

Rohde & Schwarz U.K. Limited

Report and Financial Statements

Year Ended

30 June 2006



Rohde & Schwarz U.K. Limited

Annual report and financial statements for the year ended 30 June 2006

Contents

Page:

1	Directors' report
3	Report of the independent auditors
5	Profit and loss account
6	Balance sheet
7	Cash flow statement
8	Notes on the financial statements

Directors

F Mackel
M Becker
M Paoli

Bankers

HSBC
54 Clarence Street
Kingston Upon Thames
Surrey
KT1 1NS

Secretary and Registered Office

J Edwards
Rohde & Schwarz House
Ancellis Business Park
Fleet
Hampshire
GU51 2UZ

Company Number

00539607

Auditors

BDO Stoy Hayward LLP
Emerald House
East Street
Epsom
Surrey
KT17 1HS

Rohde & Schwarz U.K. Limited

Report of the directors for the year ended 30 June 2006

The directors present their report together with the audited financial statements for the year ended 30 June 2006.

Results and dividends

The profit and loss account is set out on page 5 and shows the profit for the year.

The directors do not recommend the payment of a dividend.

Principal activity, review of business and future developments

The principal activity of Rohde & Schwarz UK Limited is that of a sales and service organisation, selling products within the fields of test and measurement, broadcasting, radiomonitoring, radiolocation and mission-critical radiocommunications manufactured by group owned production sites for resale primarily in the UK and Ireland.

The company has achieved an annual increase in turnover and profits for a number of years. We aim to continue to steadily increase turnover by increasing our market share with the UK and Ireland, and by exploiting growth market areas.

In the current financial year the company produced satisfactory results, mainly driven by the performance of the test and measurement division, together with strong growth in service activities. The company also increased the number of employees within its sales and product support divisions, in order to facilitate future growth targets and provide increased customer support.

There are no foreseeable significant risks to the trading performance of the company based on a high activity in the wireless market segment and upcoming requirements for digital radio and television transmitters, where Rohde & Schwarz is an established market leader.

There have been no events since the balance sheet date which materially affect the position of the company.

Financial instruments

The company holds or issues financial instruments to finance its operations. Operations are financed by retained profits. Working capital requirements are met out of retained profits. In addition, various financial instruments such as trade debtors and trade creditors arise directly from the company's operations. The company does not enter into any hedging arrangements.

The company is mainly exposed to credit risk from credit sales. It is company policy to assess the credit risk of new customers and to factor the information from these credit ratings into future dealings with the customers. At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The directors monitor the liquidity and cash flow risk of the company carefully. The company has investments in liquidity funds with the company's bankers which are used to manage fluctuations in cash flow. Cash flow is monitored by the directors on a regular basis.

Charitable donations

During the year the company made charitable donations of £494 (2005: £1,065).

Rohde & Schwarz U.K. Limited

Report of the directors' for the year ended 30 June 2006 (continued)

Directors

The directors who served during the year were as follows:

F Mackel
M Becker
M Paoli

None of the directors had any beneficial interest in the ordinary shares of the company during the year.

Directors' responsibilities

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

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

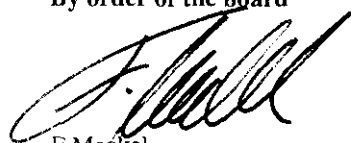
The directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking steps for the prevention and detection of fraud and other irregularities.

Auditors

All of the current directors have taken all steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the next annual general meeting.

By order of the board



F Mackel
Director

20 July 2006

Rohde & Schwarz U.K. Limited

Report of the independent auditors

To the shareholders of Rohde & Schwarz U.K. Limited

We have audited the financial statements of Rohde & Schwarz UK Limited for the year ended 30 June 2006 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

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

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

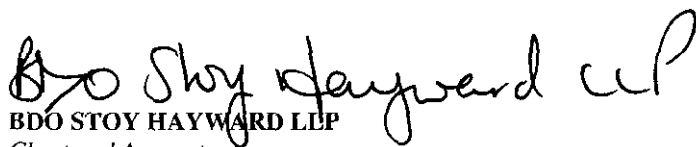
Rohde & Schwarz U.K. Limited

Report of the independent auditors (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.


