Babcock Communications Limited

Annual report

For the year ended 31 March 2018

Company registration number:

03196204

Babcock Communications Limited

Directors and advisors

I S Urquhart
J R Davies
T Newman (resigned 30th April 2018)
R Taylor
J Lewis
S M White (appointed 30th April 2018)

Company secretary
Babcock Corporate Secretaries Limited

Registered office
33 Wigmore Street
London
W1U 1QX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Donington Court
Pegasus Business Park
Castle Donington
East Midlands
DE74 2UZ

Babcock Communications Limited

Strategic report for the year ended 31 March 2018

The directors present their Strategic report on the Company for the year ended 31 March 2018.

Principal activities and Company Strategy

The Company provides managed services to broadcasters, rights-holders and digital brands in the rapidly evolving and converging service areas of Television Playout and Content Management, Television Distribution and online content publishing including live and linear OTT services and VOD. The company also offers engineering support services for all aspects of the global communications market, the management and upgrade of existing communications infrastructure and the broadcast of analogue radio.

The Company's strategy is to expand within these primary business areas.

Review of the business

	2018	2017
	£'000	£'000
Revenue	**70,461**	64,474
Profit for the financial year	**15,544**	9,382

Over the course of the year, the Company's core business activities continued to perform in line with expectations.

Key performance indicators

The Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Babcock Land, a division of Babcock International Group PLC, which includes the Company, is discussed in the annual report of Babcock International Group Plc, which does not form part of this report.

Company Business Model

The Company aims to create value for its customers by managing the through life delivery of content by utilising its expert engineering teams, scheduling and frequency teams and network of infrastructure and content distribution partners around the world. The Company seeks to add further value by becoming customers' strategic partner in the long term, in order to fully understand their needs and implement solutions to deliver long term efficiencies.

Future developments

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities.

By order of the board

R Taylor

Director

16th August 2018

Babcock Communications Limited

Directors' report for the year ended 31 March 2018

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2018.

Dividends

The directors declare a £33,000,000 dividend in the year 2018 (2017: Nil).

Future developments

Information on the future developments of the Company can be found in the Strategic report.

Events after the reporting period

On 15th August 2018, Babcock Communications Limited subscribed to 1,000,000 shares in Babcock Media Services Limited for a nominal value of £1 each, total consideration being £1,000,000, paid in cash.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

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 International Group PLC are implemented by the Group and Company's finance departments. The department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

Price risk
The Company is exposed to price risk as a result of its operations. This risk is mitigated by specific functions which assess pricing in respect of both selling and procurement activities. The Company has no exposure to equity securities price risks as it holds no listed equity investments.

Credit risk
The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The Company also monitors existing customer accounts on an on-going basis and takes appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk
The Company retains access to pooled cash resources to ensure it has sufficient available funds for operations. The Company also has access to longer term funding from its ultimate parent undertaking if required.

Interest rate risk
The Company has interest-bearing cash balances which earn interest 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.

Directors' report for the year ended 31 March 2018 *(continued)*

Directors

The directors who held office during the year and up to the date of signing the annual report were as follows:

I S Urquhart
J R Davies
T Newman (resigned 30th April 2018)
R Taylor
J Lewis
S M White (appointed 30th April 2018)

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

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.

Research and development

The Company commits resources to research and development to the extent management considers reasonable for the evolution and development of the business.

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims 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.

Babcock Communications Limited

Directors' report for the year ended 31 March 2018 *(continued)*

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, comprising FRS 101 "Reduced Disclosure Framework", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors 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.

Qualifying third party indemnity provisions

Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

Independent Auditors

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier.

