Babcock Communications Limited
(formerly VT Communications Limited)

Directors' report and financial statements

Registered number 3196204

31 March 2011

The directors present their annual report and the audited financial statements for the year ended 31 March 2011

Principal activities

The principal activities of the company are and will continue to be, consulting, information communications technology infrastructure (ICT), the operation and maintenance of radio broadcast facilities, the design and building of those facilities, as well as the transmission and digitalisation services incorporated therein

Results and Dividends

The Company's results for the year are set out in the profit and loss account on page 9 showing a loss for the financial year after tax of £13 7million (2010 profit of £9 8million (as restated and set out in Note 1))

At 31 March 2011, the company had net assets of £21 9million (2010 £35 5million (restated))

No dividends were paid or proposed during the current or comparative year

Review of the business

Acquisition by Babcock International Group plc

On 23 March 2010 Babcock International Group PLC ("Babcock") and the company's ultimate parent undertaking, VT Group plc, announced that they had reached agreement on the terms of a recommended acquisition by Babcock of all the issued and to be issued share capital of VT Group plc

The acquisition was completed with effect from 8th July 2010 with VT Group plc shares being de-listed from the London Stock Exchange on 9th July 2010

On 9th July 2010 the Company was renamed Babcock Communications Limited

Key performance indicators

	2011	2010
	£000	£000
		(restated)
Turnover	**125,082**	**121,320**
Operating profit (before exceptional item)	**10,057**	**14,316**

Turnover has increased by £3 8m; the business has continued to focus on operational delivery across a multitude of Government Communications contracts

Operating profit (before exceptional items) has decreased by £4 3m for 3 main reasons being increased utility costs, reduced level of maintenance activity and a reduction in anticipated profit on a long term contract which has been re-assessed during the year

Future Developments
The future outlook for the Company is good, the markets in which we operate look attractive. The strong positions we hold in these markets and the long-term relationships we have developed with our key customers have underpinned our performance in the year Although we expect significant and continued commercial challenge, the year of successful delivery to a wide range of customers has ensured the Company is well placed to maximise the significant opportunities with the various customers

Principal risks and uncertainties
The management of the business and the execution of the company's strategy are subject to a number of risks and uncertainties These are managed through the operational review process supplemented at Group level by independent challenge and review by the Group risk manager and the Audit and Risk Committee

Babcock Communications key risks relate to successful delivery of projects and services in a timely fashion and to a technically proficient standard As such the company employs a robust risk register process by contract to ensure that all key risks are identified, evaluated and ultimately managed as successfully as possible Key risks are regularly reviewed by senior management and a weekly KPI system is used to enable prompt identification of issues

Financial risks are discussed further below The other key business risks and uncertainties affecting the company are considered to relate to overexposure to any one of our market sectors, the political and regulatory environment and the ability to recruit and retain quality staff Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 39 to 45 of the annual report of Babcock International Group PLC, which does not form part of this report

Financial risk management
The company's operations expose it to a variety of financial risks that include the effects of changes to credit risk, liquidity risk, interest rate risk, foreign exchange rate risk and price risk The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board The policies set by the board of directors of Babcock are managed by the group finance department The Babcock group has a policy and procedures manual that sets out guidelines to allow it to manage financial risks and this is applied by the company

Credit risk

The company has implemented policies that require appropriate credit checks on potential companies before sales are made The company also monitors existing company accounts on an ongoing basis and takes appropriate action where necessary to minimise any potential credit risk Material cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit ratings agencies

Liquidity risk

The company retains sufficient cash to ensure it has available funds for its operations The company also has access to longer term funding from its ultimate parent undertaking if required

Interest rate cash flow risk

The company has interest bearing assets in the form of cash balances, interest on which is at a floating rate The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied

Foreign currency exchange rate risk

The company has a policy to minimise foreign currency exchange rate risk through the regular monitoring of foreign currency flows and putting in place where appropriate forward currency exchange contracts

Price risk

The company is exposed to commodity price risk as a result of its operations However, given the size of the company's operation, the cost of managing exposure to commodity price risk exceeds any potential benefit The directors will revisit the appropriateness of this policy should the company's operations change in size or nature

Safety policy
The company recognises the promotion of health and safety at work as an important objective It is company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the company