BDO STOY HAYWARD LLP
*Chartered Accountants
and Registered Auditors*
Epsom, Surrey

Date: 21 July 2006

Rohde & Schwarz U.K. Limited

Profit and loss account for the year ended 30 June 2006

	Note	2006		2005	
		£	£	£	£
Turnover	2		28,485,374		27,102,314
Cost of sales			21,665,844		20,319,842
Gross profit			6,819,530		6,782,472
Personnel and related expenses		2,587,561		2,538,377	
Selling costs		829,089		1,022,844	
Establishment costs		719,103		678,199	
			4,135,753		4,239,420
			2,683,777		2,543,052
Other operating income			343,590		85,375
Operating profit	3		3,027,367		2,628,427
Interest receivable	4		779,499		796,587
Profit on ordinary activities before taxation			3,806,866		3,425,014
Tax on profit on ordinary activities	7		1,166,527		1,015,047
Profit on ordinary activities after taxation			2,640,339		2,409,967

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

A statement of the movement in shareholders' funds can be found in note 15.

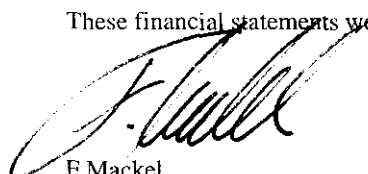
The notes on pages 8 to 16 form part of these financial statements.

Rohde & Schwarz U.K. Limited

Balance sheet at 30 June 2006

	Note	2006		2005	
		£	£	£	£
Fixed assets					
Tangible assets	8		848,915		864,806
Current assets					
Stock and work in progress	9	2,466,113		3,419,085	
Debtors	10	15,866,338		15,992,477	
Cash at bank and in hand		6,194,156		7,589,858	
		24,526,607		27,001,420	
Creditors: amounts falling due within one year	11	5,639,834		10,804,367	
Net current assets			18,886,773		16,197,053
Total assets less current liabilities			19,735,688		17,061,859
Provisions for liabilities and charges					
Provision for guarantee liability	12		1,037,268		1,003,778
			18,698,420		16,058,081
Capital and reserves					
Called up share capital	13		156,100		156,100
Capital redemption reserve	14		18,900		18,900
Revaluation reserve	14		345,341		345,341
Profit and loss account	14		18,178,079		15,537,740
Shareholders' funds	15		18,698,420		16,058,081

These financial statements were approved by the Board and authorised for issue on 20 July 2006.


F Mackel
Director

The notes on pages 8 to 16 form part of these financial statements.

Rohde & Schwarz U.K. Limited

Cash flow statement for the year ended 30 June 2006

	Note	2006	2005
		£	£
Net cash (outflow)/inflow from operating activities	17	(902,936)	2,485,287
Returns on investment and servicing of finance			
Interest received		<u>779,499</u>	<u>796,587</u>
Net cash inflow from returns on investments and servicing of finance		779,499	796,587
Taxation			
UK corporation tax paid		(1,068,417)	(740,032)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(179,793)	(157,794)
Equity dividends paid		<u>-</u>	<u>-</u>
Cash (outflow)/inflow before use of liquid resources		(1,371,647)	2,384,048
Management of liquid resources			
Cash withdrawn from/(transferred to) investment accounts		1,179,004	(1,895,183)
(Decrease)/increase in cash in the year	19	<u>(192,643)</u>	<u>488,865</u>

The notes on pages 8 to 16 form part of these financial statements.

Rohde & Schwarz U.K. Limited

Notes forming part of the financial statements for the year ended 30 June 2006

1 Accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Turnover

Turnover is stated net of value added tax and discounts given and represents amounts invoiced and delivered to third parties, or, in the case of long term projects, in accordance with FRS 5, based on an assessment of the fair value of goods and services provided as a proportion of the total fair value of the contract.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values of all tangible fixed assets, except for investment properties and freehold land, evenly over their expected useful lives. It is calculated at the following rates:

Furniture and equipment	15% per annum straight line
Demonstration and service equipment	20% per annum straight line
Motor vehicles and computer equipment	25% per annum straight line
Short leasehold properties	over length of lease

Investment Properties

In accordance with SSAP 19 investment properties are revalued periodically to open market value and no depreciation is provided. The directors consider that this accounting policy results in the financial statements giving a true and fair view. The effect of this departure from the Companies Act 1985 has not been quantified because it is impracticable and, in the opinion of the directors, would be misleading.