This report was approved by the board and signed on its behalf by:

R Taylor (Director) ____________________ Date: 16th August 2018

Independent auditors' report to the members of Babcock Communications Limited

Report on the financial statements

Opinion

In our opinion, Babcock Communications Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Statement of financial position as at 31 March 2018; the Income statement, the Statement of changes in equity for the year then ended, and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report to the members of Babcock Communications Limited

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Independent auditors' report to the members of Babcock Communications Limited

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Alan Walsh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
20th August 2018

Babcock Communications Limited

Income statement
for the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Revenue	4	**70,461**	64,474
Cost of sales		**(49,594)**	(49,654)
Gross profit		**20,867**	14,820
Other Income		**-**	2,515
Administrative expenses		**(6,395)**	(4,947)
Operating profit	6	**14,472**	12,388
Investment income - dividends		**2,882**	-
Profit on ordinary activities before interest and taxation		**17,354**	12,388
Finance income	5	**932**	102
Other finance income / (costs) – pensions	22	**58**	(34)
Profit on ordinary activities before income tax		**18,344**	12,456
Income tax expense	9	**(2,800)**	(3,074)
Profit for the financial year		**15,544**	9,382

All of the above results derive from continuing operations.

Statement of comprehensive Income
for the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Profit for the financial year		**15,544**	9,382
Other comprehensive (expense)/income:			
Items that will not be subsequently reclassified to income statement:			
(Loss)/Gain on re-measurement of net defined benefit obligation	22	**(34)**	3,252
Tax on net defined benefit obligation		**20**	(562)
Fair value adjustment of interest rate and foreign exchange hedges		**(49)**	-
Total Other Comprehensive Income		**(63)**	2,690
Total comprehensive income for the year		**15,481**	12,072

Babcock Communications Limited

Statement of financial position

as at 31 March 2018

	Note	**2018 £'000**	2017 £'000
Non-current assets			
Intangible assets	10	**2,429**	2,565
Tangible assets	11	**4,066**	5,207
Investments	12	**9,463**	9,463
Pension asset	22	**2,941**	2,287
		18,899	19,522
Current assets			
Inventories	13	**2,944**	3,602
Trade and other receivables	14	**75,972**	101,835
Cash and cash equivalents		**16,483**	6,761
		95,399	112,198
Trade and other payables – amounts falling due within one year	15	**(48,778)**	(48,204)
Net current assets		**46,621**	63,994
Total assets less current liabilities		**65,520**	83,516
Provision for liabilities	16	**(116)**	(593)
Net assets		**65,404**	82,923
Equity			
Called up share capital	18	**1,000**	1,000
Share premium account		**9,204**	9,204
Retained earnings		**55,200**	72,719
Total shareholders' funds		**65,404**	82,923

The notes on pages 12 to 30 are an integral part of these financial statements.

The financial statements on pages 9 - 30 were approved by the board of directors and signed on its behalf by:

R Taylor
Director
16th August 2018

Babcock Communications Limited

Statement of changes in equity
for the year ended 31 March 2018

	Note	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total shareholders' fund £'000
Balance at 1 April 2016		1,000	9,204	60,647	70,851
Profit for the financial year		-	-	9,382	9,382
Other comprehensive income		-	-	2,690	2,690
Total Comprehensive Income		-	-	**12,072**	**12,072**
Balance at 31 March 2017		**1,000**	**9,204**	**72,719**	**82,923**
Profit for the financial year		-	-	**15,544**	**15,544**
Other comprehensive expense		-	-	**(63)**	**(63)**
Dividends paid	19	-	-	**(33,000)**	**(33,000)**
Total Comprehensive Expense		-	-	**(17,519)**	**(17,519)**
Balance at 31 March 2018		**1,000**	**9,204**	**55,200**	**65,404**

Babcock Communications Limited

Notes to the financial statements

1 General information

Babcock Communications Limited is a private company which is incorporated and domiciled in the UK. The address of the registered office is 33 Wigmore Street, London W1U 1QX.

2 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has adopted FRS 101 in these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and in accordance with the Companies Act 2006 except for the departure from the Companies Act explained in note 10. These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company is a wholly owned subsidiary of Merlin Communications Group Limited and of its ultimate parent, Babcock International Group Plc. It is included in the consolidated financial statements of Babcock International Group Plc which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
b) IFRS 7, 'Financial instruments: Disclosures'
c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
- paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
- paragraph 73(e) of IAS 16 Property, plant and equipment; and
- paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)

e) The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), 10(f), 16, 38, 40, 111, and 134-136

f) IAS 7, 'Statement of cash flows'
g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

2 Summary of significant accounting policies *(continued)*

h) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Adoption of new and revised standards

No new accounting standards or amendments to accounting or IFRIC interpretations that are effective for the year ended 31 March 2018 have had a material impact on the company.

