

# **Guardian Digital Communications Limited**

**Registered number 6143540**

## **Annual Report and Financial Statements Year ended 30 June 2009**

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# **Guardian Digital Communications Limited**

## **Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

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# **Guardian Digital Communications Limited**

## **Annual Report and Consolidated Financial Statements**

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### **General Information**

#### **Directors**

Edward Beckley  
Leonard Peter Shore  
Martin Stephen William Stanley  
Joshua McHutchison  
Graeme Francis Bevans  
Alain Carrier  
Daniel Karl Fetter  
Andreas Köttering  
Sir Stephen Wall

#### **Company Secretaries**

James Thomas Lavery  
Stephanie Cameron-Chileshe

#### **Registered office**

Charter Court  
50 Windsor Road  
Slough  
Berkshire  
SL1 2EJ

#### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
1 Embankment Place  
London  
WC2N 6RH

#### **Bankers**

HSBC Bank Plc  
8 Canada Square  
London  
E14 5HQ

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## **Directors' Report**

The Directors present their report and the consolidated financial statements for the year ended 30 June 2009.

### **Background**

These financial statements have been prepared for the year ended 30 June 2009. The comparatives are for the 16 months from incorporation to 30 June 2008.

### **Corporate Structure**

Guardian Digital Communications Limited ("the Company") is a private limited company domiciled and registered in England and Wales under the number 6143540. The registered address is Charter Court, 50 Windsor Road, Slough, Berkshire SL1 2EJ. The Company was incorporated on 7 March 2007.

The company acquired 100% of the share capital of Airwave Solutions Limited ("Airwave") on the 20 April 2007. On 3 December 2008 Airwave Solutions International Limited ("ASIL"), a wholly owned subsidiary undertaking, was incorporated. ASIL was established as a holding company for Airwave's international activities. During the year Airwave Solutions Norway AS and Airwave Solutions Deutschland GmbH, wholly owned subsidiary undertakings, were incorporated. Airwave Solutions Australia Pty Ltd, a joint venture company with Broadcast Australia, was also incorporated. All foreign entities were dormant at 30 June 2009 but will become operational in the year ending 30 June 2010.

The Group also acquired 37% of the share capital of Kelvin Connect Limited, a leading mobile data capture system provider.

Airwave and its subsidiary undertakings, associates and joint ventures are incorporated within the consolidated financial statements contained in this report, and together with the Company are referred to as the Group.

The Company's ultimate parent company in the UK is Guardian Digital Communications Holdings Limited ("GDCHL"). The parent company of GDCHL is Guardian Digital Communications Luxembourg S.a.r.l. ("GDCLux"). As at 30 June 2009 GDCLux was owned 50.001% by the Macquarie European Infrastructure Fund II ("MEIFII"), an unlisted fund domiciled in Luxembourg, and 49.999% by the Macquarie Communications Infrastructure Group ("MCG"), a fund publicly listed in Australia. On 22 July 2009 all of the securities in MCG were acquired by the Canadian Pension Plan Investment Board ("CPPIB") following a public offer to its shareholders.

### **Principal Activities and Results**

The principal activities of the Group during the year were the development and provision of Mobile Information and Communication Technology ("ICT") to Public Safety and Public Sector Organisations in the United Kingdom. These services are based around the established and open technology standard of Terrestrial Trunked Radio ("TETRA"), with network access provided through a ground-based network with approximately 3,850 base sites.

The Group also provided consulting services both in the United Kingdom and internationally with regard to designing, building, operating and maintaining public safety networks.

The secure digital radio network is designed to carry voice and data communications and the service offers enhanced levels of coverage across the whole of England, Wales and Scotland.

The Airwave service has been developed to withstand disaster situations when standard networks have been known to fail. This is constantly being further developed so that all voice and data communication is secure from infiltration. The Airwave network uses encryption protocols to achieve this level of security.

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## Directors' Report (continued)

### Principal Activities and Results (continued)

To enable the level of service demanded by emergency and public safety users, the Airwave service is specifically built to deliver the five operational imperatives of Coverage, Responsiveness, Resilience, Security and Interoperability.

The Group results for the year are set out below and in more detail in the attached financial statements.

	Year ended 30 June 2009 £'000	Year ended 30 June 2008 <sup>2</sup> £'000	16 month period from 7 March 2007 to 30 June 2008 £'000
Total revenue and other income	380,100	319,139	373,768
Earnings before depreciation interest tax and amortisation ("EBITDA") <sup>1</sup>	170,940	129,880	153,620
Loss after tax excluding fair value movements of interest rate swaps	(111,217)	(121,016)	(124,860)
Loss after tax attributable to equity holders of the Group	(236,230)	(149,636)	(123,226)

<sup>1</sup> A reconciliation of operating profit to EBITDA is shown in note 3 to the financial statements.

<sup>2</sup> The results for the year ended 30 June 2008 are presented to facilitate a better understanding of the Group's performance in the current year.

The loss after tax of £236,230,000 is after non-cash items of depreciation (£100 million), amortisation (£42 million) and unrealised loss on interest rate swaps (£174 million) as detailed in note 3 to the financial statements.

## Review of the Business

### Operating review

The Group made significant progress during the year delivering services under its existing contracts and expanding its range of products and solutions.

Revenue within the main Police contract was in line with expectations, however revenue shortfalls in the Ambulance and Fire contracts arose due to delays in achieving certain milestones in the respective contracts. These were offset partially by cost reductions leaving EBITDA behind expectations. However, operating cash flow performance was strong, principally due to efficient working capital management and effective control of capital expenditure during the year.

The National Policing Improvement Agency ("NPIA") Ground Based Network Resilience ("GBNR") programme was brought back in-house during the prior year for ongoing management in rolling out the network resilience rings. This has proved a successful strategy during the year with most rings being delivered by January 2009 and the final contracted ring delivered in June 2009. Additional resilience is being developed to satisfy incremental requirements from the Fire Contract.

The London Underground programme continued its strong performance and was completed in January 2009. An additional London Underground programme of extended works commenced in May 2009 and remains ongoing.

Negotiations with Firelink during the year resulted in the Fire contract adopting a revised strategy in terms of the roll out of services for use by the regional Fire Authorities. Progress following these negotiations has remained strong and significant progress has been made with regard to delivery in each of the phased developments under the contract.

In March 2008, the Ambulance contract was revised to accommodate a restructuring of the Ambulance Trusts by the Department of Health from 33 to 13. This change caused delays in Service Commencement and Deployment Verification milestones in the contract which were, in turn, compounded by technical issues relating to the release of software upgrades. During the 12 months to 30 June 2009 significant progress has been made in resolving these technical issues and significant progress has been made in delivering the milestone commitments.

**Guardian Digital Communications Limited**  
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## **Directors' Report (continued)**

### **Operating review (continued)**

In June 2008, the Group won a contract for the supply of secure communications services for the London 2012 Olympic Games. While the development of the infrastructure to support these services will be delivered primarily in later years, resources have been committed during the year to ensure that the Group is represented in the overall planning and development of facilities for the London 2012 Olympic Games.

During the year, the Group undertook initiatives to restructure the organisation in order to make the Group more capable of addressing future market pressures. This programme resulted in 10% of roles within the Group being made redundant under a redundancy plan. All costs associated with this plan are treated in the financial statements as an exceptional item for disclosure purposes and also excluded from the calculation of EBITDA.

The Group is optimistic about its future. The current economic climate has presented challenges for growth, nevertheless our markets continue to offer significant opportunities, both in the UK and increasingly overseas.

### **Financial performance for the year**

Total revenue for the period was £380 million, representing a 19% increase on the corresponding 12 month period, derived from the rollout of network and applications to new customers, in addition to the continuing development of new solutions being provided to existing customers. This resulted in gross profit of £111 million, a 40% increase from the corresponding 12 month period.

Administrative expenses were £82 million, representing a 4% increase from the corresponding 12 month period, driven largely by resources required to deliver the business opportunities presented to the Group, offset by the reduction in operating costs as a result of the organisation restructuring.

EBITDA was £171 million, representing a 32% increase from the corresponding 12 month period, largely driven by the strong revenues, cost reductions and operational efficiencies delivered in the current year.

Net finance costs of £348 million were significantly greater than the comparative period (2008: £202 million). This includes a fair value loss on interest rate swaps of £174 million in the year (2008: £6 million). The swaps were put in place in April 2007 when the Group acquired Airwave. The acquisition was funded by both shareholder funds and external debt of £1,500 million. The interest rate swaps were put in place as part of the Group's risk management policies to hedge the Group's interest rate exposure on the external debt, effectively fixing the interest rate at 5.496% (plus margin) until 2019. Under International Financial Reporting Standards the Group is required to reflect the fair value of the swaps on the balance sheet. At 30 June 2009 the Group has recognised a mark-to-market loss of £176 million, being the theoretical cost to the Group of terminating the swaps. This unrealised loss has arisen as a result of the change in credit markets causing reductions in interest rates. The Directors do not intend to terminate the swaps and realise the loss.

Other finance charges were comparable to the prior period, reflecting the fact that the Group has fixed the interest rate on £1,500 million of external debt (HSBC Facility A) and parent entity loans. The Group pays floating rates on HSBC Facility B and C which were further utilised during the year but at lower floating rates than in 2008.

### **Financial position as at 30 June 2009**

Net liabilities increased from £123 million at 30 June 2008 to £359 million at 30 June 2009. Significant movements of balance sheet components are discussed below.

The carrying value of tangible fixed assets increased from £776 million at 30 June 2008 to £799 million at 30 June 2009 reflecting £122 million of new additions off-set by £99 million depreciation charges. Additions during the year related to expenditure on network resilience, improving coverage and roll-out of the ambulance and fire programs.

Total current assets increased from £142 million at 30 June 2008 to £146 million at 30 June 2009 driven by a £21 million increase in cash and cash equivalents and £18 million increase in deferred income tax assets offset by a £31 million decrease in trade and other receivables and £4 million decrease in other financial assets.

