

**Babcock Communications Limited**  
**DIRECTORS REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**Company Registered Number:**  
**03196204**

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COMPANIES HOUSE

**Directors**

A N Dungate  
G D Leeming  
R Gillespie  
K R Thomas  
F Martinelli  
J McGrath  
A S Lewis  
R H Taylor (appointed 23 August 2011)  
I S Urquhart (appointed 23 August 2011)

**Registered office**

33 Wigmore Street  
London  
W1U 1QX

**Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
East Midlands, United Kingdom

The directors present the audited financial statements of the Company, for the year ended 31 March 2012

#### *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

#### *Operational and Financial Review*

The Company's results for the year are set out in the profit and loss account on page 9 showing a profit for the financial year after tax of £3.3 million (2011: loss of £13.7 million)

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

At 31 March 2012, the Company had net assets of £25.1 million (2011: £21.9 million)

#### *Key performance indicators*

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Turnover	<b>112,508</b>	125,082
Operating profit (before exceptional item)	<b>12,046</b>	10,057

Turnover has decreased by £12.6 million, in 2011 the company delivered a one off project for the installation of a hot oil containment system which delivered turnover of £13 million

Operating profit (before exceptional items) has increased by £2 million

#### *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.

#### *Exceptional items*

Included in the Profit and Loss Accounts is an exceptional loss of £156,000 (2011: £28,150,000). The £156,000 relates to costs incurred to implement operational and functional synergy initiatives across Babcock Support Services Division.

*Exceptional items (continued)*

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

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

A provision was 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

An impairment charge of £5,930,000 was recognised in respect of assets utilised on the BBC World Service contract

*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 the policy of the Company 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.

*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 2012, 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.

#### *Research and development*

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

#### *Key performance indicators*

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the business

#### **Supplier 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 8 days on average to pay its trade creditors (2011 13 days).

#### **Charitable and political donations**

In the year ended 31 March 2012 the Company made charitable donations of £1,000 (2011 £nil). There were no political contributions during the year (2011 £nil).

#### **Principal Risk 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 40 to 43 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 financial statements on an on-going 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 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 potential benefit. The Directors will revisit the appropriateness of this policy should the Company's operations change in size or nature.

**Directors**

The directors who served during the year and up to the date of signing the financial statements were as follows:

A N Dungate  
G D Leeming  
R Gillespie  
K R Thomas  
F Martinelli  
J McGrath  
A S Lewis  
R H Taylor (appointed 23 August 2011)  
I S Urquhart (appointed 23 August 2011)

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**Statement of directors' responsibilities in respect of the annual report and financial statements**

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 those 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.

**Auditors and the disclosure of information**

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of this information.

**Independent auditors**

A resolution proposing to reappoint PricewaterhouseCoopers LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board



**J McGrath**  
**Director**

22 June 2012

## **Independent auditors' report to the members of Babcock Communications Limited**

We have audited the financial statements of Babcock Communications Limited for the year ended 31 March 2012 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 statement of directors' responsibilities on page 6, 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 directors' report and financial statements report 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 2012 and of its profit 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.

### **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.



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

**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



Phil Harrold (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
East Midlands, United Kingdom