Revenue

Revenue 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:

(a) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable.

(b) Sale of services

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. The provision of services over a long-term period are accounted for under the principles of construction contracts, and the revenue recognised as set out below. In a limited number of contracts where performance and revenue are measured annually the revenue and costs are similarly recognised over the course of the year.

(c) Long-term service contracts

Revenue from long-term service contracts is recognised by reference to the stage of completion of the contract in accordance with IAS 18 'Revenue' and IAS 11 'Construction contracts'. The stage of completion is determined according to the nature of the specific contract concerned. Methods used to assess the stage of completion include incurred costs as a proportion of total costs; labour hours incurred or earned value of work performed.

The profit element of the revenue attributable to a contract is recognised if the final outcome can be reliably assessed. In order to assess the likely outcome of a contract a full estimated cost of completion is produced which will assess risks and opportunities including cost rates, time, volume and performance for the contract and apply a probability to these being realised. As time elapses, these risks and opportunities will become more predictable. Risks and opportunities will vary dependent on the terms of each contract and the commercial environment of each market. Where certain contracts have pain/gain share arrangements, whereby target cost under/over spends are shared with the customer, these sharing arrangements are included in assessing the overall contract outturn and the expected profit.

2 Summary of significant accounting policies *(continued)*

Any expected loss on a contract is recognised immediately in the income statement.

Contract accounting balances

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs are recognised as an asset and amortised over the life of the contract when it can be reliably expected that a contract will be obtained and the contract is expected to result in future net cash inflows.

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life of the contract.

Intangible assets

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

a) *Goodwill*

Goodwill relating to acquisitions prior to transition date is maintained at its net book value on the date of transition to FRS 101.

b) *Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

c) *Computer software*

Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of between three and five years.

2 Summary of significant accounting policies *(continued)*

Property, plant and equipment

Property, plant and equipment (PPE) is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold buildings	10 to 25 years
Freehold land	Nil
Plant and machinery	4 to 25 years
Computer equipment	4 to 5 years
Leasehold property	Over the term of the lease

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Investments

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

Inventory and work in progress

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Trade receivables

Trade receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

Taxation

(a) Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 Summary of significant accounting policies *(continued)*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Pensions costs and other post-retirement benefits

The Company participates in a defined benefit scheme that shares risks between entities under common control. The defined benefit scheme defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension scheme are charged to operating profit in the entities who participate in the scheme. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income.

The fair value of plan assets, are measured in accordance with FRS 101 fair value hierarchy and includes the use of appropriate valuation techniques.

The extent to which the Company recognises its share of the income statement charge, the assets and liabilities of the scheme, and the actuarial gain or loss is determined by the proportion of active members of the scheme that it employs.

The scheme's liability is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

The Company participates in a defined benefit contribution scheme. Obligations for contributions to the defined benefit pension plan are recognised as an expense in the income statement.

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year-end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

Finance leases

Assets under finance leases are capitalised and the outstanding capital element of instalments is included in borrowings. 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 the assets off over their expected useful lives or over the lease terms where these are shorter.

2 Summary of significant accounting policies *(continued)*

Provisions for liabilities

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently re-measured at their fair value. The Company designates certain derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

3 Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 22 for the disclosures of the defined benefit pension scheme.

3 Critical accounting estimates and judgements *(continued)*

Contract accounting

The Company has long term contracts where revenue and expenses are incurred over multiple financial periods. This requires estimates of revenue and expenses over multiple periods, considering various elements such as the frequency and extent of the number of employees, materials and other resources required to fulfil the contract terms, billing rates and cost changes. Revisions that affect a contract's total estimated profitability results in an adjustment of earnings. Where necessary, provisions are established for any probable future losses.

