Registered number: 3837152

ALERT COMMUNICATIONS (HOLDINGS) LIMITED

Annual report and Financial Statements

Year ended

31 March 2005

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ALERT COMMUNICATIONS (HOLDINGS) LIMITED

Annual report and financial statements for the year ended 31 March 2005

Directors' report for the year ended 31 March 2005

The directors present their report on the affairs of the group, together with the financial statements and auditors' report, for the year ended 31 March 2005.

Principal activity

The principal activities of the group are to finance, design, build, operate and maintain a Received Signal Service Communications Link as a Private Finance Initiative project with the Ministry of Defence.

Review of business and further developments

The Directors expect the Group to continue to fulfil its contractual obligations for the foreseeable future.

Results and dividends

The Group's profit and loss account for the period is disclosed on page 5. The directors do not recommend a dividend for the year ending 31 March 2005.

Directors

The directors and alternate directors who served during the year were as follows:

Neal Misell	Appointed	24 November 2004
Kevin Cawood	Resigned	24 November 2004
Robert McClatchey		
Douglas Umbers		
Oliver Jennings		
Alan Jones		

None of the directors held any interest in the shares of the company at any time during the year ended 31 March 2005.

Directors' responsibilities statement

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

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

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

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the next annual general meeting.

On behalf of the board

Director

21 September 2005

Independent auditors' report to the members of ALERT COMMUNICATIONS (HOLDINGS) LIMITED

We have audited the financial statements, which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and of the group at 31 March 2005 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

3 October 2005

Consolidated profit and loss account for the year ended 31 March 2005

	Notes	2005	2004
		£	£
Turnover	2	**7,083,118**	4,072,822
Cost of sales		**(1,852,098)**	(1,267,360)
Gross profit		**5,231,020**	2,805,462
Other operating income		**-**	500,000
Administration expenses		**(2,364,550)**	(834,824)
Operating profit		**2,866,470**	2,470,638
Finance charges (net)	5	**(4,468,881)**	(1,161,810)
(Loss)/profit on ordinary activities before taxation	3	**(1,602,411)**	1,308,828
Tax on (loss)/profit on ordinary activities	6	**380,349**	(888,992)
(Loss)/profit for the financial year	15	**(1,222,062)**	419,836

The above results relate to continuing activities.

There are no recognised gains or losses other than the loss for the year as stated above.

Consolidated and Company balance sheets at 31 March 2005

	Notes	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Fixed assets					
Tangible assets	7	50,506,321	-	52,469,404	-
Investments	8	-	476,000	-	476,000
		50,506,321	476,000	52,469,404	476,000
Current assets					
Debtors amounts falling due after more than one year	9	1,536,066	5,060,000	1,155,717	5,060,000
Debtors: amounts falling within one year	9	610,849	960,004	1,305,114	173,938
Cash at bank and in hand	10	2,823,402	-	1,485,944	-
		4,970,317	6,020,004	3,946,775	5,233,938
Creditors: amounts falling due within one year	11	(1,449,845)	(1,040,489)	(584,125)	(254,423)
Net current assets		3,520,472	4,979,515	3,362,650	4,979,515
Total assets less current liabilities		54,026,793	5,455,515	55,832,054	5,455,515
Creditors: amounts falling due after more than one year	12	(56,817,652)	(5,060,000)	(57,400,851)	(5,060,000)
Net (liabilities)/assets		(2,790,859)	395,515	(1,568,797)	395,515
Capital and reserves					
Called-up share capital	14	476,000	476,000	470,000	476,000
Profit and loss account	15	(3,266,859)	(80,485)	(2,044,797)	(80,485)
Equity shareholders' (deficit)/funds	16	(2,790,859)	395,515	(1,568,797)	395,515

The financial statements on pages 5 to18 were approved by the board of directors on 21 September 2005 and were signed on its behalf by:

O Jennings - Director

A Jones - Director

N Misell – Director

Consolidated cash flow statement for the year ended 31 March 2005

	Notes	2005	2004
		£	£
Net cash inflow from continuing operations	**17**	**5,479,134**	1,913,918
Returns on investments and servicing of finance			
Interest received		**100,802**	4,320
Interest paid		**(3,732,025)**	(3,837,239)
		(3,631,223)	(3,832,919)
Capital expenditure			
Purchase of tangible fixed assets		**-**	(2,126,543)
		-	(2,126,543)
Management of liquid resources			
Movement in restricted cash	10	**(1,896,599)**	-
		(1,896,599)	-
Net cash outflow before financing		**(48,688)**	(4,045,544)
Financing			
Issue of ordinary share capital		**-**	6,000
Repayment of equity bridge loan		**-**	(5,059,000)
Issue of subordinated secured loan notes 2030		**-**	5,060,000
Drawdowns of term loan		**-**	5,514,285
Repayment of term loan		**(510,453)**	-
		(510,453)	5,521,285
Decrease/(increase) in cash in the year	**18**	**(559,141)**	1,475,741

Notes to the financial statements for the year ended 31 March 2005

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The accounts have been prepared under the historical cost convention.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertaking made up to 31 March 2005.

Tangible fixed assets

Tangible fixed assets include all directly attributable costs, including those incurred during the commissioning period, of construction together with directly attributable finance costs. Directly attributable costs are capitalised until substantially all the activities necessary to get the asset ready for use are complete. To the extent that the group is liable to decommissioning costs a provision at the balance sheet date is set up for the net present cost. A corresponding tangible fixed asset is recognised in respect of the decommissioning cots, based on price levels at the balance sheet date.

Depreciation of the tangible fixed assets commenced at the point where the assets were declared fit for use on 22 December 2003.

Depreciation is provided to write off the cost, less estimated residual value, of all tangible fixed assets evenly over their expected useful economic lives. Depreciation, for leasehold property and plant and equipment, is charged over 27 years. This represents the life of the project the assets are to be used within.

Finance cost

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the amount of finance cost amortised in respect of the accounting period and reduced by payments made in the period.

Taxation

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 by the balance sheet date.

Deferred taxation

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 group's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the period 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 taxation is discounted using post tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred taxation assets and liabilities.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it is more likely than not that there will be adequate future taxable profits against which to recover carried forward tax losses.

Derivative financial instruments

The group uses hedging agreements in the form of Sterling interest rate swaps to limit its exposure to interest rate fluctuations. Alert Communications Limited has hedged the majority of its borrowings against LIBOR. The effect of the hedge is to fix the borrowing rate at 6.4% for the term loan until 31 March 2027.

Parent undertaking profit and loss account

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year was £nil before dividends payable.

2. Turnover

Turnover represents the value of services provided during the year. All turnover excludes Value Added Tax and is solely derived from the United Kingdom.

Income is recognised at the point at which the service is provided.

3. (Loss)/profit on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2005	2004
	£	£
Depreciation of tangible fixed assets	**1,963,083**	533,852
Auditors' remuneration - audit services	**15,000**	15,000
- non-audit services	**48,831**	41,300

The auditors' remuneration for audit services amounting to £15,000 are borne by VT Merlin Communications Limited and recharged to the company via the operation and maintenance fee.

The company had no employees during the year.

4. Directors' emoluments

	2005	2004
	£	£
Sums paid to third parties for directors' services	**48,000**	48,000

5. Finance charges (net)

	2005	2004
	£	£
Investment income		
Other interest receivable and similar income	**112,263**	4,320
	112,263	4,320
Interest payable and similar charges		
Bank loans and overdrafts	**4,518,091**	4,007,857
Amortisation of issue costs on bank loans	**63,053**	64,401
	4,581,144	4,072,258
Finance costs capitalised	**-**	(2,906,128)
	4,581,144	1,166,130
Finance charges (net)	**4,468,881**	1,161,810