Employment of disabled persons
The policy of the company is to give full consideration to disabled applicants for employment, having regards to their particular aptitudes and abilities, and they share in the opportunities for training, career development and promotion If an employee becomes disabled, our objective is the continued provision of suitable employment either in the same or an alternative position, appropriate training being given if necessary

Employee involvement
It is company policy to communicate regularly with its employees in briefings and discussions, by written communications on specific topics and on more general issues through the bulletins 'The Big Picture' and 'Grapevine' The company routinely discusses issues affecting its employees directly

Environment
The company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations We aim to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate

The company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level

Research and development
The company commits resources to research and development where necessary for the evolution and growth of its business

Qualifying third party indemnity provisions
Under their respective Articles of Association, the directors of the company are, and were during the year to 31 March 2011, entitled to be indemnified by the company against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006

Charitable Contributions
During the year the company made no charitable contributions *(2010 £2,165)* There were no political contributions during the year

Creditor Payment Policy
It is the company's policy to make payment to its suppliers within their stated payment terms. Where invoices for properly incurred expenses are correctly submitted the company remains successful in meeting this aim for the vast majority of transactions processed in the year The company takes 13 days on average to pay its trade creditors *(2010 22 days)*

Directors
The directors of the company during the year and up to the date of approving this report were as follows

PJ Harrison	(resigned 9th July 2010)
SB Withey	(resigned 2nd September 2010)
G D Leeming	(appointed 2nd September 2010)
F Martinelli	(appointed 9th July 2010)
K R Thomas	(appointed 2nd September 2010)
A S Lewis	(appointed 2nd September 2010)
J McGrath	(appointed 1st June 2011)
R Gillespie	(appointed 1st June 2011)
A Dungate	(appointed 1st June 2011)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law, the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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,
- 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

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

Disclosure of information to auditors

Each of the directors at the date of approval of this report, as shown on page 5, confirm the following

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Independent auditors

During the year the company changed its auditor to PricewaterhouseCoopers LLP, as a result of the change of ownership of the company's parent The company has dispensed with the requirement for an Annual General Meeting and the need to appoint auditors annually

On behalf of the Board

JLGratt

J McGrath

Director

29 June 2011

Independent auditors' report to the members of Babcock Communications Limited *(formerly VT Communications Limited)*

We have audited the financial statements of Babcock Communications Limited (formerly VT Communications Limited) for the year ended 31 March 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the director's report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 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

Independent auditors' report to the members of Babcock Communications Limited *(formerly VT Communications Limited)* (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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

ABK

Alan Kinnear (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
29 June 2011

Babcock Communications Limited ***(formerly VT Communications Limited)***
Profit and loss account for the year ended 31 March 2011

	Notes	**2011 £000**	2010 £000 *(restated)*
Turnover	*2*	**125,082**	121,310
Cost of sales - before exceptional items		**(105,591)**	(96,746)
- exceptional items	*4*	**(28,150)**	-
Total cost of sales		**(133,741)**	(96,746)
Gross (loss)/profit		**(8,659)**	24,564
Distribution costs		**(349)**	(286)
Administrative expense - before exceptional items		**(9,085)**	(10,899)
- exceptional items	*4*	**-**	949
Total administrative expenses		**(9,085)**	(9,950)
Operating (loss)/profit	*3*	**(18,093)**	14,328
Interest receivable and similar income	*7*	**232**	616
Interest payable and similar charges	*8*	**(96)**	(444)
(Loss)/profit on ordinary activities before taxation		**(17,957)**	14,500
Tax on loss/(profit) on ordinary activities	*9*	**4,256**	(4,733)
(Loss)/profit for the financial year after taxation	*21*	**(13,701)**	9,767

All current and prior year amounts relate to continuing activities

Details of the restatement are set out in note 1

There is no material difference between the loss on ordinary activities before taxation and the loss for the financial year stated above, and their historical cost equivalents

Babcock Communications Limited ***(formerly VT Communications Limited)***
Statement of total recognised gains and losses for the year ended 31 March 2011

	2011	2010
	£'000	£'000
		(restated)
(Loss)/Profit for the year	**(13,701)**	9,767
Total recognised gains and losses relating to the year	**(13,701)**	9,767
Prior year adjustments (as explained in note 1)	**(4,247)**	
Total gains and losses recognised since last annual report	**(17,948)**	

Babcock Communications Limited ***(formerly VT Communications Limited)***
Balance Sheet at 31 March 2011