Inventory provisioning

The Company holds inventory consisting of fuel, valves for use in senders, and other items required to maintain BBC transmission equipment and infrastructure. Inventory varies significantly in nature and age, largely owing to the infrastructure it is required to support, and a significant proportion of spares are no longer manufactured. Inventory valuation is a fair assessment of the expected realisable value of each item, with age being a key factor.

4 Revenue

Revenue is wholly attributable to the principal activities of the Company and arises as follows:

	2018	2017
	£'000	£'000
By geographical area:		
United Kingdom	**61,675**	55,467
Rest of Europe	**2,382**	3,679
North America	**2,117**	2,081
Rest of World	**4,274**	3,247
	70,461	64,474

	2018	2017
	£'000	£'000
By area of activity:		
Rendering of services	**23,023**	13,458
Long term contracts	**47,438**	51,016
	70,461	64,474

5 Finance income

	2018	2017
	£'000	£'000
Finance income:		
Bank interest	**35**	64
Loan interest receivable from group undertakings	**897**	38
	932	102

6 Operating profit

Operating profit is stated after charging / (crediting):

	2018 £'000	2017 £'000
Depreciation – owned fixed assets (note 11)	**1,427**	1,283
Loss on disposal	**-**	248
Auditors' remuneration		
- audit fees	**55**	68
Operating lease rentals		
- land and buildings	**-**	327
- plant and machinery	**53**	14
Staff costs (note 7)	**16,038**	16,556
Royalty payable (note 12)	**1,122**	1,065
Exchange gain	**56**	(11)

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. The group financial statements are required to comply with the statutory disclosure requirements.

7 Staff costs

The average monthly number of employees (including directors) employed by the Company during the year was as follows:

	2018 Number	2017 Number
By activity:		
Operations	**327**	341
Management and administration	**25**	24
	352	365

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	**13,805**	14,008
Social security costs	**1,122**	1,146
Other pension costs	**1,111**	1,402
	16,038	16,556

Included in other pension costs are £610,000 (2017: £571,000) in respect of defined benefit schemes and £501,000 (2017: £646,000) in respect of defined contribution schemes.

The employment costs above include those employees providing management services to other group companies as well as staff seconded to other group companies. These are recharged to those entities.

8 Directors' remuneration

The emoluments of directors including pension contributions, paid by any company in respect of services provided to this company

	2018 £'000	2017 £'000
Emoluments (including benefits in kind)	-	186
Defined contribution pension scheme	-	18
	-	204

Retirement benefits are accruing to no directors (2017: one) under a defined contribution scheme.
Retirement benefits are accruing to no directors (2017: none) under a defined benefit scheme.

The above amounts for remuneration include the following in respect of the highest paid director:

	2018 £'000	2017 £'000
Emoluments (including benefits in kind)	-	186
Company pension contribution (in place of accrued benefit entitlement under the group's defined contribution scheme)	-	18
	-	204

All other 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.

9 Income tax expense

	2018 £'000	2017 £'000
Current tax		
UK Corporation tax on profits of the year	2,685	2,894
Double tax relief	(15)	(13)
Overseas tax	15	13
Current tax charge for the year	2,685	2,894
Deferred Tax		
Origination and reversal of timing differences	270	130
Adjustment in respect of prior years	(140)	(11)
Impact of change in UK tax rate	(15)	61
Total deferred tax charge (note 17)	115	180
Income tax expense	2,800	3,074

9 Income tax expense *(cont'd)*

The tax assessed for the year is lower (2017: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2018 of 19% (2017: 20%). The differences are explained below:

	2018 £'000	2017 £'000
Profit before income tax	**18,344**	12,456
Income tax expense at standard UK corporation tax rate of 19% (2017: 20%)	**3,485**	2,491
Effects of:		
Expenses not deductible for tax purposes	**(530)**	533
Adjustments in respect of deferred tax for prior years	**(140)**	(11)
Overseas tax	**15**	13
Double tax relief	**(15)**	(13)
Impact of change in UK tax rate	**(15)**	61
Total tax charge for the year	**2,800**	3,074

In the 2016 UK Budget, it was announced that the UK corporation tax rate will reduce to 18% from April 2020. It was subsequently announced in the 2017 UK Budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 17% as this is the tax rate that will apply on reversal.