27 June 2012

**Profit and Loss Account**  
**For the year ended 31 March 2012**

	Notes	2012 £'000	2011 £'000
<b>Turnover</b>	2	<b>112,508</b>	<b>125,082</b>
Cost of sales – before exceptional items		<b>(95,169)</b>	<b>(105,591)</b>
– exceptional items	5	<b>-</b>	<b>(28,150)</b>
<b>Total cost of sales</b>		<b>(95,169)</b>	<b>(133,741)</b>
<b>Gross profit / (loss)</b>		<b>17,339</b>	<b>(8,659)</b>
Distribution expenses		<b>-</b>	<b>(349)</b>
Administrative expenses		<b>(5,174)</b>	<b>(8,966)</b>
<b>Operating profit / (loss) (before goodwill amortisation)</b>		<b>12,165</b>	<b>(17,974)</b>
Amortisation of goodwill	9	<b>(119)</b>	<b>(119)</b>
<b>Operating profit / (loss)</b>	4	<b>12,046</b>	<b>(18,093)</b>
Non operating exceptional items	5	<b>(156)</b>	<b>-</b>
<b>Profit / (loss) on ordinary activities before interest</b>		<b>11,890</b>	<b>(18,093)</b>
Interest receivable and similar income	3	<b>187</b>	<b>232</b>
Interest payable and similar charges	3	<b>(290)</b>	<b>(96)</b>
<b>Profit / (loss) on ordinary activities before taxation</b>		<b>11,787</b>	<b>(17,957)</b>
Tax on (profit) / loss on ordinary activities	8	<b>(8,528)</b>	<b>4,256</b>
<b>Profit / (loss) for the financial year after taxation</b>	20	<b>3,259</b>	<b>(13,701)</b>

All current and prior year amounts relate to continuing activities

There is no difference between the profit/(loss) on ordinary activities before taxation and the profit/(loss) for the year stated above and their historical cost equivalents

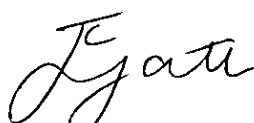
**Statement of total recognised gains and losses for the year ended 31 March 2012**

	2012 £'000	2011 £'000
Profit / (loss) for the year	3,259	(13,701)
Total recognised gains and losses relating to the year	3,259	(13,701)
Prior year adjustments ( as explained in note 1)	-	(4,247)
Total gains and losses recognised since last annual report	3,259	(17,948)

**Babcock Communications Limited****Balance Sheet as at 31 March 2012****Company Registered Number: 03196204**

	Notes	2012 £'000	2011 £'000
<b>Fixed assets</b>			
Intangible assets – goodwill	9	539	658
Tangible assets	10	7,373	9,756
Investments in subsidiary undertakings	11	260	260
		<u>8,172</u>	<u>10,674</u>
<b>Current assets</b>			
Stocks	12	8,317	10,883
Debtors	13	70,614	72,426
Cash at bank and in hand		16,902	16,913
		<u>95,833</u>	<u>100,222</u>
<b>Creditors – amounts due within one year</b>	14	<u>(54,337)</u>	<u>(65,279)</u>
<b>Net current assets</b>		<u>41,496</u>	<u>34,943</u>
<b>Total assets less current liabilities</b>		<b>49,668</b>	<b>45,617</b>
<b>Creditors – amounts due after more than one year</b>	15	<b>(10,100)</b>	<b>(10,100)</b>
<b>Provisions</b>	16	<b>(14,433)</b>	<b>(13,641)</b>
<b>Net assets</b>		<u><b>25,135</b></u>	<u><b>21,876</b></u>
<b>Capital and reserves</b>			
Called-up share capital	18	1,000	1,000
Share premium account	19	9,204	9,204
Profit and loss account	19	14,931	11,672
<b>Total shareholders' funds</b>	20	<u><b>25,135</b></u>	<u><b>21,876</b></u>

The financial statements on pages 9-27 were approved by the board of directors and signed on its behalf by



J McGrath  
Director  
22 June 2012

**1 Accounting policies***a) Basis of accounting*

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards. The principal accounting policies which have been consistently applied are summarised below, together with an explanation of where changes have been made to previous policies in the year.

*b) Change in accounting policy*

The company adopted the accounting policies of Babcock International Group plc in 2011. As a result of this the company now accounts for long term contract under SSAP 9 Stocks and Long Term Contracts.

*c) 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 bring the asset to its working condition for its intended use.

Depreciation is provided on a straight line basis to write off the cost of all tangible fixed assets, other than freehold land over their estimated useful lives or contract period if shorter, to their estimated residual value as follows:

Plant and machinery	4 to 25 years
Freehold buildings	10 to 25 years
Freehold land	nil
Motor vehicles	5 years
Fixtures and fittings	10 years
Computer equipment	4 to 5 years
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.