6. Tax on loss on ordinary activities

The tax charge comprises:

	2005	2004
	£	£
Current tax		
- UK corporation tax at 30%	-	-
Total current tax	-	-
Deferred taxation (Note 13)		
- Origination and reversal of timing differences	437,763	(460,359)
- Adjustments in respect of prior years	-	(120,036)
- Reduction in discount	(57,414)	(308,597)
Total deferred tax	380,349	(888,992)
Tax on (loss)/profit on ordinary activities	380,349	(888,992)

There is no charge to corporation tax as a result of the use of losses brought forward.

Reconciliation of current tax charge

	31 March 2005	31 March 2004
	£	£
(Loss)/profit on ordinary activities before taxation	(1,602,411)	1,308,828
Tax on (loss)/profit on ordinary activities at 30% (2004: 30%)	(480,723)	392,648
Capital allowances in excess of depreciation	(304,149)	(890,545)
Other timing differences	67,616	(871,838)
Losses utilised in the year	33,679	(1,296)
Unutilised losses recognised as a deferred tax asset	683,577	1,371,031
Current tax charge for the year	-	-

At 31 March 2005 the group had corporation tax losses of approximately £27,230,000 (2004: £24,952,000) available to be carried forward against future taxable profits.

7. Tangible fixed assets

Group	Leasehold property	Plant & equipment	Total
	£	£	£
Cost			
At 1 April 2004 and 31 March 2005	**5,238,594**	**47,764,662**	**53,003,256**
Depreciation			
At 1 April 2004	52,763	481,089	533,852
Charge for the year	194,022	1,769,061	1,963,083
At 31 March 2005	**246,785**	**2,250,150**	**2,496,935**
Net book value			
At 31 March 2005	**4,991,809**	**45,514,512**	**50,506,321**
At 31 March 2004	5,185,830	47,283,574	52,469,404

Cumulative interest capitalised and other finance costs included in the cost of tangible fixed assets amounts to £9,963,913 (2004: £9,963,913).

Company

The company did not have any tangible fixed assets at 31 March 2005.

8. Investments

Company	Subsidiary undertaking
	£
Cost	
At 1 April 2004 and 31 March 2005	**476,000**

At 31 March 2005, the company owned the whole of the issued ordinary share capital of Alert Communications Limited, a company incorporated in the UK.

The principal activities of Alert Communications Limited are to finance, design, build, operate and maintain a received signal service communications link as a Private Finance Initiative project with the Ministry of Defence.

9. Debtors

	Group 31 March 2005 £	Company 31 March 2005 £	Group 31 March 2004 £	Company 31 March 2004 £
Amounts falling due within one year:				
Other debtors	11,461	-	500,000	-
Amounts due from subsidiary undertaking	-	960,004	-	173,938
Prepayments and accrued revenue	599,388	-	805,114	-
	610,849	960,004	1,305,114	173,938
Amounts falling due after more than one year				
Amounts due from subsidiary undertaking	-	5,060,000	-	5,060,000
Deferred taxation (Note 12)	1,536,066	-	1,155,717	-
	1,536,066	5,060,000	1,155,717	5,060,000

10. Cash

At 31 March 2005, cash balances with banks include £1,896,599 (2004: nil) of cash deposits which are subject to restriction. This balance can only be used to service the secured bank loans. Accordingly, this cash has been treated as liquid resources for the purposes of the cash flow statement.