10 Intangible assets

	Software £'000	Goodwill £'000	Total £'000
Cost			
At 1 April 2017	2,145	2,314	4,459
Additions	47	-	47
At 31 March 2018	**2,192**	**2,314**	**4,506**
Accumulated amortisation and impairment			
At 1 April 2017	-	1,894	1,894
Charge for the year	183	-	183
At 31 March 2018	**183**	**1,894**	**2,077**
Net book value			
At 31 March 2018	**2,009**	**420**	**2,429**
At 31 March 2017	2,145	420	2,565

10 Intangible assets *(cont'd)*

Intangible assets amortisation is recorded in administrative expenses in the Income Statement. The cost shown under software relates to the development of software which is work under construction. The company does not amortise goodwill in accordance with the requirements of IFRS as applied under FRS 101. Instead an annual impairment test is performed and any impairment that is identified is recognised in the income statement. The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), which requires acquired goodwill to be written off over its useful economic life. As such, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of Schedule 1 to the Regulations.

It is not possible to quantify the effect of the departure from the Companies Act, because a finite life for the goodwill has not been identified. However, the effect of amortising over a useful life of 20 years would be a charge of £0.1m (2017: £0.1m) against operating profit, and a reduction of £0.5m (2017: £0.4m) in the carrying value of goodwill in the balance sheet.

11 Tangible assets

	Freehold land and buildings £'000	Plant and machinery £'000	Computer Equipment £'000	Total £'000
Cost				
At 1 April 2017	3,494	9,509	-	13,003
Additions	-	199	87	286
Disposals	-	(94)	-	(94)
At 31 March 2018	**3,494**	**9,614**	**87**	**13,195**
Accumulated depreciation				
At 1 April 2017	(686)	(7,110)	-	(7,796)
Charge for the year	(58)	(1,317)	(52)	(1,427)
Disposals	-	94	-	94
At 31 March 2018	**(744)**	**(8,333)**	**(52)**	**(9,129)**
Net book value				
At 31 March 2018	**2,750**	**1,281**	**35**	**4,066**
At 31 March 2017	2,808	2,399	-	5,207

The company has capitalised £nil (2017: £nil) of development costs.

Included under freehold land and buildings is land of £2,691,000 (2017: £2,691,000) which is not depreciated.

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Notes to the financial statements

12 Investments

Cost	**Total £'000**
At 1 April 2017	11,763
At 31 March 2018	**11,763**
Provision for impairment	
At 1 April 2017	(2,300)
Impairment charge	-
At 31 March 2018	**(2,300)**
Net book value	
At 31 March 2018	**9,463**
At 31 March 2017	9,463

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

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

Company	**Registered Address**	**Principal Activities**
Babcock Media Services Ltd	33 Wigmore Street, London, W1U 1QX	Radio and television broadcast solutions
Babcock Communication Cyprus Limited	Arch. Makariou 111, 199 Neocleous House. P C 3030, Limassol, Cyprus	Operation & maintenance of radio broadcast facilities
Babcock Communications & Partners LLC (70%)	P O Box 2788 SEEB, Postal Code 111 Sultanate of Oman	Operation & maintenance of radio broadcast facilities
VT Communications GmbH	Brienner Strasse 12 80333 Munchen Germany	Operation & maintenance of radio broadcast facilities

Babcock Communications Limited owns 70% of the shares in Babcock 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 knowhow 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 year is £1,122,000 (2017: £1,065,000).