The aggregate surplus or deficit arising on revaluation is transferred to the revaluation reserve except where a deficit is deemed to represent a permanent diminution in value, in which case it is charged to the profit and loss account.

Stocks and work in progress

Stocks represent finished goods and demonstration stock which is stated at the lower of cost and net realisable value. Demonstration stock held for a period in excess of one year is provided against at a rate of 25% per annum, until the stock reaches a net book value of 25% of its original cost. Stock is regularly reviewed for obsolescence.

Work in progress arises on long term contracts. Profit on these contracts is recognised as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated in accordance with FRS 5, based on an assessment of the fair value of goods and services provided as a proportion of the total fair value of the contract. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Rohde & Schwarz U.K. Limited

Notes forming part of the financial statements for the year ended 30 June 2006 (continued)

1 Accounting policies (continued)

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Leased assets

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Guarantee liability

In respect of contracts where the company has given a guarantee a provision is made for the expected future guarantee liability. This liability is estimated based on the budgeted costs of servicing guarantees for the forthcoming year and the unexpired guarantee periods at the balance sheet date. Liabilities arising under the guarantees are charged against the profits for the year.

Pension costs

Retirement benefits to employees of the company are provided by a defined contribution group personal pension scheme which is funded by contributions paid to a separately administered fund. The current contribution rate is 6.5% of payroll costs. Contributions to the pension scheme are charged to the profit and loss account in the year in which they become payable.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency balances are translated to sterling at the exchange rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Liquid resources

For the purposes of the cash flow statement, liquid resources are defined as short terms deposits.

2 Turnover

Turnover and profit on ordinary activities before tax relate to the company's principal activities. The analysis of turnover by geographical market is as follows:

	2006 £	2005 £
United Kingdom	25,091,711	24,190,809
Rest of Europe	1,626,277	2,028,242
USA	-	535,045
Asia/North Africa	1,767,386	348,218
	<u>28,485,374</u>	<u>27,102,314</u>

Rohde & Schwarz U.K. Limited

Notes forming part of the financial statements for the year ended 30 June 2006 (continued)

3 Operating profit

	2006	2005
	£	£
This is arrived at after charging/(crediting):		
Depreciation - owned assets	192,173	170,725
Hire of plant and machinery – operating leases	122,917	111,606
Hire of other assets – operating leases	216,477	217,043
Auditors' remuneration - audit	36,654	30,000
- other services	7,550	5,000
Loss/(profit) on foreign exchange	(24,055)	(19,607)

4 Interest receivable

	2006	2005
	£	£
Bank interest	288,337	294,053
Loan to group company	477,430	497,500
Other	13,732	5,034
	779,499	796,587

5 Employees

Staff costs (including directors) consist of:

	2006	2005
	£	£
Wages and salaries	2,118,049	2,067,204
Social security costs	249,989	239,357
Pension costs	161,342	159,285
	2,529,380	2,465,846

The average number of employees of the company during the year was made up as follows:

	2006	2005
	Number	Number
Sales	30	27
Service	12	13
Administration	8	8
	50	48

Rohde & Schwarz U.K. Limited**Notes forming part of the financial statements for the year ended 30 June 2006 (continued)****6 Directors remuneration**

	2006	2005
	£	£
Directors' emoluments consist of:		
Fees and remuneration for management services	<u>238,499</u>	<u>267,392</u>

There were no directors in the company's pension schemes during the year (2005: Nil).

Emoluments for the highest paid director amounted to £238,499 (2005: £267,392).

7 Taxation on profit on ordinary activities

	2006	2005
	£	£
The tax charge consists of:		
UK corporation tax at 30%	<u>1,166,527</u>	<u>1,015,047</u>

The tax assessed for the year is higher (2005: lower) than the standard rate of corporation tax in the UK applied to profit before tax. The difference is explained below:

Profit on ordinary activities before tax	<u>3,806,866</u>	<u>3,425,014</u>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30%	<u>1,142,060</u>	<u>1,027,504</u>
Effects of:		
Expenses not deductible for tax purposes	8,311	13,256
Depreciation in excess of capital allowances	10,741	4,000
Other timing differences	5,415	(29,713)
Current tax charge for the year	<u>1,166,527</u>	<u>1,015,047</u>