11. Creditors: amounts falling due within one year

	Group 31 March 2005 £	Company 31 March 2005 £	Group 31 March 2004 £	Company 31 March 2004 £
Bank loans - secured	141,037	-	5,238	
Trade creditors	63,016	-	4,059	-
Amounts due to subsidiary undertaking	-	80,485	-	80,485
Other creditors	-	960,004	-	173,938
Other taxes and social security	65,888	-	96,373	-
Accruals	1,179,904	-	478,455	-
	1,449,845	1,040,489	584,125	254,423

12. Creditors: amounts falling due after more than one year

	Group 31 March 2005 £	Company 31 March 2005 £	Group 31 March 2004 £	Company 31 March 2004 £
Subordinated secured loan notes 2030	**5,060,000**	**5,060,000**	5,060,000	5,060,000
Bank loans - secured	**51,757,652**	**-**	52,340,851	-
	56,817,652	**5,060,000**	57,400,851	5,060,000

Borrowings

	Group 31 March 2005 £	Company 31 March 2005 £	Group 31 March 2004 £	Company 31 March 2004 £
Subordinated secured loan notes 2030	**5,060,000**	**5,060,000**	5,060,000	5,060,000
Bank loans - secured	**51,898,689**	**-**	52,346,089	-
	56,958,689	**5,060,000**	57,406,089	-

Maturity of debt

	Group 31 March 2005 £	Company 31 March 2005 £	Group 31 March 2004 £	Company 31 March 2004 £
Within one year	**141,037**	**-**	5,238	-
Between one and two years	**355,953**	**-**	173,033	-
Between two and five years	**4,189,583**	**-**	1,893,008	-
After five years	**52,272,116**	**5,060,000**	55,334,810	5,060,000
	56,958,689	**5,060,000**	57,406,089	5,060,000

The bank loans and facilities are secured by way of a fixed and floating charge over the assets of Alert Communications (Holdings) Limited and by way of a floating charge over the assets and a fixed charge over the shares of Alert Communications Limited. Interest on the term loan is charged at LIBOR plus 1.05% per annum.

Bank loans are stated net of unamortised issue costs of £925,835 (2004: £988,888). The company incurred total issue costs of £1,436,999 in respect of the term loan.

The subordinated secured loan notes 2030 are secured by way of a floating charge over the assets of the company and by way of a floating charge over the assets and a fixed charge over the shares of the company.

Interest on the secured loan notes will be charged at 14% per annum on the basis of a 365 day year, increasing annually by 0.16% of the annual rate of interest payable in the previous year, up to a maximum of 18% per annum.

The first redemption of the secured loan notes is due on 30 March 2009. Further redemption will occur every year after this on 30 March, up to 30 March 2030.

13. Deferred tax

	Group 2005	Company 2005	Group 2004	Company 2004
		(3,917,061)		
Tax losses carried forward	8,169,030	-	7,485,453	-
Advanced capital allowances	(3,917,061)	-	(3,603,631)	-
Other timing differences	(2,850,784)	-	(2,918,400)	-
Undiscounted provision for deferred tax	1,401,185	-	963,422	-
Discount	134,881	-	192,295	-
Discounted provision for deferred tax	1,536,066	-	1,155,717	-
Deferred tax asset at 1 April	1,155,717	-	2,044,709	-
Deferred tax credit/(charge) in the profit and loss account (Note 6)	380,349	-	(888,992)	-
Deferred tax asset at 31 March	1,536,066	-	1,155,717	-

14. Called-up share capital

Company	31 March 2005 £	31 March 2004 £
Authorised		
476,000 ordinary shares of £1 each	476,000	476,000
	476,000	476,000
Allotted, called-up and fully-paid		
476,000 (2004: 476,000) ordinary shares of £1 each	476,000	476,000
	476,000	476,000

15. Reserves

Group	Profit and loss account
	£
At 1 April 2004	(2,044,797)
Loss for the financial year	(1,222,062)
At 31 March 2005	**(3,266,859)**

Company	Profit and loss account
	£
At 1 April 2004	(80,485)
Result for the year	-
At 31 March 2005	**(80,485)**