13 Inventories

	2018 £'000	2017 £'000
Finished goods and goods for resale	**2,944**	3,602
	2,944	3,602

£1,399,000 of inventory was recognised as an expense during the year (2017: £2,240,000)

14 Trade and other receivables

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade receivables	**5,502**	4,539
Amounts recoverable on contracts	**7,847**	3,566
Amounts owed by group undertakings	**60,195**	90,325
Prepayments and accrued income	**1,653**	2,535
Deferred tax (note 17)	**775**	870
	75,972	101,835

Amounts owed by Group undertakings are unsecured and repayable on demand; none are interest bearing. In 2017, £20,000,000 was interest bearing. This balance was repaid during the year.

Trade receivables are stated after provisions for impairment of £353,000 (2017: £114,000).

15 Trade and other payables

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade payables	**1,969**	2,939
Amounts owed to parent and group undertakings	**20,415**	19,814
Corporation tax	**12,239**	9,591
Other creditors	**1,870**	2,895
Accruals and deferred income	**12,285**	12,965
	48,778	48,204

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility.

16 Provisions for liabilities

	Dilapidations provision £'000	Warranty £'000	Total £'000
At 1 April 2017	**593**	**-**	**593**
Charged to the income statement	-	116	116
Released to the income statement	(593)	-	(593)
At 31 March 2018	**-**	**116**	**116**

17 Deferred taxation

The major components of the deferred tax liabilities and deferred tax assets are recorded are as follows:

Deferred tax (assets)/liabilities	Accelerated capital allowances £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 1 April 2017	**(721)**	**387**	**(536)**	**(870)**
- (Credited) / charged to the income Statement	(1)	132	(16)	**115**
- (Credited) / charged to other comprehensive income	-	(20)	-	**(20)**
At 31 March 2018	**(722)**	**499**	**(552)**	**(775)**

18 Called up share capital

	2018 £'000	2017 £'000
Allotted and fully paid		
1,000,000 ordinary shares of £1 each (2017: 1,000,000)	1,000	1,000

19 Dividends

Dividends declared and paid were £33,000,000 (2017: Nil).

20 Guarantees and financial commitments

a) Contingent liabilities

At the year-end date the company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2017: £nil) provided to certain group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2017: £nil).

b) Operating lease commitments

At 31 March 2018, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2018 Other £'000	2017 Other £'000
Annual commitments under non-cancellable operating leases expiring as:		
- within one year	**56**	14
- between two and five years	**101**	16
	157	30

21 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group Plc and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group Plc, for which the consolidated financial statements are publicly available.

22 Pension commitments

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to a defined contribution scheme in the UK in respect of a number of its employees. The Company is also a contributing employer to a defined benefit scheme (the "Babcock International Group Pension Scheme"). The Company's is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are detailed in this note.

The nature of the scheme is that the employees contribute to the schemes with the employers paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the participating employer companies with the trustees who are advised by an independent, qualified actuary.

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps for approximately 54% of the obligations in respect of pensioners and their spouses, through a common investment committee have significantly hedged the interest rate and inflation risk though derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

The scheme is funded by payments to legally separate trustee-administered funds. The trustees of the scheme are required by law to act in the best interests of the scheme's members. In addition to determining future contribution requirements (with the agreement of the participating employers), the trustees are responsible for setting the schemes' investment strategy (subject to consultation). The scheme has an independent trustee and member nominated trustees. The scheme is subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

Babcock International Group plc Pension Scheme

The IAS 19 valuation has been updated at 31 March 2018 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2013. The major assumptions used for the IAS 19 valuation were:

	2018	2017	2016
Major assumptions	%	%	%
Rate of increase in salaries	2.2	2.3	2.2
Rate of increase in pension payment	2.9	3.0	2.1
Discount rate	2.6	2.6	3.5
Inflation	2.0	2.1	1.9

The expected total employer contributions to be made by participating employers to the scheme in 2018/19 are £22.9m. The future service rate is 31.1% until 30 September 2018 and then 29.9%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £22.9m is £8.5m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2018	2017	2016
	Years	Years	Years
Life expectancy from age 65 (male age 65)	22.2	22.6	22.9
Life expectancy from age 65 (male age 45)	23.2	23.7	24.5