	Notes	2011 £000	2010 £000 (restated)
Fixed assets			
Intangible assets	10	**658**	777
Tangible assets	11	**9,756**	17,044
Investments	12	**260**	260
		10,674	18,081
Current assets			
Stocks	13	**10,883**	10,280
Debtors due within one year	14	**72,426**	68,704
Cash at bank and in hand		**16,913**	12,430
		100,222	91,414
Creditors: amounts falling due within one year	15	**(65,279)**	(63,028)
Net current assets		**34,943**	28,386
Total assets less current liabilities		**45,617**	46,467
Creditors: amounts falling due after more than one year	16	**(10,100)**	(10,100)
Provisions	17	**(13,641)**	(853)
Net assets		**21,876**	35,514
Capital and reserves			
Called up share capital	19	**1,000**	1,000
Share premium account	20	**9,204**	9,204
Capital reserve	20	**-**	1,417
Profit and loss account	20	**11,672**	23,893
Shareholders' funds	21	**21,876**	35,514

Details of the restatement are set out in Note 1

The financial statements on pages 9 to 28 were approved by the board of directors on 29 June 2011 and were signed on its behalf by

J McGrath
Director

Registered number 3196204

1 Accounting policies

Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom

A summary of the more important Company accounting policies which have been consistently applied is set out below, together with an explanation of where changes have been made to previous policies in the year

The Company is a wholly-owned subsidiary of Merlin Communication Group Limited and is included in the consolidated financial statements of Babcock International Group PLC which are publicly available Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006

Change of accounting policy

Following acquisition, the company has aligned its accounting policies with the Babcock International Group plc policies As a result, one of the company's significant contracts is now accounted for as a long term contract under SSAP 9 Stocks and Long Term Contracts

The impact of this change in accounting policy is to record a prior year adjustment reducing turnover for the period from contract commencement to 31 March 2009 by £3,310,000 The comparatives have been restated resulting in reported profit for the year ended 31 March 2010 reducing by £937,000

The cumulative restatement at 1 April 2009 was a reduction in opening reserves of £3,310,000, represented by an increase in deferred income of £3,310,000 The cumulative effect of these adjustments at 1 April 2010 is to reduce reserves by £4,247,000

The impact of this change in accounting policy in the current year is an increase to the reported profit by £2,181,000 and the cumulative effect of the change in accounting policy at 31 March 2011 is £2,066,000

This change has had no impact on the company's taxation as any profits or losses would be group relieved for nil consideration

Cash flow statement and related party transactions

The Company is a wholly-owned subsidiary of Merlin Communication Group Limited and is included in the consolidated financial statements of Babcock International Group PLC which are publicly available Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) The company is also exempt under the terms of FRS 8 from disclosing related-party transactions with entities that are part of the Babcock International Group PLC or investees of the Babcock International Group PLC group For details of other related-party transactions see note 25

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured The following specific recognition criteria must also be met before revenue is recognised

Sale of goods

Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured

Rendering of services

Turnover from services rendered is recognised by reference to the stage of completion of the transaction measured as a proportion of expected total contract costs Turnover from services provided on a short-term or one-off basis is recognised when the service is complete The provision of services over a long-term period are treated as construction contracts, and the turnover recognised as set out below

Construction contracts and long term service contracts

Turnover from construction contracts and long-term service contracts, is recognised by reference to the stage of completion of the contract The stage of completion is determined by the costs incurred on the contract to date or labour hours if appropriate, to the extent that such costs represent progress made on the project A prudent level of profit attributable to the contract activity is recognised if the final outcome of such contracts can be reliably assessed An expected loss on a contract is recognised immediately in the income statement The amount by which turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts Payments on account, to the extent they are not matched with turnover or offset against work in progress balances in stock, are shown as deferred income within creditors

Stock

Stock is made up of work in progress, raw materials and consumables Raw materials and consumables are stated at the lower of cost and net realisable value The cost includes all expenditure incurred in acquiring the stocks and bringing them to their existing location and condition In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity

Work in progress represents costs incurred on contracts to date less amounts transferred to cost of sales where the turnover recognition criteria have been met

Provision is made for obsolete and slow moving items

Intangible fixed assets – goodwill
Goodwill arising on the acquisition of a business represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired Goodwill arising on acquisitions is capitalised and then eliminated by amortisation through the profit and loss account over its estimated useful economic life of, generally, 20 years

Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment Tangible fixed assets are reviewed for impairment where indicators for impairment exist Where an impairment loss has been identified, it is recorded within accumulated depreciation

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use

Depreciation is provided evenly on the cost of all tangible and intangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life as follows

Freehold buildings	-	4% to 10% per annum
Freehold land	-	nil
Plant and equipment	-	4% to 25%
Motor vehicles	-	20%
Office fixtures and fittings	-	10%
Computer equipment	-	20% to 25%
Leasehold property	-	Over the term of the lease

Depreciation will commence on assets in the course of construction once they have been brought into use

Investments
Investments held as fixed assets are stated at cost less provision for impairment in value The carrying amounts of the company's investments are tested for impairment when events occur, or circumstances indicate, that their carrying values may be impaired Impairments arising are charged to the profit and loss account

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account Overseas branches are accounted for using the temporal method as set out in SSAP 20 Foreign Currency Translation

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain tax items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 Deferred taxation assets are recognised only to the extent that in the opinion of the directors, there is a reasonable probability that the asset will crystallise in the foreseeable future Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Leases

Where assets are financed by leasing arrangements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright The amount capitalised is the present value of the minimum lease payments payable during the lease term or fair value, whichever is lower The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account

Lease payments are analysed between capital and interest components The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding The capital part reduces the amounts payable to the lessor

All other leases are treated as operating leases Their annual rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Pension costs

The company participates in a group wide pension scheme providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the company The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

The company also operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund The amount charged against profit represents the contributions payable to the scheme in respect of the accounting period

Share based payment

During the year VT Communications Limited was acquired by Babcock International Group PLC and the Share based payment obligation was crystallised in full subject to performance measures. New share based payments arrangements with Babcock will be cash settled and hence there will be no movement on reserves

Pre acquisition the group share option programme allowed employees to acquire shares of the parent company The fair value of options granted after 7 November 2002 was recognised as an employee expense with a corresponding increase in equity, in the form of a parent company capital contribution The fair value of the options granted were measured using an option pricing model, taking into consideration the terms and conditions upon which the options were granted The amount recognised as an expense was adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation

2 Analysis of turnover

	2011	2010
	£000	£000
		(restated)
By geographical area		
United Kingdom	**111,886**	109,057
Rest of Europe	**6,634**	7,674
North America	**4,448**	3,095
Australia and New Zealand	**569**	-
Africa and Asia	**1,545**	1,484
	125,082	121,310

The company has one class of business being its principal activity

3 Operating loss

		2011 £000	2010 £000
Operating loss is stated after charging:			
Depreciation of tangible fixed assets	- owned	**1,949**	1,981
	- leased	**428**	467
Impairment of fixed assets		**5,930**	-
Amortisation of goodwill		**119**	119
Exchange loss		**815**	79
Operating lease rentals	- plant and machinery	**191**	237
	- other	**561**	633
Royalty payable	(note 12)	**1,161**	-
Auditors' remuneration	- audit fees	**104**	73

No other fees are paid to PricewaterhouseCoopers LLP, or its associates, in respect of this company, other than the statutory audit of the company Fees for other services are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC

Details on the exceptional items are set out in note 4 below

4 Exceptional items

During the year there were a number of exceptional losses within cost of sales,

A provision has been recognised in respect of dilapidations (£2,874,000) and onerous property leases (£754,000) following a Group wide assessment of property leases

A provision has been recognised for onerous long term contracts (£9,577,000) and short term contracts (£1,364,000) following a management review of loss making contracts and the scope of work and estimated costs to complete those contracts This review also led to revisions to overall estimated costs to complete on other large contracts resulting in an additional charge of £6,740,000 in the current year

An impairment charge of £5,930,000 has been recognised in respect of assets utilised on the BBC World Service contract (see note 11)

A provision of £911,000 has been recognised in respect of pension liabilities (see note 17)

The tax rate attributed to the exceptional items is 28%

The exceptional items in last year's financial statements relate to the following,

The directors reassessed the group reorganisation provision of £2,284,000 created as at 31 March 2009 As a result the provision was reduced by £949,000

5 Remuneration of directors

	2011 £000	2010 £000
Directors emoluments	-	46
Compensation for loss of office	-	286
	-	332

Retirement benefits are accruing to nil (2010 one) directors under a defined benefit scheme