## **Directors' Report (continued)**

### **Financial position as at 30 June 2009 (continued)**

Total current liabilities increased from £201 million at 30 June 2008 to £297 million at 30 June 2009 reflecting a £15 million increase in current borrowings, £62 million increase in the current portion of interest swap liability (as described under financial performance above), a £2 million increase in trade payables and other payables, a £12 million increase in deferred income and a £12 million increase in deferred income tax liabilities, offset by a £7 million decrease in provisions.

Non-current liabilities increased from £2,575 million at 30 June 2008 to £2,735 million at 30 June 2009 reflecting an increase of £160 million. The increase is a result of additional borrowings of £41 million, increases in deferred income of £42 million, increases in provisions of £7 million and an increase in the non-current portion of interest swap liability of £108 million (as described under financial performance above). These increases were offset by a reduction in deferred tax liability of £38 million.

The Group's financial position remains strong with the cash from operating net of investing activities of £138 million for the year. Net cash increased by £21 million after financing activities. The Group's cash generation is due to steady future revenue streams arising from being the secure communications provider for all three emergency services. This, combined with achieving significant new business opportunities from a quality portfolio of other public safety customers, should ensure that the positive cash profile is maintained over future years.

### **Going concern**

The Directors, having reviewed the Group's liquid resources, access to committed borrowing facilities, and its future cash flow forecasts, have a reasonable expectation that the Group has adequate resources to continue as a going concern. While there are risks to the monthly profile of cash flows from operating activities due to the potential for delays to the delivery of programmes, these risks are partially mitigated by a matching delay in capital expenditure. Therefore these financial statements have been prepared on a going concern basis.

### **Strategy / Future developments**

The focus for the Group is to continue the strong growth that has been attained in recent years. This will be achieved through winning new customers, both in the United Kingdom and internationally, and also broadening its service portfolio to include wider mobile ICT solutions including the provision of mobile data and applications.

Within the UK the Group is focused on completing the roll out of the Fire and Health programmes in order to provide full service to our customer base and to the continued development of the resilience in the network already delivered. The Group is looking to further add to its product offering to meet current and future customer requirements. Internationally the Group is seeking further opportunities where it can leverage the expertise developed within the UK market, ranging from short term consulting to network build and operations being driven, in part, by partnerships and possible inorganic activity.

### **Employees**

The Group is committed to employment and recruitment policies, which follow best practice, based on equal opportunities for all employees, irrespective of race, nationality, age, religion, gender, sexual orientation, marital status or caring responsibilities and offers appropriate training and career development for staff with disabilities. If members of staff become disabled the Group continues employment wherever possible and arranges retraining.

The Group is also committed to providing employees with information on matters of concern to them on a regular basis, so that the views of employees can be taken into account when making decisions that are likely to affect their interests. Communications and involvement with employees was and continues to be undertaken via several media including in-house magazines and also regular internal email updates, e-magazines, monthly teleconferences and annual events.

**Guardian Digital Communications Limited**  
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## **Directors' Report (continued)**

### **Principal risks and uncertainties**

The management of the Group's business and the execution of its strategy are subject to a number of risks and uncertainties. The key risks facing the business are set out below.

### **Operational risk management, policies and exposure**

#### **Network failure risk**

There is a risk of the Airwave network failing due to events either inside or outside of the Group's control. A serious failure would have a major impact on customers' performance and with the nature of the emergency service customer base, repercussions could be critical with possible loss of life. This would result in severe damage to the Group, its brand and reputation and has therefore been mitigated by increasing network security and resilience and putting in place robust operational procedures to enable the service to be maintained during such incidents.

#### **Risk of timely network roll-out**

The Group is presently heavily committed to rolling out the Airwave network to the Fire and Ambulance services therefore there are risks that these programmes are delayed, due to internal supplier or customer problems. These delays can cause lost revenue and make the company liable to liquidated damages claims. These risks are mitigated through careful project management and by having contractual recoveries from core suppliers if delays are caused by them.

#### **Health risk**

Concerns about the perceived health risks of TETRA radio technology could have a negative impact on business and tarnish the Airwave brand. However, the balance of evidence is that there are no such risks beyond those that are well-understood within the established scientific community and for which international safety guidelines have been published and implemented across the Airwave network. Government and industry funded independent research programmes into potential risks of mobile communications technology, including TETRA, have so far reinforced this view. Airwave, meanwhile, follows telecoms industry guidelines in liaising sensitively with local communities where it seeks to extend its network infrastructure.

#### **Price risk**

The Group has exposure to fluctuations in prices of electricity and other commodities that are consumed in its operational activities. The potential impact of this is reduced where possible through the negotiation of fixed price contracts.

### **Financial risk management objectives, policies and exposure**

The Group's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity risk, foreign exchange and cash flow interest rate risk. The Group's overall risk management programme seeks to minimise potential adverse effects as noted below.

#### **Credit risk**

The Group's principal credit risks are attributable to cash and cash equivalents and trade receivables. Cash and cash equivalent credit risk is monitored on an overall basis through the application of counter party credit limits which are dependent on the long-term Credit Rating of the counter party. The Group has limited exposure to trade receivable credit risk as the majority of its customers are National Public Safety Organisations.

#### **Liquidity risk**

The Group has external debt, and is overall cash generating. External debt costs are financed from net positive cash-flows generated from operating and investing activities. The Group regularly monitors its actual and projected cash position.

For certain contractual arrangements cash is received in advance of the services being provided. This is recognised as deferred income in the balance sheet, and is released to the income statement over the remaining life of the contract. The cash received in advance is used to fund a proportion of the Group's capital expenditure programme.

# Guardian Digital Communications Limited

## Annual Report and Consolidated Financial Statements

Year ended 30 June 2009

### Directors' Report (continued)

#### Financial risk management objectives, policies and exposure (continued)

##### Exchange rate risk

Management monitor exchange rate risk but as yet there is no current significant foreign currency exchange exposure. This is because more than 99% of assets and liabilities are denominated in Pounds Sterling (GBP).

##### Interest rate risk

The Group is not reliant on interest income but has significant borrowing costs associated with its long-term borrowing arrangements. These long-term borrowings are issued at floating interest rates. The Group manages its exposure by entering into interest rate swaps, whereby the Group settles the difference between the fixed and floating rate amounts at specified intervals. These swaps result in the group effectively paying a fixed interest rate on the majority of its external borrowings.

##### Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt or drawdown additional debt.

The Group's Capital Management Policy is to ensure the availability of an adequate supply of reasonably priced funding (and other credit lines) to the meet current requirements as well as future growth anticipated under the Group's budget and strategic plan, within the constraints of debt capacity (as determined by long-term gearing targets, operational covenants and financial covenant requirements).

The Group is funded through a mix of equity and debt, to match the maturity profile of its assets and liabilities. The funding profile was determined during the MEIFIL and MCG acquisition process to reflect the dynamics of the organisation and its future strategy.

The treasury function manages all funding activity for the Company and determines the optimum source of funding for each funding requirement, with the appropriate maturity, whilst ensuring maximum flexibility.

#### Key performance indicators

The Group has made significant progress this year on its objectives and key performance indicators. The Board monitors progress on both financial and customer satisfaction measures as set out below:

	Year ended 30 June 2009 £'000	Year ended 30 June 2008 £'000	18 months ended 30 June 2008 £'000	Definition, method of calculation and analysis
Total revenue and other income	380,100	319,139	373,768	Revenue comprises the fair value of services and equipment provided, excludes VAT and other sales taxes and is after elimination of sales within the Company. Sales have increased as a result of initiatives to broaden recurring services by developing new solutions with existing customers and progressing with the roll out of the network and applications to new customers.
EBITDA	170,940	129,880	153,620	EBITDA is calculated by adding depreciation and amortisation charges in the period to operating profit before exceptional items. The increase was due to significant milestone related income being achieved in the year and is 5% behind management's expectation for the year.
Operating cash	123,429	85,747	93,890	Operating Cash is calculated by deducting working capital and capital expenditure movements from EBITDA in the period. It excludes exceptional cash payments and tax payments to parent entities. The increase over the prior period is in line with expectations due to large cash payments on achievement of milestones and tighter working capital management.

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**Annual Report and Consolidated Financial Statements**

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## **Directors' Report (continued)**

### **Key performance indicators (continued)**

The Group measures the level of service credits payable to customers as a result of incidents on the network that impact the level of service experienced. These have remained at a suitably low level as expected, reflecting the increased resilience of the network.

The Group also undertakes annual customer satisfactions surveys for roll-out and in-life performance of the network. These were in line with and exceeded management's expectation respectively.

### **Policy and practice on payment of creditors**

The Group aims to pay all its suppliers in line with agreed contractual terms. For the majority of purchases the Group's policy is for payment of a correct invoice, submitted in accordance with the Group's purchasing terms, to be made by the Group within 30 working days of the date of receipt.

For some specific vendors the payment terms have been negotiated simultaneously with the terms for receivables on major contracts. The Group had 36 days' purchases outstanding as at 30 June 2009 (2008: 38).

### **Results and proposed dividend**

The Group's loss after taxation for the year ended 30 June 2009 was £236 million (2008: £123 million).

The Directors do not recommend the payment of a dividend for the year ended 30 June 2009 (2008: nil).

### **Directors**

The Directors who held office during the period and up to the signing date of the financial statements were as follows:

Edward Beckley	
Leonard Peter Shore	
Joshua McHutchison	
Martin Stephen William Stanley	(appointed 21 July 2009)
Graeme Francis Bevans	(appointed 21 July 2009)
Alain Carrier	(appointed 21 July 2009)
Daniel Karl Fetter	(appointed 21 July 2009)
Andreas Köttering	(appointed 21 July 2009)
Sir Stephen Wall	(appointed 21 July 2009)

The Secretaries who held office during the period were as follows:

James Thomas Lavery  
Stephanie Cameron-Chileshe

### **Directors' indemnities**

Guardian Digital Communications Luxembourg SarL (an entity with control over the Company) has granted an indemnity in the form permitted by the Qualifying Third Party Indemnity Provisions of the Companies Act 2006 to directors of its subsidiary companies and the Directors of the Group are accordingly covered by this indemnity. This continues until such time as any relevant limitation periods for bringing claims (as defined in the indemnity) against the director has expired, or for so long as the past director, where relevant, remains liable for any losses (as defined in the indemnity).