Rohde & Schwarz U.K. Limited

Notes forming part of the financial statements for the year ended 30 June 2006 (continued)

8 Tangible fixed assets

	Freehold investment property £	Short Leasehold Premises £	Furniture and equipment £	Technical equipment £	Motor vehicles £	Computer equipment £	Total £
Cost or valuation							
At 1 July 2005	425,001	131,503	369,536	832,785	61,715	267,158	2,087,698
Additions	-	68,840	59,752	23,553	-	27,648	179,793
Disposals	-	-	(148,782)	(21,179)	(14,467)	(91,356)	(275,784)
At 30 June 2006	<u>425,001</u>	<u>200,343</u>	<u>280,506</u>	<u>835,159</u>	<u>47,248</u>	<u>203,450</u>	<u>1,991,707</u>
Depreciation							
At 1 July 2005	-	88,439	233,403	644,507	54,982	201,561	1,222,892
Charge for year	-	14,146	36,233	102,390	3,909	35,495	192,173
Disposals	-	-	(145,271)	(21,179)	(14,467)	(91,356)	(272,273)
At 30 June 2006	<u>-</u>	<u>102,585</u>	<u>124,365</u>	<u>725,718</u>	<u>44,424</u>	<u>145,700</u>	<u>1,142,792</u>
Net book value:							
At 30 June 2006	<u>425,001</u>	<u>97,758</u>	<u>156,141</u>	<u>109,441</u>	<u>2,824</u>	<u>57,750</u>	<u>848,915</u>
At 30 June 2005	<u>425,001</u>	<u>43,064</u>	<u>136,133</u>	<u>188,278</u>	<u>6,733</u>	<u>65,597</u>	<u>864,806</u>

The company's investment property was revalued on 23 May 2003 by Boyce Thornton Chartered Surveyors at open market value. The valuation was undertaken in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual. The surplus arising of £345,341 has been credited to the revaluation reserve. All other tangible assets are stated at historical cost.

The historical cost of the company's freehold investment property is £79,660 (2005: £79,660)

9 Stock and work in progress

	2006 £	2005 £
Work in progress	-	689,726
Finished goods and goods held for resale	<u>2,466,113</u>	<u>2,729,359</u>
	<u>2,466,113</u>	<u>3,419,085</u>

There is no material difference between the replacement cost of stocks and the amounts stated above.

Rohde & Schwarz U.K. Limited

Notes forming part of the financial statements for the year ended 30 June 2006 (continued)

10 Debtors

Amounts receivable within one year:

	2006 £	2005 £
Trade debtors	5,182,548	5,038,398
Amounts due from group undertakings	10,198,789	10,161,117
Other debtors	307,672	122,340
Prepayments	177,329	670,622
	<u>15,866,338</u>	<u>15,992,477</u>

11 Creditors

Amounts falling due within one year:

	2006 £	2005 £
Trade creditors	115,939	203,248
Amounts owed to group undertakings	2,442,270	7,044,669
Corporation tax	744,030	645,920
Other taxes and social security costs	665,370	626,506
Other creditors	275,145	252,417
Accruals and deferred income	1,397,080	2,031,607
	<u>5,639,834</u>	<u>10,804,367</u>

12 Provision for liabilities and charges

	Provision for guarantee liability £
Provision at 1 July 2005	1,003,778
Utilised in year	(496,460)
Provided during the year	529,950
	<u>1,037,268</u>
Provision at 30 June 2006	

13 Share capital

	Authorised		Allotted, called up and fully paid	
	2006 £	2005 £	2006 £	2005 £
Ordinary shares of £1 each	<u>175,000</u>	<u>175,000</u>	<u>156,100</u>	<u>156,100</u>

Rohde & Schwarz U.K. Limited

Notes forming part of the financial statements for the year ended 30 June 2006 (continued)

14 Reserves

	Revaluation Reserve £	Capital redemption reserve £	Profit and loss account £
At 1 July 2005	345,341	18,900	15,537,740
Retained profit for the year	-	-	2,640,339
At 30 June 2006	<u>345,341</u>	<u>18,900</u>	<u>18,178,079</u>

15 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Profit for the year	2,640,339	2,409,967
Opening shareholders' funds	<u>16,058,081</u>	<u>13,648,114</u>
Closing shareholders' funds	<u>18,698,420</u>	<u>16,058,081</u>

16 Pensions

The company formerly sponsored the Rohde & Schwarz UK Limited Retirement Benefits Plan ("the Pension Plan") which was primarily a defined contribution arrangement. This Pension Plan changed from being a defined benefit arrangement to a defined contribution arrangement on 28 February 1995. The benefits of the deferred pensioners at that date were preserved within the Pension Plan.