All of the directors of the company are subject to service agreements with and remunerated by other group companies It is not possible to make an accurate apportionment of their emoluments relating to the services provided to the company

As only one director received emoluments from this company in the previous year, no additional disclosure is required in relation to the highest paid director

6 Staff numbers and costs

The average number of persons, including directors, employed during the year was as follows

	Number of employees	
	2011	2010 *(restated)*
Management and administration	232	216
Operations	467	500
	699	716

The comparative number of employees has been restated following an internal management review

The aggregate payroll costs of these persons were as follows

	2011	2010
	£000	£000
Wages and salaries	**22,730**	22,884
Share based payments	**63**	286
Social security costs	**1,505**	1,571
Other pension costs (see note 24)	**1,937**	4,713
	26,235	29,454

7 Interest receivable and similar charges

	2011	2010
	£000	£000
Interest receivable from group undertakings	**216**	616
Bank and other interest receivable	**16**	-
	232	616

8 Interest payable and similar charges

	2011	2010
	£000	£000
Finance lease interest	**96**	430
Interest payable to group undertakings	**-**	14
	96	444

9 Taxation

	2011	2010
	£000	£000
Current tax		
UK corporation tax on profits of the year	**2,447**	3,800
Overseas tax	**275**	419
Adjustments in respect of prior periods	**-**	159
Total current tax charge	**2,772**	4,378

Deferred tax		
Origination and reversal of timing differences	**(7,362)**	291
Impact of change in UK tax rate	**521**	-
Adjustments in respect of prior years	**(137)**	64
Total deferred tax (credit)/charge	**(6,978)**	355
Tax on (loss)/profit on ordinary activities	**(4,256)**	4,733

Factors affecting the tax charge for the current period
The current tax charge for the year is higher *(2010. higher)* than the standard rate of corporation tax in the UK of 28% *(2010 28%)* The differences are explained below

	2011 **£000**	2010 £000 *(restated)*
(Loss)/Profit on ordinary activities before tax	**(17,957)**	14,500
(Loss)/Profit on ordinary activities multiplied by standard rate in UK of 28% *(2010 28%)*	**(5,028)**	4,060
Effects of		
Expenses not deductible for tax purposes	**80**	38
Difference between capital allowances and depreciation	**1,731**	45
Other timing differences	**5,631**	(219)
Group relief (claimed) for nil consideration	**-**	(262)
Goodwill amortisation	**33**	33
Adjustment to tax charge in respect of previous period	**-**	159
Other	**275**	-
Current tax charge	**2,772**	4,378

Factors affecting future tax charge

A number of changes to the UK Corporation tax system were announced in the March 2011 Budget Statement The rate of corporation tax was reduced from 28% to 26% with effect from 1 April 2011 Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014 These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

10 Intangible fixed assets

	Goodwill £000
Cost:	
At 1 April 2010 and 31 March 2011	**2,314**
Amortisation:	
At 1 April 2010	1,537
Charge for the year	119
At 31 March 2011	**1,656**
Net book value:	
At 31 March 2011	**658**
At 31 March 2010	777

11 Tangible fixed assets

	Short leasehold land and buildings £000	Freehold land and buildings £000	Assets in course of const-ruction £000	Vehicles, plant and equip-ment £000	Office equip-ment £000	Total £000
Cost:						
At 1 April 2010	679	6,332	458	23,531	4,184	35,184
Additions	-	-	505	514	-	1,019
Transfers	-	-	(824)	824	-	-
At 31 March 2011	**679**	**6,332**	**139**	**24,869**	**4,184**	**36,203**
Depreciation:						
At 1 April 2010	89	1,405	-	12,473	4,173	18,140
Impairment				5,930		5,930
Charge for the year	-	322	-	2,044	11	2,377
At 31 March 2011	**89**	**1,727**	**-**	**20,447**	**4,184**	**26,447**
Net book value:						
At 31 March 2011	**590**	**4,605**	**139**	**4,422**	**-**	**9,756**
At 31 March 2010	590	4,927	458	11,058	11	17,044

Following the de-scoping of the BBC World service contract, the expected usage period of the fixed assets utilised in this contract has reduced in line with the contract end date The Company has accordingly impaired the value of those assets

Included under freehold land and buildings is land of £2,950,000 *(2010 £2,950,000)* which is not depreciated