### **Political and charitable contributions**

The Group made no political contributions during the year. The Group made donations to charities of £26,953 during the year (2008: £10,900), all of which went to charities in the United Kingdom.

# **Guardian Digital Communications Limited**

## **Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

### **Directors' Report (continued)**

#### **Post balance sheet events**

There were no post balance sheet events, other than the change in ultimate shareholding described under Corporate Structure above.

#### **Statement of Directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

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

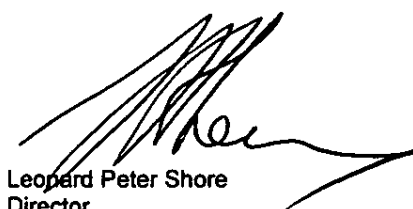
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Independent Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution for their reappointment will be proposed at the annual general meeting.

So far as each Director is aware, there is no relevant audit information of which the Group's auditors were unaware. The Directors have taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

On behalf of the Board



Leopold Peter Shore  
Director  
24 September 2009

London  
United Kingdom

**Guardian Digital Communications Limited**  
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**Independent Auditors' Report to the members of  
Guardian Digital Communications Limited on the  
consolidated financial statements**

We have audited the group financial statements of Guardian Digital Communications Limited for the year ended 30 June 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

**Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities on page 9, 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 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 Sections 495 and 496 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 group'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.

**Opinion on financial statements**

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 30 June 2009 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 Group financial statements are prepared is consistent with the Group financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

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

- 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.

**Other matter**

We have reported separately on the parent company financial statements of Guardian Digital Communications Limited for the year ended 30 June 2009.



J. Booker (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, 24 September 2009

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Consolidated Income Statement**

	Note	Year ended 30 June 2009	18 months from 7 March 2007 to 30 June 2008
		£'000	£'000
Revenue	3 (a)	380,100	373,768
Cost of sales		(268,930)	(281,540)
Gross profit		111,170	92,228
Administrative expenses		(81,819)	(93,365)
Operating profit/ (loss) before exceptional items	3 (d)	29,351	(1,137)
Exceptional items	3 (c)	(6,323)	0
Operating profit/(loss)		23,028	(1,137)
Finance income	3 (b)	793	6,361
Fair value losses on interest rate swaps	3 (b)	(173,629)	(5,771)
Other finance costs	3 (b)	(175,419)	(202,807)
Net finance costs		(348,255)	(202,217)
Share of (loss) of associate	10	(72)	-
Loss before income tax		(325,299)	(203,354)
Taxation	4	89,069	80,128
Loss for the period attributable to equity holders of the Company		(236,230)	(123,226)

The above Consolidated Income Statement should be read in conjunction with the accompanying notes on pages 15 to 50.

**Guardian Digital Communications Limited****Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Consolidated Statement of Changes in Equity**

	Note	Ordinary Share Capital £'000	Foreign Currency Translation £'000	Accumulated Losses £'000	Total £'000
Balance on incorporation		-	-	-	-
Loss for the period	19	-	-	(123,226)	(123,226)
<b>Balance at 30 June 2008</b>		-	-	<b>(123,226)</b>	<b>(123,226)</b>
Loss for the year	19	-	-	(236,230)	(236,230)
Translation		-	(3)	-	(3)
<b>Balance at 30 June 2009</b>		-	<b>(3)</b>	<b>(359,456)</b>	<b>(359,459)</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 15 to 50.

# Guardian Digital Communications Limited

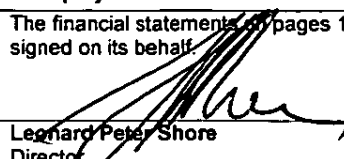
## Annual Report and Consolidated Financial Statements

Year ended 30 June 2009

### Consolidated Balance Sheet

	Note	30 June 2009 £'000	30 June 2008 £'000
<b>Non-current assets</b>			
Property, plant and equipment	8	798,828	775,941
Goodwill	9	577,291	577,291
Other intangible assets	11	1,115,859	1,157,959
Investments in joint venture and associate undertakings	10	928	-
Deferred income tax assets	16	34,197	-
<b>Total non-current assets</b>		<b>2,527,103</b>	<b>2,511,191</b>
<b>Current assets</b>			
Inventories	7	8,754	9,370
Trade and other receivables	6	48,632	79,538
Cash and cash equivalents	5	70,386	49,127
Other financial assets	17	-	3,501
Deferred income tax assets	16	18,021	-
<b>Total current assets</b>		<b>145,793</b>	<b>141,536</b>
<b>Current liabilities</b>			
Borrowings	14	(40,748)	(25,635)
Other financial liabilities	17	(68,216)	(5,771)
Trade and other payables	12	(117,442)	(115,079)
Current tax liabilities		(118)	-
Deferred income tax liabilities	16	(11,788)	-
Deferred income	13	(50,954)	(39,142)
Provisions for liabilities and charges	15	(7,722)	(15,421)
<b>Total current liabilities</b>		<b>(296,988)</b>	<b>(201,048)</b>
<b>Net current liabilities</b>		<b>(151,195)</b>	<b>(59,512)</b>
<b>Total assets less current liabilities</b>		<b>2,375,908</b>	<b>2,451,679</b>
<b>Non-current liabilities</b>			
Borrowings	14	(2,094,149)	(2,052,597)
Other financial liabilities	17	(108,054)	-
Deferred income	13	(212,856)	(171,408)
Deferred income tax liabilities	16	(300,653)	(338,570)
Provisions for liabilities and charges	15	(19,655)	(12,330)
<b>Total non-current liabilities</b>		<b>(2,735,367)</b>	<b>(2,574,905)</b>
<b>Net liabilities</b>		<b>(359,459)</b>	<b>(123,226)</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the Group</b>			
Ordinary shares	18	-	-
Other reserves		(3)	-
Retained earnings - deficit	19	(359,456)	(123,226)
<b>Total equity</b>		<b>(359,459)</b>	<b>(123,226)</b>

The financial statements on pages 11 to 50 were authorised by the Board of Directors on 24 September 2009 and were signed on its behalf.

  
Leonard Peter Shore  
Director

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Consolidated Cash Flow Statement**

	Note	Year ended 30 June 2009 £'000	16 months from 7 March 2007 to 30 June 2008 £'000
<b>Loss for the period</b>		<b>(236,230)</b>	<b>(123,226)</b>
Depreciation charges	3 (a)	99,561	104,357
Amortisation charges	3 (a)	42,100	50,400
Net finance costs	3 (b)	348,255	202,217
Share of loss of associate	10	72	-
Decrease / (increase) in trade and other receivables		23,177	(27,033)
Increase in trade, other payables and deferred income		61,098	130,867
(Decrease) / increase in provisions for liabilities and charges		(1,587)	1,507
Decrease in inventory		616	234
Decrease in tax liabilities		(70,486)	(66,485)
<b>Net cash flows from operating activities</b>		<b>266,576</b>	<b>272,838</b>
<b>Cash flows from investing activities</b>			
Purchase of business – deferred consideration		-	(723)
Purchase of shares in associated undertakings		(1,000)	-
Acquisition of subsidiary, net of cash acquired	2	-	(1,389,943)
Purchase of property, plant and equipment		(127,623)	(165,305)
<b>Net cash flows from investing activities</b>		<b>(128,623)</b>	<b>(1,555,971)</b>
<b>Cash flows from financing activities</b>			
Interest received	3 (b)	793	2,860
Realised gains on interest rate swaps		-	19,168
Interest paid		(164,458)	(210,116)
Proceeds from borrowings	14	83,000	1,595,245
Repayment of borrowings	14	-	(18,866)
Proceeds from related party loans		-	483,180
Repayment of related party loans		(36,029)	(539,211)
<b>Net cash flows from financing activities</b>		<b>(116,694)</b>	<b>1,332,260</b>
<b>Net increase in cash and cash equivalents</b>		<b>21,259</b>	<b>49,127</b>
Cash and cash equivalents at the beginning of period		49,127	-
<b>Cash and cash equivalents at the end of the period</b>	5	<b>70,386</b>	<b>49,127</b>

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes on pages 15 to 50.

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Notes to the Consolidated Financial Statements**

**1 Summary of Significant Accounting Policies**

The significant policies which have been adopted in the preparation of the financial statements are stated to assist in a general understanding of these financial statements.

**(a) General information**

The principal activities of Guardian Digital Communications Limited ('the Company'), its subsidiary, associate and joint venture undertakings (together 'the Group') are the development and provision of mobile Information and Communication Technology ('ICT') to Public Safety Organisations in Great Britain.

The Company is a private limited company domiciled and registered in England and Wales. The registered address is Charter Court, 50 Windsor Road, Slough, Berkshire SL1 2EJ. The registered number of the Company is 6143540.

**(b) Basis of Preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), and IFRIC (International Financial Reporting Interpretations Committee) interpretations, Companies Act 2006 applicable to Companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the valuation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group'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 1(y).

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A statement on going concern is included in the Directors' Report. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore can continue to adopt the going concern basis in preparing the financial statements.

While there are risks to the monthly profile of cash flows from operating activities due to the potential for delays to the delivery of programmes, these risks are partially mitigated by a matching delay in capital expenditure. The Group has a strong opening cash position with access to further committed bank facilities. Therefore these financial statements have been prepared on a going concern basis.

**(c) Consolidation**

**i) Subsidiaries**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Notes to the Consolidated Financial Statements (continued)**

**1 Summary of Significant Accounting Policies (continued)**

**(c) Consolidation (continued)**

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (see note 9). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies have been applied consistently across the group.

**ii) Joint Ventures and associates**

A joint venture is an entity that is jointly controlled by two or more entities. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

An associate is an entity over which another entity has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies.

The Group's share of the results of joint ventures and associates is included in the Group Income Statement using the equity method of accounting. Investments in joint ventures and associates are carried in the Group Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate. Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity.

The associate, Kelvin Connect Limited, has a statutory accounting reference date of 31 December. In respect of each year ending 30 June the company is included based on the financial statements drawn up to the previous 31 December, but taking into account any changes in the subsequent period from 1 January to 30 June that would materially affect the results.