**1 Accounting policies (continued)****d) Intangible assets**

Intangible fixed assets are stated at cost after amortisation. The intangible fixed assets are amortised on a straight line basis as follows:

**(i) Intellectual property rights and know how**

The premium paid on the intellectual property rights licence from Babcock International Limited is being amortised over the life of the agreement of 7 years.

Purchased know how is amortised over twenty years.

**(ii) Goodwill**

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets the difference is treated as purchased goodwill and is capitalised and amortised through the profit and loss account over its estimated economic life. Provision is made for any impairment.

**(iii) Acquired Intangibles**

Intangible assets, which are capable of being recognised separately and measured reliably on acquisition of a business, are capitalised at fair value on acquisition. These intangibles consist of contracts acquired. Where these assets have a finite life, they are amortised over the period which they are expected to generate benefits, but generally not exceeding ten years.

**(iv) Computer Software**

Computer software costs are amortised over their expected useful lives of between three and five years.

**e) Investments in joint ventures and subsidiaries**

Fixed assets investments are stated at cost less provision for impairment in value.

**f) Stocks and work in progress**

Stocks are valued at the lower of cost and net realisable value. In the case of raw materials and consumables, cost comprises the purchase cost. In the case of work in progress, cost comprises direct materials and labour and a reasonable proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

**g) Long-term contracts**

Long term contract balances, which are included in debtors as amounts recoverable on long-term contracts, are valued at the net sales value of the work done less amounts received as progress payments on account.

Any progress payments received in excess of the net sales value of work done are included in creditors as payments received on account of long term contracts.

**1 Accounting policies (continued)*****h) 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.

***i) Taxation***

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted as at the balance sheet date. The taxation liabilities of certain group companies may be reduced, wholly or in part, by surrender of losses by fellow group companies. The decision to charge group relief is made on a case by case basis.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

**1 Accounting policies (continued)***i) Taxation (continued)*

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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 substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

*j) Pensions costs and other post retirement benefits*

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.

*k) 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.



**1 Accounting policies (continued)***l) 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 Transactions.

*m) Leases*

Assets acquired under finance leases are capitalised and the outstanding capital element of instalments is included in creditors. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write off the assets over their expected useful lives or over the lease terms where these are shorter.

Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

*n) Group financial statements*

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by the Companies Act 2006 because it is a wholly owned subsidiary of Babcock International Group PLC which prepares consolidated financial statements which are publicly available.

*o) Cash flow statement*

The Company has taken advantage of the exemption in Financial Reporting Standard 1 (revised 1996) to dispense with the requirement to prepare a cash flow statement in its financial statements, as a consolidated cash flow statement is included in the financial statements of the ultimate parent company.

**2. Analysis of turnover**

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
By geographical area		
United Kingdom	<b>107,064</b>	111,886
Rest of Europe	<b>441</b>	6,634
North America	<b>3,862</b>	4,448
Australia and New Zealand	<b>596</b>	569
Africa and Asia	<b>545</b>	1,545
	<b>112,508</b>	<b>125,082</b>

The Company has one class of business being its principle activity.

## Notes to the Financial Statements (continued)

**3 Interest receivable/(payable) and similar income/(charges)**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Interest payable and similar charges:</b>		
Finance lease interest	-	(96)
Bank interest	(51)	-
Fair value interest	(239)	-
	<u>(290)</u>	<u>(96)</u>
<b>Interest receivable and similar income:</b>		
Bank interest	52	16
Loan interest receivable from group undertaking	135	216
	<u>187</u>	<u>232</u>
	<u>(103)</u>	<u>136</u>

**4 Profit/(loss) on ordinary activities before taxation**

Profit/(loss) on ordinary activities before taxation is stated after charging

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Depreciation – owned fixed assets (note 10)	2,413	1,949
– leased fixed assets	-	428
Impairment of fixed assets	-	5,930
Goodwill amortisation (note 9)	119	119
Auditors' remuneration		
- audit fees	110	104
- other services	-	-
Operating lease rentals		
- land and buildings	561	561
- Plant and machinery	18	191
Staff costs (note 6)	26,207	26,235
Royalty payable (note 11)	1,617	1,161
Loss on disposal of fixed assets	14	-
Exchange loss	349	815

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.