The net book value of tangible fixed assets does not include any amounts *(2010 £1,748,000)* in respect of assets held under finance leases as the lease was settled in March 2011 The related depreciation charge on these assets for the year was £428,000 *(2010 £467,000)*

12 Investments

	Shares in group undertakings £000
Cost or valuation	
At 1 April 2010 and 31 March 2011	**260**

The directors believe that the carrying value of the investments is supported by their underlying net assets

The company has the following interests in subsidiary undertakings

Subsidiary	Country of incorporation	Principal activity	Percentage of ordinary shares held
Babcock Communications Cyprus Limited	Cyprus	Operation & maintenance of radio broadcast facilities	100%
Babcock Merlin Communications & Partners LLC	Sultanate of Oman	Operation & maintenance of radio broadcast facilities	70%
Babcock Communications GmbH	Germany	Operation & maintenance of radio broadcast facilities	100%

Babcock Communications Limited owns 70% of the shares in Babcock Merlin Communications & Partners LLC, but is entitled to 99% of the trading result of the company

On 15 September 2010, proprietary know-how, not capitalised in the accounts of the company in accordance with FRS 10, was transferred to Babcock Integration LLP in exchange for an interest in that partnership This was in order to facilitate the integration of the Babcock and VT groups The partnership interest has been recognised at a cost of £nil given that the know-how transferred was not recognised in the accounts of the company prior to the transfer A royalty is payable at the rate of 1 5% of turnover The charge for the period is £1,161,000 (2010 £Nil)

13 Stocks

	2011 £000	2010 £000
Raw materials and consumables	**7,022**	5,840
Work in progress	**3,861**	4,440
	10,883	10,280

There is no significant difference between the replacement cost and the value of the stock shown

14 Debtors

	2011 £000	2010 £000
Amounts falling due within one year:		
Trade debtors	**10,586**	12,708
Amounts owed by group undertakings	**46,398**	38,712
Amounts recoverable on contract	**5,897**	-
Prepayments and accrued income	**2,769**	17,284
Deferred tax (note 17)	**6,776**	-
	72,426	68,704

The amounts owed by group undertakings are unsecured, interest bearing and repayable on demand

15 Creditors: amounts falling due within one year

	2011 £000	2010 £000 *(restated)*
Trade creditors	**3,192**	5,615
Amounts owed to group undertakings	**13,976**	10,721
Finance leases	**-**	10,642
Taxation and social security	**3,144**	1,001
Other creditors	**4,051**	3,190
Accruals and deferred income	**40,916**	31,859
	65,279	63,028

The amounts owed to group undertakings are unsecured, interest free and repayable on demand

Finance leases

Amounts due under finance leases are repayable as follows

	2011 £000	2010 £000
In one year or less	-	11,131
	-	11,131
Less finance charges allocated in future periods	-	(489)
	-	10,642

The finance lease obligations were settled in full on the 4th March 2011

16 Creditors: amounts falling due after more than one year

	2011 £000	2010 £000
Amounts owed to parent and group undertakings	**10,100**	10,100
	10,100	10,100

The amount shown of £10,100,000 (*2010. £10,100,000*) is interest free and the parent company has indicated that repayment of this amount will not be made within 12 months from the approval of these accounts

17 Provisions

	Reorganisation provision £000	Dilapidations provision £000	Pension liability £000	Contract provision £000	Deferred Tax £000	Total £000
At 1 April 2010	241	-	-	410	202	853
Charged to the profit and loss account	-	2,778	911	9,577	(202)	13,064
Released during the year	-	-	-	(35)	-	(35)
Utilised during the year	(241)	-	-	-	-	(241)
At 31 March 2011	**-**	**2,778**	**911**	**9,952**	**-**	**13,641**

Reorganisation provision
Provisions were made to cover costs to be incurred in respect of committed redundancy programmes and other liabilities arising from such reorganisations These liabilities were fully utilised in the year

Dilapidation provision
Dilapidation provision is in relation to various properties leased by the company These provisions are expected to be utilised over the next twenty years

Pension Liability
The provision has been made to cover costs to be incurred in respect of employee termination, commitments for payments are to be made after more than one year from the balance sheet date

Contract provision
The contract provision is set up to provide against losses identified on long term contracts It is expected to be utilised over 1 to 5 years