**(d) Property, plant and equipment**

Property, plant and equipment comprise mainly network assets and are stated at historical cost less accumulated depreciation. The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation is provided on property, plant and equipment over their estimated useful lives on a straight-line basis from the date they are brought into use. The lives assigned to property, plant and equipment are:

Property, plant & equipment	2 to 15 years
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**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Notes to the Consolidated Financial Statements (continued)**

**1 Summary of Significant Accounting Policies (continued)**

**(d) Property, plant and equipment (continued)**

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. No depreciation is provided on assets in course of construction. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Administrative expenses' in the Consolidated Income Statement. No gains or losses occurred during the period reported.

**(e) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets' and tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Group's of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Company allocates goodwill to each entity acquired.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**(f) Other Intangible Assets**

Other intangible assets represent customer contracts and related customer relationships that are internally generated and are recorded at fair value on acquisition, less amortisation. These assets acquired through a business combination are capitalised separately from goodwill and are amortised on a straight line basis over a 28 year period, which represents managements' best estimate of their economic useful life.

**(g) Impairment of non-financial assets**

Assets that have an indefinite useful life (including goodwill) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**(h) Inventories**

Inventories comprise handsets, control room hardware and work in progress. This is stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method and comprises costs of purchase and costs incurred in bringing inventory to its current location and condition. Provisions are made, if necessary, for obsolete, slow-moving or defective stock.

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Notes to the Consolidated Financial Statements (continued)**

**1 Summary of Significant Accounting Policies (continued)**

**(i) Financial assets**

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and conventional option pricing models making maximum use of observable market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in note 1(j).

**(j) Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

**(k) Cash and cash equivalents**

Cash and cash equivalents in the cash flow statement includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

**(l) Trade and other payables**

Trade payables initially are recognised at fair value and subsequently measured at amortised cost using the effective interest method.

**(m) Borrowing costs**

Borrowing costs are written off as incurred and are not capitalised as part of qualifying assets.

Notes to the Consolidated Financial Statements (continued)

**1 Summary of Significant Accounting Policies (continued)**

**(n) Borrowings**

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest bearing liabilities are measured at amortised cost and classified as financial liabilities. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated income statement over the period of the borrowings using the effective interest method. Transaction costs are included in the carrying amount and are charged to the income statement over the period of the borrowings using the effective interest method.

**(o) Foreign currencies**

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss in finance cost or income.

**(i) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Pounds Sterling (GBP), which is the group's functional and presentational currency.

**(ii) Transactions and balances**

Transactions denominated in foreign currencies are translated, at the exchange rate on the day the transaction occurred, to the functional currency of the entity. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Foreign exchange differences are recognised in the consolidated income statement. Non-monetary assets and liabilities denominated in foreign currency are translated at the foreign currency exchange rate prevailing at the dates the values were determined.

**(p) Taxation**

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it 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. 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.

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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Income tax relating to items recognised directly in equity is recognised in equity, not in the consolidated income statement.

**(q) Employee benefits**

**Pension obligations**

The Group operates a defined contribution plan into which it pays contributions on behalf of employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Notes to the Consolidated Financial Statements (continued)**

**1 Summary of Significant Accounting Policies (continued)**

**(q) Employee benefits (continued)**

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Up to 19 October 2007 the Group participated in the O2 Pension Plan ("O2 PP"), a scheme sponsored by Telefónica O2 Europe Plc. From 20 October 2007, all employees elected into the Airwave sponsored defined contribution scheme. Employees' defined benefit obligations under the O2 PP are retained within the O2 PP. The final contributions into the O2 PP were made in November 2007 for the period to 19 October 2007.

**(r) Provisions for liabilities and charges**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost. Provisions are not recognised for future operating losses.

Provisions are made for the discounted future cost of restoration of mast sites at the date of acquisition of the site, for potential additional costs in respect of delayed contractual milestones and restructuring costs.

**(s) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(t) Exceptional Items**

The Group separately identifies and discloses one-off or unusual items (termed 'exceptional items'). This provides a meaningful analysis of the trading results of the Group and aids readers' understanding of the impact of such items. Therefore, in the discussion of the Group's results of operations, reference is made to measurements before and after exceptional items. Exceptional items may not be comparable to similarly titled measures used by other companies.

**(u) Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 17. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Derivative instruments do not qualify for hedge accounting and are therefore accounted for as derivatives at fair value through the consolidated income statement. Changes in the fair value of any of these derivative instruments are recognised immediately in the consolidated income statement within 'net finance costs' (see note 3(b)).

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Notes to the Consolidated Financial Statements (continued)**

**1 Summary of Significant Accounting Policies (continued)**

**(v) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable during the ordinary course of business net of discounts and sales taxes and after elimination of sales within the Group.

Revenue consisting primarily of regular fees for ongoing services, such as network access, control room services, managed terminal services and additional coverage solutions are recognised from implementation over the remaining period to which the services relate.

Revenue for the sale of equipment is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue and the associated costs can be measured reliably.

Revenue arising from separable installation and connection services is recognised when it is earned, upon activation. Revenue from the implementation of peripheral and other equipment is recognised when all the significant risks and rewards of ownership are transferred to the buyer, which is normally the date the equipment is delivered and accepted by the customer.

Revenue from long-term contractual arrangements is recognised based on the percentage of completion method. The stage of completion is estimated using an appropriate measure according to the nature of the contract. For long-term services contracts revenue is recognised on a straight line basis over the term of the contract. However, if the performance pattern is other than straight line, revenue is recognised as services are provided, usually on an output or consumption basis. For fixed price contracts, including contracts to design and build communications solutions, revenue is recognised by reference to the stage of completion, as determined by the proportion of costs incurred relative to the estimated total contract costs, or other measures of completion such as site and vehicle installation and contract milestone customer acceptance.

Differences between revenue recognised and revenue billed to the customer give rise to accrued and deferred income.

**(w) Leases**

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals under operating leases are charged to the consolidated income statement in equal annual instalments over the periods of the leases.

**(x) Accounting Standards and interpretations**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 July 2009 or later periods but which the Company has chosen not to early adopt. The new standards and interpretations, applicable to the Group which will be adopted by the Company as appropriate are as follows:

- IAS 1 (Amendment) 'Presentation of Financial Statements' affects certain disclosures within the financial statements especially in relation to the income statement and statement of recognised income and expense but will have no effect on the financial results of the Group. The revised standard is effective for annual periods beginning on or after 1 January 2009 and the Group will adopt the amendments for the year ending 30 June 2010.
- IFRS 1 (Amendment) 'First-time Adoption of International Financial Reporting Standards' and IAS 27 (Amendment) 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate'. The Group will adopt the amendments for the year ending 30 June 2010.
- IFRS 3 (Revised) 'Business Combinations' effective for the year ending 30 June 2010.

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Notes to the Consolidated Financial Statements (continued)**

**1 Summary of Significant Accounting Policies (continued)**

**(x) Accounting Standards and interpretations (continued)**

- IFRS 7 (Amendment) 'Financial Instruments: Disclosures' effective for the year ending 30 June 2010.
- IAS 23 (Amendment) 'Borrowing Costs' requires the Group to capitalise borrowing costs directly attributable to a qualifying asset as part of the cost of that asset. The Group will adopt the amendments for the year ending 30 June 2010.
- IAS 27 (Revised), 'Consolidated and Separate Financial Statements' effective for the year ending 30 June 2010.
- IFRIC 12 'Service Concession Arrangements' applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services and will have no impact on the Group.

The Group has not elected to early adopt these amendments. The Group is currently assessing the impact of these amendments and does not expect at this stage that they would significantly impact the Group's financial position.

**(y) Critical accounting estimates and judgments**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. A significant change in the facts and circumstances on which these estimates are based could have a material negative impact on the Group's earnings and financial position. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed below:

**(i) Property, plant and equipment and intangible assets**

Accounting for property, plant and equipment and intangible assets involves the use of estimates for determining (a) the useful lives of the assets, over which they are to be depreciated or amortised, and (b) the existence and amount of any impairment. Details of property, plant and equipment are provided in note 8. Details of intangible assets, which represent customer contract and related customer relationships, are provided in note 11.

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives. When the Group estimates useful lives various factors are considered including expected technological obsolescence and the expected usage of the asset. The Group regularly review these asset lives and change them as necessary to reflect the useful estimated current remaining lives in light of technological changes, future economic utilisation and physical condition of the assets concerned. A significant change in these facts and circumstances may have a material impact on the carrying value of these assets. Intangible assets were acquired through a business combination and are amortised on a straight line basis over a 28 year period, which represents managements' best estimate of their economic useful life.

The recoverable amount of the asset is determined as the higher of fair value less costs to sell and the value in use. If it is not possible to determine a recoverable amount for the individual assets, the assets are assessed together in the smallest group of assets for which a reliable recoverable amount can be determined in an overall assessment.

The determination of whether the impairment of property, plant and equipment and intangibles is necessary, involves the use of estimates that include, but are not limited to, the analysis of the cause of potential impairment in value, the timing of such potential impairment and an estimate of the amount of the impairment. The Group considers technological obsolescence, discontinuance of services and other changes in circumstances that indicate a need to perform an impairment test. A significant change in the facts and circumstances that were relied upon in making the estimates may trigger the requirement for recording an impairment and may have a material adverse impact on the operating results and financial condition of the Group.

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

Notes to the Financial Statements (continued)

**1 Summary of Significant Accounting Policies (continued)**

**(y) Critical accounting estimates and judgments (continued)**

**(ii) Goodwill**

Goodwill is not subject to a regular amortisation charge and is instead tested annually to determine whether any impairment has arisen. This is completed by calculating the recoverable amount of cash-generating units based on value in use. These calculations require the use of estimates and judgements to calculate expected cash flows. Management makes assumptions including, but not limited to, the discount rate to be applied, technological evolution and revenue growth rates in calculating expected cash flows. A significant change in these facts and circumstances may have a material impact on the carrying value of goodwill. Details of goodwill are provided in note 9.