## Notes to the Financial Statements (continued)

**5 Exceptional items**

Included in the profit and loss account is an exceptional loss of £156,000 (2011 £28,150,000) The £156,000 relates to costs incurred to implement operational and functional synergy initiatives across Babcock Support Services Division

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

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

A provision was 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

An impairment charge of £5,930,000 was recognised in respect of assets utilised on the BBC World Service contract

A provision of £911,000 was recognised in respect of pension liabilities

**6 Staff costs**

The average monthly number of employees (including directors) was

	<b>2012 Number</b>	<b>2011 Number</b>
Operations	561	467
Management and administration	131	232
	<b>692</b>	<b>699</b>

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

Their aggregate remuneration comprised

	<b>2012 £'000</b>	<b>2011 £'000</b>
Wages and salaries	22,055	22,730
Social security costs	1,674	1,505
Share based payments	1	63
Other pensions costs (see note 23)	2,477	1,937
	<b>26,207</b>	<b>26,235</b>

## Notes to the Financial Statements (continued)

**7 Directors' remuneration**

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.

**8 Tax on profit/(loss) on ordinary activities**

	2012 £'000	2011 £'000
<b>Current tax</b>		
UK Corporation tax on profits of the period	-	2,447
Consortium relief for consideration	3,458	-
Overseas tax	393	275
Current tax charge for the year	3,851	2,722
<b>Deferred tax:</b>		
Current tax charge/(credit) for the year	601	(7,363)
Adjustment in respect of prior years	3,901	(137)
Impact of change in UK tax rate	175	521
Tax charge/(credit)	8,528	(4,256)

The adjustment in respect of prior year relates mainly to consortium relief for consideration. The difference between the total current year tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows. The tax assessed for the year is lower (2011 higher) than the standard rate of corporation tax in the UK of 26% (2011 28%).

	2012 £'000	2011 £'000
<b>Profit/(loss) profit on ordinary activities before tax</b>	11,787	(17,957)
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 26% (2011 28%)	3,065	(5,028)
<b>Effects of</b>		
Difference between capital allowances and depreciation	81	1,731
Timing differences	(682)	5,631
Expenses not deductible for tax purposes	87	80
Consortium relief (claimed)/surrendered for nil consideration	2,221	-
Overseas Tax	393	275
Rate benefit from consortium relief	(1,345)	-
Goodwill amortisation	31	33
Non-taxable gains	-	-
	3,851	2,722

**8 Tax on profit/(loss) on ordinary activities (continued)****Factors affecting future tax charge**

A number of changes to the UK Corporation tax system were announced in the March 2012 Budget Statement. Legislation to reduce the main rate of corporation tax from 26% to 24% from 1 April 2012 is expected to be included in the Finance Act 2012. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2013. These further changes had not been substantively enacted at the balance sheet date and, therefore the impact is not included in these financial statements.

The effect if the changes expected to be enacted in the Finance Act 2012 would be to reduce the deferred tax asset provided at the balance sheet date by £97,684. This decrease in deferred tax asset would decrease the profit by £97,684. This decrease in the deferred tax asset is due to the reduction in the corporation tax rate from 24% to 23% with effect from 1 April 2013.