18 Deferred tax

Deferred tax movements are

	2011 £000	2010 £000
At 1 April 2010	**(202)**	153
Deferred tax credit/(charge) in profit and loss account (note 9)	**6,978**	(355)
At 31 March 2011	**6,776**	**(202)**

Deferred tax is recognised as follows:

	Recognised		Full Potential	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Accelerated capital allowances	**615**	(1,153)	**615**	(1,153)
Capital tax losses	**-**	-	**266**	-
Other short term timing differences	**6,161**	951	**6,161**	951
Deferred tax	**6,776**	(202)	**7,042**	(202)

19 Called up share capital

	2011 £000	2010 £000
Authorised		
1,000,000 ordinary shares of £1 each	**1,000**	1,000
Allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	**1,000**	1,000

20 Reserves

	Share premium account £000	Capital reserve £000	Profit and loss account £000	Total £000
At 1 April 2009 as previously reported	9,204	1,131	17,436	27,771
Prior year adjustment (note 1)	-	-	(3,310)	(3,310)
As restated	9,204	1,131	14,126	24,461
Profit for the financial year (restated)	-	-	9,767	9,767
Capital contribution	-	286	-	286
At 1 April 2010	9,204	1,417	23,893	34,514
Loss for the financial year (note 21)	-	-	(13,701)	(11,254)
Capital contribution	-	63	-	63
Reserves transfer	-	(1,480)	1,480	-
At 31 March 2011	**9,204**	**-**	**11,672**	**20,876**

The capital reserve arose on contributions to the VT share based payment schemes During the year VT Communications Limited was acquired by Babcock International Group PLC and the share based payment obligation was crystallised in full subject to performance measures Following the closure of the schemes, the accumulated capital reserve has been transferred to the profit and loss account

New share based payments arrangements with Babcock will be cash settled and hence there will be no movement on reserves

21 Reconciliation of movements in shareholders' funds

	2011 £000	2010 £000 (restated)
(Loss) / profit for the financial year	**(13,701)**	9,767
Dividends	**-**	-
	(13,701)	9,767
Capital contribution relating to share based payments	**63**	286
Net (decrease)/ increase in shareholders' funds	**(13,638)**	10,053
Opening shareholders' funds	**35,514**	28,771
Prior year adjustment (note 1)	**-**	(3,310)
Closing shareholders' funds	**21,876**	35,514

22 Capital commitments

	2011 £000	2010 £000
Contracts placed for future capital expenditure not provided in the financial statements	**-**	283

23 Financial commitments

At 31 March 2011 the Company had annual commitments under non-cancellable operating leases expiring as follows

	2011		2010	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Within one year	**-**	**11**	36	5
Within two to five years	**561**	**94**	561	86
	561	**105**	597	91

The company at the period end had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £782 5million provided to certain group companies In addition, the company at the period end had joint and several liability for drawn bank overdraft facilities of other group companies for the value of £4 5million

24 Pension arrangements

The company is a member of a larger group wide pension scheme providing benefits based on final pensionable pay The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for, in these financial statements as if the scheme was a defined contribution scheme The pension charge in the financial statements (note 6) represents contributions paid to the scheme

The latest full actuarial valuation was carried out as at 31 March 2010 by a qualified independent actuary This valuation showed a funding shortfall of £87 9million. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company At 31 March 2011 there was outstanding contributions payable to the defined benefit scheme of £148,032 *(2010. £153,248)*

The company also operated several defined contribution pension schemes At 31 March 2011 there was outstanding contributions payable of £32,060 *(2010: £37,011)*

25 Related party transactions

The company's fellow subsidiary, Costpool Limited, has a 20% interest in Alert Communications Group Holdings Limited Alert Communications Group Holdings Limited wholly owns Alert Communications Limited

During the year the company invoiced Alert Communications Limited £3,442,526 *(2010: £3,163,073)* in connection with the project management, operation and maintenance fees The outstanding balance at the year end was £78,587 *(2010 £520,588)*

26 Ultimate parent and controlling party

The immediate parent undertaking is Merlin Communication Group Limited, a company incorporated in Great Britain and registered in England and Wales

The ultimate parent undertaking and controlling party is Babcock International Group plc, a company incorporated in Great Britain and registered in England and Wales The largest group in which the results of the company are reported is that headed by Babcock International Group PLC

Copies of Babcock International Group PLC consolidated financial statements can be obtained from the Company Secretary at Babcock International Group PLC, 33 Wigmore Street, London W1U 1QX