**(iii) Deferred tax assets and liabilities**

The Group evaluates the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Group's ability to generate taxable earnings over the course of the period for which the deferred tax assets remain deductible. This analysis is based on the estimated reversal of deferred taxes as well as estimates of taxable earnings, which are sourced from internal projections and are updated to reflect the latest trends.

The appropriate classification of tax assets and liabilities depends on a series of factors including estimates as to the timing and materialisation of deferred tax assets and the forecast tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances. Details of deferred tax assets and liabilities are provided in note 16.

**(iv) Revenue recognition**

Certain contractual arrangements contain significant timing differences between the date of cash receipt and the point of revenue recognition at a stage of completion. Where cash is received in advance of revenue recognition, the cash receipt is recorded as deferred income in the balance sheet and released to the income statement over the remaining period of the contract. Where revenue is earned in advance of an invoice being raised, revenue is recognised as accrued income in the balance sheet and released when an invoice is raised.

Management's judgement is applied to determine when a contract satisfies the above criteria and therefore a change to this criteria could have a material effect on the earnings of the Group.

**(v) Provisions**

Provisions are recognised when an event in the past gives rise to a current obligation for the Group, settlement of which requires an outlay that is considered probable and can be estimated reliably. The obligation may be legal or constructive; deriving from regulations, contracts, normal practices or public commitments that lead third parties to reasonably expect that the Group will assume certain responsibilities. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, taking into account all the available information.

No provision is recognised if the amount of liability cannot be estimated reliably. In this case, the relevant information is disclosed in the notes to the financial statements.

Given the uncertainties inherent in the estimates used to determine the amount of provision, actual outflows of resources may differ from the amounts recognised originally on the basis of the estimates.

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**2 Business Combination**

*Acquisition of Airwave Solutions Limited*

On 20 April 2007, the Group acquired 100% of the voting shares of Airwave Solutions Limited, an unlisted company based in Slough, specialising in the development and provision of mobile information and communication technology to Public Safety Organisations in England, Scotland and Wales.

The fair value of the identifiable assets, and contingent liabilities of Airwave Solutions Limited as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

	Fair value recognised on acquisition £'000	Previous carrying value £'000
<b>Net assets acquired</b>	<b>832,118</b>	<b>(7,662)</b>

Details of net assets acquired and goodwill are as follows:

	30 June 2008 £'000
<b>Purchase consideration:</b>	
Cash paid	1,162,527
Subscription for ordinary shares	232,505
Direct costs relating to the acquisition	14,377
<b>Total purchase consideration</b>	<b>1,409,409</b>
Fair value of net assets acquired	(832,118)
<b>Goodwill (note 9)</b>	<b>577,291</b>

Cash outflow for the acquisition of the subsidiary was as follows:

	30 June 2008 £'000
<b>Cash outflow on acquisition:</b>	
Cash and cash equivalent in subsidiary acquired	19,466
Purchase consideration settled in cash	(1,409,409)
<b>Net cash outflow on acquisition</b>	<b>(1,389,943)</b>

For the year ended 30 June 2009 Airwave Solutions Limited contributed a profit of £41,639,000 to the Group's income statement (16 months to 30 June 2008: £54,523,550).

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**Notes to the Consolidated Financial Statements (continued)**

**3 Loss for the period**

(a) The loss before income tax includes the following specific items of revenue and expense:

	Year ended 30 June 2009 £'000	16 months ended 30 June 2008 £'000
Service revenue	279,898	292,260
Implementation and other non-recurring revenue	100,202	76,508
Other Income	-	5,000
<b>Total Revenue</b>	<b>380,100</b>	<b>373,768</b>

Sales of services consist of income from the development and provision of Mobile Information and Communication Technology services to Public Safety Organisations.

	Note	Year ended 30 June 2009 £'000	16 months ended 30 June 2008 £'000
Depreciation of property, plant and equipment	8	99,561	104,357
Amortisation of other intangible assets	11	42,100	50,400
Staff costs	23	50,945	57,789
Auditors' remuneration			
- Audit services		195	279
- Tax services		86	70
Operating lease rentals payable			
- Operating minimum lease payments		32,760	41,131

**(b) Net finance costs**

	Year ended 30 June 2009 £'000	16 months ended 30 June 2008 £'000
Fair value gains on interest swaps	-	3,501
Bank interest receivable	793	2,860
<b>Total finance income</b>	<b>793</b>	<b>6,361</b>
Fair value losses on interest swaps	(173,629)	(5,771)
Interest payable to parent	(57,010)	(70,309)
Other finance charges	(118,409)	(132,498)
<b>Total other finance costs</b>	<b>(175,419)</b>	<b>(202,807)</b>
<b>Total finance costs</b>	<b>(349,048)</b>	<b>(208,578)</b>
<b>Net finance costs</b>	<b>(348,255)</b>	<b>(202,217)</b>

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**3 Loss for the period (continued)**

**c) Exceptional items**

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. During the year the Group announced a restructuring program including the closure of two small regional offices and a review of its workforce with a target to reduce headcount by 10%. Following union and employee consultation the target number of positions were made redundant, the majority voluntarily, some compulsory and several employees were retained awaiting deployment into suitable roles. The Group recognised costs in relation to this restructuring of £6.3 million before tax comprising staff redundancy and associated costs.

**d) Earnings before interest, tax, depreciation and amortisation (EBITDA)**

	Year ended 30 June 2009 £'000	16 months ended 30 June 2008 £'000
Operating profit before exceptional items	29,351	(1,137)
Less: Share of (loss) of associate	(72)	-
Add: Depreciation	99,561	104,357
Add: Amortisation	42,100	50,400
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>170,940</b>	<b>153,620</b>

**4 Taxation**

The tax credit for continuing operations:

	Year ended 30 June 2009 £'000	16 months ended 30 June 2008 £'000
<b>(a) Analysis of charge in the period</b>		
Current tax comprises:		
- Losses transferred from parent for consideration	(10,839)	(13,737)
- Adjustment in respect of prior period	117	-
<b>Total current tax</b>	<b>(10,722)</b>	<b>(13,737)</b>
Deferred tax comprises:		
- Origination and reversal of timing differences	(78,347)	(62,669)
- Adjustment in respect of prior period	-	(3,722)
<b>Total deferred tax</b>	<b>(78,347)</b>	<b>(66,391)</b>
<b>Taxation</b>	<b>(89,069)</b>	<b>(80,128)</b>

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Notes to the Consolidated Financial Statements (continued)

**4 Taxation (continued)**

The income tax for the period differs from the standard rate of corporation tax in the UK (28%). The differences are reconciled as follows:

	Year ended 30 June 2009 £'000	16 months ended 30 June 2008 £'000
<b>(b) Loss before taxation</b>	<b>(325,299)</b>	<b>(203,354)</b>
Loss on ordinary activities at rate of corporation tax of 28%	(91,084)	(56,939)
Factors affecting tax charge:		
- Expenses not deductible for tax purposes	1,897	1,908
- Adjustment in respect of prior periods	118	(3,722)
- Losses not recognised	-	5,684
- Tax rate changes	-	(27,059)
	-	
<b>Aggregate income tax gain benefit</b>	<b>(89,069)</b>	<b>(80,128)</b>

The reduction in the corporate income tax rate from 30% to 28% became effective on 1 April 2008.

**5 Cash and Cash Equivalents**

	30 June 2009 £'000	30 June 2008 £'000
Cash at bank	36	3,892
Short term money market investments	70,350	45,235
	<b>70,386</b>	<b>49,127</b>

**(a) Cash at bank**

Cash at bank represents cash not placed on overnight deposit and is non interest bearing.

**(b) Short term money market investments**

The short term money market investments outstanding at the period end mature overnight.

**(c) Bank overdraft**

The Group does not have an overdraft arrangement in place.

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Notes to the Consolidated Financial Statements (continued)

**5 Cash and Cash Equivalents (continued)**

**Credit risk**

Cash and cash equivalents credit risk is monitored on an overall basis by the treasury function through the application of counter party credit limits which are dependent on the long term credit rating of the counterparty. The credit limits are as follows:

30 June 2009			
Long term rating	Counterparty limit £'000	Balance £'000	Number of Counterparties
AAA	75,000	-	-
AA	50,000	70,386	1
A	25,000	-	-
BBB	10,000	-	-
		<u>70,386</u>	

30 June 2008			
Long term rating	Counterparty limit £'000	Balance £'000	Number of Counterparties
AAA	75,000	-	-
AA	50,000	49,127	2
A	25,000	-	-
BBB	10,000	-	-
		<u>49,127</u>	

Cash held at 30 June 2009 briefly exceeded the AA rated counterparty limit due to timing of cash flows.

The carrying value of cash and cash equivalents approximates the fair value. Cash and cash equivalents are denominated in the following currencies:

	30 June 2009 £'000	30 June 2008 £'000
Pounds Sterling (GBP)	70,173	49,127
Euro (EUR)	213	-
	<u>70,386</u>	<u>49,127</u>

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**Notes to the Consolidated Financial Statements (continued)**

**6 Trade and Other Receivables**

	30 June 2009 £'000	30 June 2008 £'000
Trade receivables	10,673	43,105
Less: provision for impairment of trade receivables	(152)	(226)
Trade receivables – net	10,521	42,879
Other receivables	2,686	1,731
Prepayments	14,370	17,197
Accrued income	15,832	3,994
Amounts receivable from parent	5,223	13,737
	48,632	79,538

As at 30 June 2009 two trade receivables were considered to be impaired and therefore provided for in the period. The amount of impairment recognised as an expense during the period was £152,000 (2008: £226,000). The carrying amount of trade receivables at year end was in the following currencies:

	30 June 2009 £'000	30 June 2008 £'000
Pounds Sterling (GBP)	8,355	42,651
Euro (EUR)	2,318	454
Trade receivables	10,673	43,105

The fair value of trade receivables was equal to the carrying value at year end. The Group does not hold any collateral as security.