16. Reconciliation of movements in shareholders' (deficit)/funds

	Group 31 March 2005	**Company 31 March 2005**	Group 31 March 2004	Company 31 March 2004
	£	**£**	£	£
(Loss)/profit for the financial year	**(1,222,062)**	**-**	419,836	-
New shares issued	**-**	**-**	6,000	6,000
Net change in shareholders' (deficit)/funds	**(1,222,062)**	**-**	425,836	6,000
Shareholders' (deficit)/funds as at 1 April	**(1,568,797)**	**395,515**	(1,994,633)	389,515
Shareholders' (deficit)/funds 31 March	**(2,790,859)**	**395,515**	(1,568,797)	395,515

17. Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

Group	31 March 2005 Land and buildings £	31 March 2004 Land and buildings £
Expiry date		
- after five years	2	2
	2	2

The group has primary and secondary site leases from the Secretary of State for Defence at £1 per annum per site until 31 December 2030.

18. Cash flow from operating activities

	31 March 2005 £	31 March 2004 £
Operating profit	2,866,470	2,470,638
Depreciation on tangible fixed assets	1,963,083	533,852
Decrease/(increase) in debtors	705,726	(986,751)
Decrease/(increase) in creditors	(56,145)	(103,821)
Net cash inflow from operating activities	5,479,134	1,913,918

19. Analysis of net debt

	At 1April 2004 £	Cash flow £	Other non-cash changes £	At 31 March 2005 £
Cash at bank	1,485,944	1,337,458	-	2,823,402
Less: restricted cash treated as liquid resources	-	(1,896,599)	-	(1,896,599)
	1,485,944	(559,141)	-	926,803
Liquid resources:				
Restricted cash included in cash	-	1,896,599	-	1,896,599
	-	1,896,599	-	1,896,599
Debt due after 1 year	(5,238)	5,238	(141,037)	(141,037)
Debt due within 1 year	(57,400,851)	505,215	77,984	(56,817,652)
	(55,920,145)	1,847,934	(63,053)	(54,135,287)

20. Reconciliation of movement in net debt

	31 March 2005 £	31 March 2004 £
(Decrease)/increase in cash in the year	**(559,141)**	1,475,741
Cash inflow from increase in liquid resources	**1,896,599**	-
Cash outflow/(inflow) from decrease/(increase) in debt	**510,453**	(5,515,285)
Other non-cash movements	**(63,053)**	(61,081)
Movement in net funds in the year	**1,784,858**	(4,100,625)
Opening net funds	**(55,920,145)**	(51,819,520)
Closing net funds	**(54,135,287)**	(55,920,145)

21. Related party transactions

VT Merlin Communications Limited:

The design, build, operation and maintenance of the project has been subcontracted to VT Merlin Communications Limited, (a wholly owned subsidiary of VT plc) which owns all of the share capital of Costpool Limited a holder of 20% of the share capital of Alert Communications (Holdings) Limited. During the year ended 31 March 2005 Alert Communications Limited was invoiced £2,607,601 (2004: £2,979,938) by VT Merlin Communications Limited in connection with operation and maintenance fees. VT Merlin Communications Limited charged Alert Communications Limited an annual administration fee, which is now included in the operation and maintenance fees (2004: £50,000). The outstanding credit balance at the year end was £nil (2004: £nil).

Barclays European Infrastructure Fund:

Barclays European Infrastructure Fund, which owns 51% of the issued share capital of Alert Communications (Holdings) Limited, subscribed for £3,225,750 of Subordinated Secured Loan Notes 2030 issued during the year. Interest of £612,003 (2004: £110,885) in respect of these loans notes was accrued for to 31 March 2005, all of which remains outstanding at the year end.

3i Group Plc:

3i Group Plc which owns 29% of the issued share capital of Alert Communications (Holdings) Limited, subscribed for £1,834,250 of Subordinated Secured Loan Notes 2030 issued during the year. Interest of £348,001 (2004: £63,053) was accrued for to 31 March 2005 for these Loan Notes, all of which remains outstanding at the year end.

22. Ultimate controlling party

The directors regard Barclays European Infrastructure Fund as the ultimate parent undertaking and the ultimate controlling party.