**9 Intangible fixed assets**

	<b>Goodwill</b>
	<b>£'000</b>
<b>Cost</b>	
At 1 April 2011	2,314
Additions	-
<b>At 31 March 2012</b>	<b>2,314</b>
<b>Amortisation</b>	
At 1 April 2011	1,656
Charge for the year	119
<b>At 31 March 2012</b>	<b>1,775</b>
<b>Net book value</b>	
<b>At 31 March 2012</b>	<b>539</b>
At 31 March 2011	658

## Notes to the Financial Statements (continued)

**10 Tangible fixed assets**

	Short leasehold land and buildings £'000	Freehold land and buildings £'000	Assets in course of construction £'000	Vehicles, plant and machinery £'000	Fixtures and fittings and computer equipment £'000	Total £'000
<b>Cost</b>						
At 1 April 2011	679	6,332	139	24,869	4,184	36,203
Additions	-	-	-	44	-	44
Disposals	-	-	-	(51)	-	(51)
Transfers			(139)	139		-
<b>At 31 March 2012</b>	<b>679</b>	<b>6,332</b>	<b>-</b>	<b>25,001</b>	<b>4,184</b>	<b>36,196</b>
<b>Depreciation</b>						
At 1 April 2011	89	1,727	-	20,447	4,184	26,447
Charge for the year	-	310	-	2,103	-	2,413
Disposals	-	-	-	(37)	-	(37)
<b>At 31 March 2012</b>	<b>89</b>	<b>2,037</b>	<b>-</b>	<b>22,513</b>	<b>4,184</b>	<b>28,823</b>
<b>Net book value</b>						
<b>At 31 March 2012</b>	<b>590</b>	<b>4,295</b>	<b>-</b>	<b>2,488</b>	<b>-</b>	<b>7,373</b>
At 31 March 2011	590	4,605	139	4,422	-	9,756

Included under freehold land and buildings is land of £2,950,000 (2011. £2,950,000) which is not depreciated

**11 Fixed assets – Investments in subsidiary undertakings**

	<b>Total £'000</b>
<b>Cost</b>	
At 1 April 2011	260
Additions	-
<b>At 31 March 2012</b>	<b>260</b>
<b>Provision for impairment</b>	
At 1 April 2011	-
Additions	-
<b>At 31 March 2012</b>	<b>-</b>
<b>Net book value</b>	
<b>At 31 March 2012</b>	<b>260</b>
At 31 March 2011	260

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

The Company's principal subsidiary undertakings, all of which are wholly-owned except as stated, are

<b><u>Company</u></b>	<b><u>Country of Registration</u></b>	<b><u>Principal Activities</u></b>
Babcock Communications Cyprus Limited	Cyprus	Operation & maintenance of radio broadcast facilities
Babcock Communications & Partners LLC (70%)	Sultanate of Oman	Operation & maintenance of radio broadcast facilities
VT Communications GmbH	Germany	Operation & maintenance of radio broadcast facilities

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 financial statements of the company in accordance with FRS 10 'Goodwill and Intangible Assets', 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 financial statements 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 £1,617,000 (2011: £1,161,000).

## Notes to the Financial Statements (continued)

**12 Stocks**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
		<b>(Restated)</b>
Work in progress	2,596	3,861
Finished goods and goods for resale	5,721	7,022
	<b>8,317</b>	<b>10,883</b>

There is no material difference between the balance sheet value of stocks and their replacement cost

**13 Debtors**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Due within one year		
Trade debtors	7,090	10,586
Amounts recoverable on contracts	17,162	5,897
Amounts owed by group undertakings	40,364	46,398
Prepayments, other debtors and accrued income	3,899	2,769
UK corporation tax recoverable	-	-
Deferred tax (note 17)	2,099	6,776
	<b>70,614</b>	<b>72,426</b>

Amounts owed by Group undertakings are unsecured, interest bearing and repayable on demand



## Notes to the Financial Statements (continued)

**14 Creditors - amounts due within one year**

	2012 £'000	2011 £'000
Trade creditors	2,816	3,192
Amounts owed to group undertakings	10,096	13,976
Corporation tax	2,447	2,447
Other creditors	1,670	4,051
Other taxes and social security	77	697
Accruals and deferred income	37,231	40,916
	<b>54,337</b>	<b>65,279</b>

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

**15 Creditors - amounts due after more than one year**

	2012 £'000	2011 £'000
Amounts owed to group undertakings	<b>10,100</b>	<b>10,100</b>

The amount shown of £10,100,000 (2011 £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 financial statements