Movements in provisions for impairment of trade receivables are as follows:

	£'000
At incorporation	-
Provision for receivables impairment	(226)
At 30 June 2008	(226)
Receivable written off during the year as uncollectable	226
Provision for receivables impairment	(152)
At 30 June 2009	(152)

Trade receivables that are past due but not impaired are shown below:

Days outstanding	30 June 2009 £'000	30 June 2008 £'000
31 to 90 days	1,084	3,561
91 to 180 days	1,275	3,669
Greater than 180 days	158	503
Provision	(152)	(226)
	2,365	7,507

Trade receivables presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit risk is not considered significant as the majority of customers are Public Safety Organisations and local authorities.

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Year ended 30 June 2009

**Notes to the Consolidated Financial Statements (continued)**

**6 Trade and Other Receivables (continued)**

At the balance sheet date there were no significant concentrations of credit risk, with exposure spread over a number of counter-parties and customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. The Group does not require collateral in respect of financial assets.

The maximum exposure to credit risk is as shown below:

	30 June 2009 £'000	30 June 2008 £'000
Trade and other receivables (excluding prepayments)	34,262	62,341
Cash and cash equivalents	70,386	49,127
	<b>104,648</b>	<b>111,468</b>

**7 Inventories**

	30 June 2009 £'000	30 June 2008 £'000
Work in progress	8,754	9,370

The cost of inventories recognised as expense and included in cost of sales amounted to £27,105,000 (2008: £13,967,719). There have been no write downs or reversals of write downs during the period (2008: nil).

**8 Property, Plant and Equipment**

	£'000
<b>Group cost</b>	
As at incorporation	-
Acquisition of subsidiary	960,546
Additions	179,623
As at 30 June 2008	1,140,169
Additions	122,448
As at 30 June 2009	<b>1,262,617</b>
<b>Depreciation</b>	
As at incorporation	-
Acquisition of subsidiary	259,871
Charge for the period	104,357
As at 30 June 2008	364,228
Charge for the period	99,561
As at 30 June 2009	<b>463,789</b>
<b>Net Book Value</b>	
At incorporation	-
As at 30 June 2008	775,941
As at 30 June 2009	<b>798,828</b>

Depreciation has been charged to cost of sales during the period, totalling a value of £99,561,000 (2008: £104,357,000).

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**Notes to the Consolidated Financial Statements (continued)**

**9 Goodwill**

	Goodwill Total £'000
<b>Group cost</b>	
As at incorporation	-
Acquisition of subsidiary	577,291
<b>As at 30 June 2008</b>	<b>577,291</b>
<b>As at 30 June 2009</b>	<b>577,291</b>
<b>Impairment Provision</b>	<b>-</b>
<b>Net Book value</b>	
As at 7 March 2007	-
<b>As at 30 June 2008</b>	<b>577,291</b>
<b>As at 30 June 2009</b>	<b>577,291</b>

Goodwill has arisen from the acquisition of Airwave Solutions Limited. It has an indefinite economic useful life, and is not subject to amortisation.

**Impairment testing**

The Group performs an annual goodwill impairment test, which is based on fair value calculations of the recoverable amount of the cash generating unit ("CGU") using both income and market-based approaches.

Guardian comprises one CGU, Airwave Solutions Limited. This represents the smallest identifiable group of assets that generate cash inflows that have goodwill and are largely independent of the cash inflows from other groups of assets.

For the income approach, a discounted cash flow analysis was prepared. This is an analysis of the unlevered cash flow projections derived from the five year plan approved by the Board. They reflect management's expectation of revenue growth, operating costs and margin for the CGU based on past experience. Cash flows beyond the five year plan period have been extrapolated using an estimated terminal growth rate of 2%. This rate does not exceed the average long-term growth rate for the UK.

The discount rate applied to the unlevered cash flow projections is based on the post-tax weighted average cost of capital for the Group, 8.1%, determined using the market-based approach, which used the equity betas of 10 comparable publicly traded companies compiled from monthly stock price data for the last 5 years.

The fair value of the CGU has been calculated at year end and is greater than the present carrying value. As the CGU's fair value exceed the asset's carrying amount, the asset has been concluded as not impaired.

The forecasts are most sensitive to changes in projected revenue growth rates in the first five years of the forecast period. A reduction in EBITDA of 7.5% throughout the five year period would result in an impairment. Similarly an increase in WACC by 1% or decrease in growth rate by 1% would result in an impairment. Management have therefore concluded that the fair value exceeded the carrying value and therefore no impairment charge has been recognised.

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**Notes to the Consolidated Financial Statements (continued)**

**10 Investments in Subsidiaries, Joint Ventures & Associate Undertakings**

**Subsidiary Undertakings**

	Country of incorporation	2009 ownership %	2008 ownership %
<b>Subsidiaries</b>			
Airwave Solutions Limited	United Kingdom	100%	100%
Airwave Solutions International Limited	United Kingdom	100%	-
Airwave Solutions Norway AS	Norway	100%	-
Airwave Solutions Deutschland GmbH	Germany	100%	-

During the year, Airwave Solutions International Limited was incorporated. Airwave Solutions Limited acquired all of the shares on incorporation for £1 (one ordinary share). Airwave Solutions International Limited acquired all of the shares of Airwave Solutions Norway AS and Airwave Solution Deutschland GmbH on incorporation.

**Joint Ventures**

	Country of incorporation	Assets A\$	Liabilities A\$	Revenues A\$	Ownership %
Airwave Solutions Australia Pty Ltd	Australia	2	-	-	50%

During the year the Group acquired 1 ordinary share in Airwave Solutions Australia Pty Ltd representing 50% of the issued share capital. The share was acquired for A\$1 and on incorporation of the company. The company has not yet traded.

**Associate Undertakings**

<b>Investment in Associates</b>		
<b>Kelvin Connect Limited</b>		<b>£'000</b>
At 1 July 2008		-
Investment at cost		1,000
Share of (loss)		(72)
At 30 June 2009		928

The Group's share of the results of its principal associates, all of which are unlisted, and its aggregate assets and liabilities, are as follows:

	Country of incorporation	Assets £'000	Liabilities £'000	Revenues £'000	Loss £'000	Ownership %
2009						
Kelvin Connect Limited	United Kingdom	1,050	63	292	(72)	37%

During the year the Group acquired 37% of the shares of Kelvin Connect Limited for cash consideration of £1,000,000. Total revenues from date of investment were £789,000. Share of loss from date of investment was £72,000.

The value of the investments are supported by their underlying assets.

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Notes to the Consolidated Financial Statements (continued)

**11 Other Intangible Assets**

	£'000
<b>Group cost</b>	
At incorporation	-
Acquisition of subsidiary	1,208,359
As at 30 June 2008	1,208,359
As at 30 June 2009	<u>1,208,359</u>
<b>Amortisation</b>	
At incorporation	-
Charge for the period	50,400
As at 30 June 2008	<u>50,400</u>
Charge for the year	42,100
As at 30 June 2009	<u>92,500</u>
<b>Net Book value</b>	
At incorporation	-
As at 30 June 2008	<u>1,157,959</u>
As at 30 June 2009	<u>1,115,859</u>

Other intangible assets relate to customer contracts and related customer relationships. The amortisation expense for intangible assets is included within cost of sales in the Consolidated Income Statement. The remaining amortisation period of the intangible assets is 27 years.

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Notes to the Consolidated Financial Statements (continued)

**12 Trade and Other Payables**

	30 June 2009 £'000	30 June 2008 £'000
<b>Current</b>		
Trade payables	27,515	5,614
Other taxation and social security	1,673	1,620
Other payables	10,365	23,686
Accrued expenses	77,889	84,159
	<b>117,442</b>	<b>115,079</b>

The carrying value of trade and other payables approximate their fair value.

**13 Deferred Income**

	30 June 2009 £'000	30 June 2008 £'000
Deferred income – current	50,954	39,142
Deferred income – non current	212,856	171,408
<b>Total</b>	<b>263,810</b>	<b>210,550</b>

The carrying value of deferred income approximates its fair value.

**14 Borrowings**

	Notes	Average interest rate %	Maturity year	Accrued Interest 30 June 2009 £'000	30 June 2009 £'000
<b>Current &amp; Non-Current unsecured borrowings</b>					
Eurobond – Guardian Digital Communications SarL	i	12.00	2017	8,926	150,000
Loan – Guardian Digital Communications Holdings Ltd	ii	12.00	On-demand	18,657	308,131
HSBC Facility A	iii	4.75	2014	165	1,500,000
Less: Capitalised transaction costs					(18,982)
HSBC Facility B	iv	4.20	2014	-	155,000
<b>Total (Non-current)</b>				<b>27,748</b>	<b>2,094,149</b>
HSBC Facility C	v	5.00	2010		13,000
Accrued interest					27,748
<b>Total (Current)</b>					<b>40,748</b>
<b>Total interest bearing loans and borrowings</b>					<b>2,134,897</b>

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**Notes to the Consolidated Financial Statements (continued)**

**14 Borrowings (continued)**

	Notes	Average interest rate %	Maturity year	Accrued interest 30 June 2008 £'000	30 June 2008 £'000
<b>Current &amp; Non-Current unsecured borrowings</b>					
Eurobond – Guardian Digital Communications SarL	i	12.00	2017	9,740	162,785
Loan – Guardian Digital Communications Holdings Ltd	ii	12.00	On-demand	15,689	331,375
HSBC Facility A	iii	7.52	2014	206	1,500,000
Less: capitalised transaction costs					(26,563)
HSBC Facility B	iv	7.31	2014	-	85,000
<b>Total (Non-current)</b>				<b>25,635</b>	<b>2,052,597</b>
HSBC Facility C	v	7.77	2009		-
<b>Accrued interest (Current)</b>					<b>25,635</b>
<b>Total Interest bearing loans and borrowings</b>					<b>2,078,232</b>

**Notes**

The current portion of the above loans and borrowings due within 1 year is £40,748,000 as disclosed in the balance sheet under current liabilities.

**i) Eurobond – Guardian Digital Communications SarL**

The Guardian Digital Communications SarL (GDCLux) loan to Guardian Digital Communications Ltd for £150 million was issued by GDCLux as part of the financing of the purchase of Airwave Solutions Limited from the Telefónica Group in April 2007. This is a 12% fixed rate note maturing on 31 December 2017. The Eurobond is listed on the Channel Islands Stock Exchange.

