding of the shares of Ground Transportation Systems UK Limited is Centelec UK Limited. Centelec UK Limited was incorporated on 21 January 2022, and is the entity in which Thales SA is grouping the majority of its Ground Transportation businesses in preparation for the planned disposal of the worldwide Thales Ground Transportation business to Hitachi which is currently planned to be completed in the second half of 2023. More information regarding the assets which were classified as held for sale as at 31 December 2022 is included in Note 12.

After the year end the Company has resolved a third party claim in relation to a contract, the impact of which has been reflected within these financial statements. More information regarding the resolution of this claim is included in Note 19.

In the Directors' view, other than as disclosed above, there are no events which have occurred since the balance sheet date which require disclosure in these financial statements, or which require any of the financial amounts as recorded at 31 December 2022 to be adjusted.