**16 Provisions for liabilities and charges**

	Dilapida- tions provisions £'000	Pension liability £'000	Contract provision £'000	Deferred tax £'000	Total £'000
At 1 April 2011	2,778	911	9,952	-	13,641
Charged to the profit and loss account	-	-	1,000	-	1,000
Transfer from accruals	-	-	485	-	485
Utilised during the year	-	-	(693)	-	(693)
<b>At 31 March 2012</b>	<b>2,778</b>	<b>911</b>	<b>10,744</b>	<b>-</b>	<b>14,433</b>

**16 Provisions for liabilities and charges (continued)****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.

**17 Deferred taxation**

The major components of the deferred tax asset recorded and the potential asset are as follows:

	<b>2012 Provided £'000</b>	<b>2011 Provided £'000</b>	<b>2012 Full potential £'000</b>	<b>2011 Full potential £'000</b>
Accelerated capital allowances	1,056	615	1,056	615
Capital tax losses	-	-	246	266
Other short term timing differences	1,043	6,161	1,043	6,161
	<b>2,099</b>	<b>6,776</b>	<b>2,345</b>	<b>7,042</b>

The movement on the deferred tax asset is as follows:

	<b>£'000</b>
At 31 March 2011 as previously reported	6,776
Current year movement (note 8)	(601)
Adjustment in respect of prior years	(3,901)
Impact of change in UK tax rate	(175)
<b>At 31 March 2012</b>	<b>2,099</b>

**18 Called-up share capital**

	<b>2012 £'000</b>	<b>2011 £'000</b>
<b>Authorised</b>		
1,000,000 ordinary shares of £1 each	1,000	1,000
<b>Allotted, issued and fully paid</b>		
1,000,000 ordinary shares of £1 each	1,000	1,000

## Notes to the Financial Statements (continued)

**19 Reconciliation of movement in shareholders funds and reserves**

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2011	9,204	11,672	20,876
Profit for the year	-	3,259	3,259
<b>At 31 March 2012</b>	<b>9,204</b>	<b>14,931</b>	<b>24,135</b>

**20 Reconciliation of movement in shareholders funds**

	2012 £'000	2011 £'000
Profit/(loss) for the financial year	3,259	(13,701)
	3,259	(13,701)
Capital contribution relating to share based payments	-	63
Net increase/(decrease) in shareholders' funds	3,259	(13,638)
Opening shareholders' funds	21,876	35,514
Closing shareholders funds	25,135	21,876

**21 Guarantees and financial commitments****a) Contingent liabilities**

The Company at the year end had guaranteed or had joint and several liabilities for drawn Babcock International Group PLC bank facilities of £731.8 million (2011 £782.5 million)

In addition, the company at the period end had joint and several liabilities for drawn bank overdraft facilities of other group companies for the value of £nil (2011 £4.5 million)

**b) Operating lease commitments**

	2012 Land and buildings £'000	2012 Other £'000	2011 Land and buildings £'000	2011 Other £'000
Annual commitments under non-cancellable operating leases expiring as				
- within one year	561	6	-	11
- between two and five years	-	36	561	94
- after five years	-	-	-	-
	<b>561</b>	<b>42</b>	<b>561</b>	<b>105</b>

**22 Related party disclosures**

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 £nil (2011 £3,442,526) in connection with the project management, operation and maintenance fees. The outstanding balance at the year end was £nil (2011 £78,587).

**23 Pension commitments**

The company is a member of a multi-employer defined benefit pension scheme. The scheme is accounted for on a defined contribution basis as the company is unable to identify its share of the underlying assets and liabilities. The charge for the year is described in Note 6. No amounts were unpaid at the end of the year.

**24 Ultimate parent undertaking**

The Company's immediate parent company is Merlin Communication Group Limited, a company registered in England and Wales. The Company's ultimate parent company is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC Financial Statements are available from the following address:

The Company Secretary  
Babcock International Group PLC  
33 Wigmore Street  
London W1U 1QX