**ii) Loan – Guardian Digital Communications Holdings Ltd**

The Guardian Digital Communications Holdings Ltd loan to Guardian Digital Communications Ltd of £331 million was utilised on 20 April 2007 as part of the financing of the purchase of Airwave Solutions Limited from the Telefónica Group. This is an intercompany loan with a fixed interest rate of 12% (2008: 12%). The loan is repayable on demand at any time or as otherwise agreed, provided repayment does not make the Company insolvent. The Group has classified the loan as non-current on the basis that management does not expect the loan to be repaid within 12 months.

**iii) HSBC Facility A**

The HSBC Facility A was utilised on acquisition of Airwave Solutions Limited from the Telefónica Group. This facility has a floating interest charge which is fixed by interest rate swaps to 5.496% plus margin of 1.5% (see note 17).

**iv) HSBC Facility B**

The HSBC Facility B was first utilised in November 2007 to fund capital expenditure. The conditions on this facility determine that once drawn it cannot be repaid without lowering the overall facility by the repaid amount, and drawings in a 12 month period are limited to 90% of the capital spend in that period. £155 million of the £250 million facility has been utilised. This facility has a floating interest charge.

**v) HSBC Facility C**

The HSBC Facility C is the working capital facility and was first utilised in May 2007. The facility offers £50 million, of which £13 million had been utilised at year end. The facility must be fully repaid at least once every year. This facility has a floating interest rate charge.

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Notes to the Consolidated Financial Statements (continued)

**14 Borrowings (continued)**

The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying Amount		Fair Value	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	£'000	£'000	£'000	£'000
Bank Borrowings	1,649,018	1,558,437	1,635,181	1,571,987
Eurobond – Guardian Digital Communications SarL	158,926	172,525	193,217	195,820
Loan – Guardian Digital Communications Holdings Ltd	326,788	347,064	390,337	391,679

The fair values are based on forecast cash flows assuming full repayment in 2014, discounted at prevailing market rates with a credit spread of 2% based on management estimation as at 30 June 2009.

All borrowings are unsecured and are denominated in Pounds Sterling (GBP).

**15 Provisions for liabilities and charges**

	30 June 2009 Total £'000	30 June 2008 Total £'000
Current	7,722	15,421
Non-current	19,655	12,330
	<b>27,377</b>	<b>27,751</b>

**Movement in provisions**

Movements in each class of provisions during the period are set out below:

	Site Restoration £'000	Contract Delays £'000	Restructuring £'000	Total £'000
As at 1 July 2008	12,330	15,421	-	27,751
Additions/ (reductions) during the year	373	(171)	6,322	6,524
Unwinding of discount	840	-	-	840
Utilised during year	-	(3,910)	(3,828)	(7,738)
<b>As at 30 June 2009</b>	<b>13,543</b>	<b>11,340</b>	<b>2,494</b>	<b>27,377</b>

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**Notes to the Consolidated Financial Statements (continued)**

**15 Provisions for liabilities and charges (continued)**

Provisions include £13.5 million in respect of mast site restoration. The Group has certain legal obligations relating to the restoration of leased property to its original condition at the end of the lease term. This obligation relates principally to mast sites. The provision is based on assumptions covering the lease term, the characteristics of the site, the expected cost of restoring the site and the period of time before the obligation is expected to be incurred. The provision is discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. The provision is expected to be utilised between 11 and 26 years. The undiscounted costs expected to be incurred over this period are £88.1 million (2008: £85.6 million).

Provisions include £11.3 million in respect of delayed contractual milestone payments. In the Directors' opinion, after taking appropriate external advice, it is considered that there will not be any significant additional costs beyond the amounts provided at 30 June 2009. The provision is expected to be utilised over the next 8 years. The undiscounted costs expected to be incurred over this period are £13.0 million (2008: £15.4 million).

Provisions include £2.5 million in respect of restructuring costs. During the year the Group announced a restructuring program including the closure of two small regional offices and a review of its workforce with a target to reduce headcount by 10%. Following union and employee consultation the target number of positions were made redundant, the majority voluntarily, some compulsory and several employees were retained awaiting deployment into suitable roles. The provision is expected to be utilised over the next 10 years. The undiscounted costs expected to be incurred over this period are £3.5 million (2008: nil).

**16 Deferred Taxation**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28%.

The gross movements in deferred tax balances are as follows:

	30 June 2009 £'000	30 June 2008 £'000
As at the beginning of the period	(338,570)	-
Acquisition of subsidiary		(404,961)
Tax rate changes	-	27,059
Deferred tax credit/ (charge)	78,347	39,332
As at the end of the period	(260,223)	(338,570)

Deferred tax assets are recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets when it is probable that these assets will be recovered.

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Notes to the Consolidated Financial Statements (continued)

**16 Deferred Taxation (continued)**

**Deferred tax assets/ (liabilities)**

	30 June 2009 £'000	30 June 2008 £'000
<b>Accelerated Tax Depreciation</b>		
As at the beginning of the period	(13,233)	-
Acquisition of subsidiary	-	(55,107)
Tax rate change	-	3,350
Charge for the period	17,176	38,524
<b>As at the end of the period</b>	<b>3,943</b>	<b>(13,233)</b>
<b>Provisions &amp; unrealised Gain &amp; Losses</b>		
As at the beginning of the period	(1,107)	-
Acquisition of subsidiary	-	102
Tax rate change	-	(37)
Credit/ (charge) for the period	49,382	(1,172)
<b>As at the end of the period</b>	<b>48,275</b>	<b>(1,107)</b>
<b>Deferred Tax on Intangibles</b>		
As at the beginning of the period	(324,230)	-
Deferred tax on acquisition of subsidiary	-	(362,508)
Tax rate change	-	24,167
Credit for the period	11,789	14,111
<b>As at the end of the period</b>	<b>(312,441)</b>	<b>(324,230)</b>
Unused tax losses for which no deferred tax asset has been recognised	9,463	20,300
Potential tax benefit of unused tax losses	2,650	5,684

	30 June 2009 £'000	30 June 2008 £'000
<b>Deferred tax assets:</b>		
- Deferred tax asset to be recovered after more than 12 months	34,197	-
- Deferred tax asset to be recovered within 12 months	18,021	-
<b>Total deferred tax assets</b>	<b>52,218</b>	<b>-</b>
<b>Deferred tax liabilities</b>		
- Deferred tax liability to be recovered after more than 12 months	(300,653)	(312,441)
- Deferred tax liability to be recovered within 12 months	(11,788)	(26,129)
<b>Total deferred tax liabilities</b>	<b>(312,441)</b>	<b>(338,570)</b>
<b>Net deferred tax liability</b>	<b>(260,223)</b>	<b>(338,570)</b>

Deferred tax liabilities have decreased because the Group has elected not to claim available capital allowances during the period. Deferred tax assets have been recognised to the extent that the realisation of the related tax benefit through future capital allowance claims is probable.

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**Notes to the Consolidated Financial Statements (continued)**

**17 Financial Instruments**

**Instruments used by the Group**

At 30 June 2009 the Group has used derivative financial instruments in order to hedge exposure to fluctuations in interest rates in accordance with the Group's financial risk management policies.

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

**Interest rate swap contracts**

In April 2007, the Group entered into a 12 year interest rate hedge such that all floating rate payments due on the £1,500 million term loan (refer to note 14) were fixed. The swap contracts entered into have structured fixed payments at levels that are static over the life of the swap. The fixed payments level is 5.496%. The swap contracts are settled on a six monthly basis.

The Group has also entered into a 1 year basis swap, whereby the 6 month basis on the £1,500m debt, has been swapped to a one month basis, the net benefit to the Company is received monthly and this matures in May 2010.

Changes in the carrying value of the derivative financial instruments are immediately recognised in the income statement. These are unrealised losses which reflect the financial impact if the Group were to settle the swaps at the reporting date. The Group entered into the swaps in order to fix the interest rate on the £1,500 million facility as part of its risk management policy and does not intend to realise this liability.

The fair value gain / loss on these interest rate swaps are shown in the table below.

At 30 June 2009, the notional principal amounts and periods of expiry of the Group's interest rate swap contracts are:

Maturity	30 June 2009 £'000	30 June 2008 £'000
Less than 5 years	1,500,000	1,500,000
5 – 15 years	1,500,000	1,500,000

The fair values of the derivatives held at the balance sheet date, determined by reference to their market values are as follows:

	30 June 2009 £'000	30 June 2008 £'000
Interest rate swap fair value asset	-	3,501
Interest rate swap fair value liability (Current)	(68,216)	(5,771)
Interest rate swap fair value liability (Non-current)	(108,054)	-
Interest rate swap fair value liability	(176,270)	(5,771)
Interest rate swaps (net)	(176,270)	(2,270)

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**Notes to the Consolidated Financial Statements (continued)**

**17 Financial Instruments (continued)**

**Financial instruments by category**

The accounting policies for financial instruments have been applied to the line items below:

At 30 June 2009	Loans and receivables £'000	Assets at fair value through the profit and loss £'000	Total £'000
<b>Current assets as per balance sheet</b>			
Derivative financial instruments	-	-	-
Trade and other receivables (excluding pre-payments)	34,262	-	34,262
Cash and cash equivalents	70,386	-	70,386
<b>Total</b>	<b>104,648</b>	<b>-</b>	<b>104,648</b>
	Liabilities at fair value through the profit and loss £'000	Other financial liabilities £'000	Total £'000
<b>Liabilities as per balance sheet</b>			
Borrowings	-	(2,134,897)	(2,134,897)
Derivative financial instruments	(176,270)	-	(176,270)
Trade and other payables (excluding statutory liabilities and deferred income)	-	(379,580)	(379,580)
<b>Total</b>	<b>(176,270)</b>	<b>(2,514,477)</b>	<b>(2,690,747)</b>
At 30 June 2008	Loans and receivables £'000	Assets at fair value through the profit and loss £'000	Total £'000
<b>Current assets as per balance sheet</b>			
Derivative financial instruments	-	3,501	3,501
Trade and other receivables (excluding pre-payments)	62,341	-	62,341
Cash and cash equivalents	49,127	-	49,127
<b>Total</b>	<b>111,468</b>	<b>3,501</b>	<b>114,969</b>
	Liabilities at fair value through the profit and loss £'000	Other financial liabilities £'000	Total £'000
<b>Liabilities as per balance sheet</b>			
Borrowings	-	(2,078,232)	(2,078,232)
Derivative financial instruments	(5,771)	-	(5,771)
Trade and other payables (excluding statutory liabilities and deferred income)	-	(324,009)	(324,009)
<b>Total</b>	<b>(5,771)</b>	<b>(2,402,241)</b>	<b>(2,408,012)</b>