Babcock Communications Limited

Notes to the financial statements

22 Pension commitments *(continued)*

The changes to the Babcock International Group Plc balance sheet at 31 March 2018 and the changes to the Babcock International Group Plc income statement for the year to 31 March 2018, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2018 £'000	**Income statement 2018 £'000**
Initial assumptions	1,380,628	10,419
Discount rate assumptions increased by 0.5%	(101,600)	(4,500)
Discount rate assumptions decreased by 0.5%	101,600	3,500
Inflation rate assumptions increased by 0.5%	61,100	2,400
Inflation rate assumptions decreased by 0.5%	(56,600)	(2,100)
Total life expectancy increased by half a year	28,100	900
Total life expectancy decreased by half a year	(28,100)	(900)
Salary increase assumptions increased by 0.5%	9,700	600
Salary increase assumptions decreased by 0.5%	(9,600)	(600)

The weighted average duration of cash flows (years) was 15.

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2018 were:

Fair value of plan of assets	**2018 £'000**	2017 £'000
Equities	**310,191**	321,942
Property	**120,844**	96,346
Absolute return and multi strategy funds	**4,833**	4,768
Bonds	**485,697**	445,079
Matching assets	**569,413**	596,325
Active position on longevity swaps	**(50,150)**	(48,451)
Total assets	**1,440,828**	1,416,009
Present market value of liabilities – funded	**(1,380,628)**	(1,371,686)
Gross pension surplus / (deficit)	**60,200**	44,323

All the assets of the scheme are quoted except for the longevity swaps.

The scheme does not invest directly in assets or share of Babcock International Group Plc.

The longevity swaps have been valued, in 2018, in line with assumptions that are consistent with the requirements of IFRS 13.

Babcock Communications Limited

Notes to the financial statements

22 Pension commitments *(continued)*

Analysis of amount charged to the income statement in Babcock International Group Plc	**2018 £'000**	2017 £'000
Current service cost	**10,253**	8,910
Incurred expenses	**2,232**	2,203
Total included within operating profit	**12,485**	11,113
Net interest cost / (income)	**(1,194)**	663
Total charged to the income statement	**11,291**	11,776

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group Plc charge, included £610,000 for service cost and incurred expenses (2017: £571,000), and net interest income of £58,000 (2017: cost £34,000).

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCI")	**2018 £'000**	2017 £'000
Actuarial gain / (loss) recognised in the SOCI	**(4,170)**	(182,960)
Experience gains/(losses)	**13,688**	240,677
Other gains/(losses)	**(439)**	4,015
	9,079	61,732

The actuarial loss recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £34,000 (2017: gain £3,252,000).

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets in Babcock International Group Plc	**2018 £'000**	**2017 £'000**
At 1 April	**1,464,460**	1,232,177
Interest cost	**37,512**	42,556
Employee contributions	**404**	304
Employer contributions	**18,090**	18,751
Benefits paid	**(76,476)**	(70,210)
Actuarial gain / (loss)	**46,988**	240,882
At 31 March	**1,490,978**	1,464,460

22 Pension commitments *(continued)*

Reconciliation of present value of scheme liabilities	2018 £'000	2017 £'000
At 1 April	**1,371,687**	1,205,869
Service cost	**10,253**	8,910
Incurred expenses	**2,232**	2,203
Interest on liabilities	**35,058**	41,445
Employee contributions	**404**	304
Actuarial gain – demographics	**11,172**	(29,948)
Actuarial (gain) / loss – financial	**(7,003)**	212,909
Experience losses	**33,301**	205
Benefits paid	**(76,476)**	(70,210)
At 31 March	**1,380,628**	1,371,687

The asset recognised in these financial statements, based on the Company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was £2,941,000 (2017: £2,287,000).

23 Events after the reporting period

On 15th August 2018, Babcock Communications Limited subscribed to 1,000,000 shares in Babcock Media Services Limited for a nominal value of £1 each, total consideration being £1,000,000, paid in cash.

24 Ultimate parent undertaking

The Company's immediate parent company is Merlin Communication Group. The Company's ultimate parent undertaking and controlling party 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