On 1 January 2006, the company commenced transferring all the assets relating to the defined contribution element of the Pension Plan to a new defined contribution group personal pension plan administered by Legal & General Assurance Society Limited. As a result of cost savings made in the administration of the new group personal pension plan on 1 January 2006, the company increased the contribution rate from 5% to 6.5% of members gross salaries.

In January 2006, Legal & General Assurance Society Limited agreed an offer to purchase the benefits of the deferred pensioners within the Pension Plan for which the company made a payment of £58,000 on 27 June 2005, during the prior year. Under the terms of the offer Legal & General Assurance Society Limited assumed all the assets and future liabilities of the deferred pensioners with the Pension Plan on 10 April 2006.

The current year pension charge represents contributions payable under the Pension Plan and the new group personal pension plan. Contributions totalling £18,050 (2005: £Nil) were payable under the group personal pension plan and are included in creditors.

Rohde & Schwarz U.K. Limited

Notes forming part of the financial statements for the year ended 30 June 2006 (continued)

17 Reconciliation of operating profit to net cash inflow from operating activities

	2006 £	2005 £
Operating profit	3,027,367	2,628,427
Depreciation of tangible fixed assets	192,173	170,725
Loss on disposal of fixed asset	3,511	-
Decrease in stocks	952,972	(1,088,527)
Decrease in debtors	126,139	(110,361)
Decrease in creditors	(5,229,153)	865,416
Exchange difference	24,055	19,607
	<u>(902,936)</u>	<u>2,485,287</u>

18 Reconciliation of net cash flow to movement in net funds

	2006 £	2005 £
Increase/(decrease) in cash in the year	(192,643)	488,865
Cash outflow/(inflow) from decrease in liquid resources	(1,179,004)	1,895,183
Change in net funds resulting from cash flows	(1,371,647)	2,384,048
Exchange difference	(24,055)	(19,607)
Movement in net funds in the year	(1,395,702)	2,364,441
Opening net funds	7,589,858	5,225,417
Closing net funds	<u>6,194,156</u>	<u>7,589,858</u>

19 Analysis of net funds

	At 1 July 2005 £	Cash flow £	Exchange Movement £	At 30 June 2006 £
Cash	649,449	(192,643)	-	456,806
Cash on deposit	6,940,409	(1,179,004)	(24,055)	5,737,350
Total cash at bank and in hand	<u>7,589,858</u>	<u>(1,371,647)</u>	<u>(24,055)</u>	<u>6,194,156</u>

Rohde & Schwarz U.K. Limited

Notes forming part of the financial statements for the year ended 30 June 2006 (continued)

20 Commitments under operating leases

As at 30 June 2006 the company had annual commitments under non-cancellable operating leases as set out below.

	2006		2005	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
In less than one year	-	16,314	-	49,859
In two to five years	12,126	111,272	-	69,968
After more than five years	202,300	-	202,300	-
	<u>214,426</u>	<u>127,586</u>	<u>202,300</u>	<u>119,827</u>

21 Ultimate parent company

The ultimate parent company is Rohde & Schwarz GmbH & Co. KG, a private company registered in Germany.

Copies of the annual published accounts of Rohde & Schwarz GmbH & Co. KG are available from the Companies' registrar in Munich under reference HRA 16270 at Präsident des Amtsgerichts, Munich, Amtsgericht Munich, Pacellistraße 5, 00315 Munich.

The company's immediate parent company is Rusint A.G., a company incorporated in Switzerland. No consolidated financial statements are prepared by Rusint A.G.

22 Related party transactions

The company has taken advantage of the exemption under Financial reporting Standard 8, "Related Party Transactions", not to disclose transactions with entries that are part of the same group on the basis that consolidated financial statements in which the company is included are publicly available.