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Year ended 30 June 2009

**Notes to the Consolidated Financial Statements (continued)**

**17 Financial Instruments (continued)**

**Credit quality of financial assets**

Credit risk is not considered material within the Group as the majority of contracts are with Public Safety Organisations. An ageing of trade receivables is contained in note 6. The credit quality of trade receivables can also be assessed with reference to the following groups:

Group trade receivables	30 June 2009	30 June 2008
<b>Counterparties without external credit rating</b>		
Group 1 – new customers	562	1
Group 2 – existing Public Safety Organisations customers	7,103	41,546
Group 3 – existing Local Authority customers	156	96
Group 4 – other existing customers	2,852	1,462
Total trade receivables	10,673	43,105
<b>Cash at bank and short-term bank deposits</b>		
AA	70,386	49,127
	70,386	49,127
<b>Derivative financial assets</b>		
AA	-	3,501
	-	3,501

The maximum exposure to credit risk is as shown below:

	30 June 2009 £'000	30 June 2008 £'000
Trade and other receivables (excluding prepayments)	29,040	48,604
Cash and cash equivalents	70,386	49,127
Receivables from other Group companies	5,223	13,737
	104,649	111,468

**Financial risk management**

**Financial risk factors**

The Group's operations expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments in the form of interest rate swaps to hedge certain risk exposures.

Financial risks are identified and managed by the Group's treasury function. The role of the treasury function is to identify, monitor and manage financial risk within the framework of Board approved policies and delegated authorities.

The principal financial risks of the Group and how the Group manages these risks are discussed below.

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**Notes to the Consolidated Financial Statements (continued)**

**17 Financial Instruments (continued)**

**(i) Market Risk**

**(a) Foreign exchange risk**

The Group operates from UK sites and predominantly in the UK market but has some transactions denominated in currencies other than sterling. The currencies giving rise to this risk are primarily US dollars and Euros. The majority of the Group's revenues and costs are sterling based and accordingly exposure to foreign exchange risk is low. There is a reasonable natural hedge between costs and revenues.

**(b) Interest rate risk**

Cash and cash equivalents and the Group's borrowings are based on a mix of fixed and floating rates. A one per cent change in the base rate would result in an increase/decrease in net assets of £846,000 (2008: £358,000). This is based on floating rate arrangements that affect cash and cash equivalents and borrowings from other Group companies.

**(c) Price risk**

The Group has exposure to fluctuations in prices of electricity, gas and other commodities. The potential impact of this is reduced through the negotiation of fixed price contracts.

**(ii) Credit Risk**

The Group's principal credit risks are attributable to its cash and cash equivalents and trade receivables.

The credit risk associated with cash and cash equivalents is disclosed in note 5.

The maximum exposure to credit risk is as shown in the table on page 43.

**(iii) Liquidity Risk**

Prudent liquidity risk management implies maintaining sufficient cash. The Group aims to maintain appropriate liquidity through the daily monitoring of its actual and projected cash position.

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As the amounts included in the table are the contractual undiscounted cash flows, these amounts will not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments and trade and other payables.

Borrowings in the table at 30 June 2009 include principal plus floating interest rate payments on the HSBC Facility A based on current market rates.

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**Notes to the Consolidated Financial Statements (continued)**

**17 Financial Instruments (continued)**

At 30 June 2009	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 Years £'000	Total £'000
Borrowings	74,819	66,420	1,933,007	458,131	2,532,377
Derivative financial instruments	68,746	39,534	37,263	49,099	194,642
Trade payables	27,515	-	-	-	27,515
Other payables	89,928	-	-	-	89,928
	261,008	105,954	1,970,270	507,230	2,844,462

At 30 June 2008	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 Years £'000	Total £'000
Borrowings	112,645	114,057	333,648	1,687,370	2,247,720
Derivative financial instruments	(1,313)	-	-	(9,312)	(10,625)
Trade payables	5,614	-	-	-	5,614
Other payables	109,465	-	-	-	109,465
	226,411	114,057	333,648	1,678,058	2,352,174

The table below analyses the Group's derivative financial instruments, which will be settled on a gross basis, into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

At 30 June 2009	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 Years £'000	Total £'000
Interest Rate Swaps					
Outflows	(105,418)	(83,118)	(247,320)	(404,069)	(839,925)
Inflow	36,672	43,584	210,057	354,970	645,283
	(68,746)	(39,534)	(37,263)	(49,099)	(194,642)

At 30 June 2008	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 Years £'000	Total £'000
Interest Rate Swaps					
Outflows	(173,186)	(82,214)	(248,223)	(486,283)	(989,906)
Inflow	173,512	91,469	265,450	441,733	972,164
	326	9,255	17,227	(44,550)	(17,742)

Note: The specific time periods presented are based on how management monitors liquidity risks.

The Group's significant interest-bearing assets include cash and cash equivalents and interest bearing loans and borrowings. See note 5 for details of interest rates attaching to cash and cash equivalents. See note 14 for details of interest rates and maturity attaching to the interest bearing borrowings and loans.

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**Notes to the Consolidated Financial Statements (continued)**

**17 Financial Instruments (continued)**

The Group's interest-rate risk arises from long-term borrowings. The Group has long-term borrowings issued at floating interest rates. For floating rate exposures, the Group partially hedges the exposure by entering into interest rate swaps, whereby the Group agrees with its counterparties to exchange at specified intervals the difference between the fixed contract rates and floating rate amounts calculated by reference to the agreed notional principal amounts.

**(v) Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt or drawdown additional debt.

The Group's Capital Management Policy is to ensure the availability of an adequate supply of reasonably priced funding (and other credit lines) to meet current requirements as well as future growth anticipated under the Group's budget and strategic plan, within the constraints of debt capacity (as determined by long-term gearing targets, operational covenants, and financial covenant requirements).

The Group is funded through a mix of equity and debt, to match the maturity profile of its assets and liabilities. The funding profile was determined during the MEIFII and MCG acquisition process to reflect the dynamics of the organisation and its future strategy.

The Treasury function centrally manages all funding activity for the Group and determines the optimum source of funding for each funding requirement, with the appropriate maturity, whilst ensuring maximum flexibility in the covenants provided.

**(vi) Fair value estimation**

The fair value of the trade and other receivables, trade and other payables, short-term deposits, money market funds, cash at bank and short-term borrowings approximates to the carrying value due to the short-term or on-demand maturity of these instruments.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the prevailing market interest rate available to the Group for similar financial instruments.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Discounted future estimated cash flows using prevailing market interest rates are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

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Notes to the Consolidated Financial Statements (continued)

**18 Ordinary Shares**

**Authorised shares**

	30 June 2009 £	30 June 2008 £
5,000,000 Ordinary Shares of £0.01 each	50,000	50,000

**Allotted, called up and fully paid**

	30 June 2009 £	30 June 2008 £
100 Ordinary Share of £0.01 each	1	1

The Group has one class of authorised and issued share capital, comprising ordinary shares of £0.01 each. Subject to the Company's Articles of Association and applicable law, the Group's ordinary shares confer on the holder: the right to receive notice of and vote at general meetings of the Company; the right to receive any surplus assets on a winding-up of the Group; and an entitlement to receive any dividend declared on ordinary shares.

**19 Retained earnings - deficit**

	30 June 2009 £'000	30 June 2008 £'000
Balance at the beginning of the period	(123,226)	-
Loss for the period	(236,230)	(123,226)
Balance at the end of the period	(359,456)	(123,226)

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Notes to the Consolidated Financial Statements (continued)

**20 Related Party Disclosures**

The Group's parent and ultimate parent companies are disclosed in note 26.

Kelvin Connect Limited is an associate of the Group as disclosed in note 10.

Arqiva, National Grid Wireless and Thames Water are entities under the common control of the Group's joint ultimate parents.

All transactions with related parties are conducted under normal trading terms. No guarantees are given or received on the above transactions. No provisions have been made for the above amounts, nor are any of the above related party transactions recognised or considered as bad or doubtful debt.

The following transactions were carried out with related parties:

a) Purchases of goods and services

	30 June 2009 £'000	30 June 2008 £'000
Operating expenditure		
- Associates	735	-
- Entities under common control	7,976	8,489
Capital expenditure		
- Entities with joint control or significant influence	-	15,125
- Associates	-	-
- Entities under common control	1,478	14,985
	<b>10,189</b>	<b>38,599</b>

b) Year-end balances arising from purchases of goods and services

	30 June 2009 £'000	30 June 2008 £'000
Receivables and Prepayments		
- Associates	-	-
- Entities under common control	1,723	3
Payables		
- Associates	-	-
- Entities under common control	(3,909)	(148)
	<b>(2,186)</b>	<b>(145)</b>

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**20 Related Party Disclosures (continued)**

c) Loans and other receivables and payables

		30 June 2009 £'000	30 June 2008 £'000
<b>Intercompany Loans</b>			
- GDCLux	Opening balance	(172,525)	-
	Loans advanced during the year	-	(162,785)
	Loan repayments during the year	12,785	-
	Interest charged	(18,306)	(22,525)
	Interest repaid	19,120	12,785
	Closing balance	(158,926)	(172,525)
- GDCHL	Opening balance	(347,064)	-
	Loans advanced during the year	-	(333,180)
	Loan repayments during the year	23,243	1,805
	Interest charged	(38,701)	(47,784)
	Interest repaid	35,734	32,095
	Closing balance	(326,788)	(347,064)

		30 June 2009 £'000	30 June 2008 £'000
<b>Other Payables</b>			
- GDCHL	Opening balance	13,737	-
	Consideration for tax losses	10,839	13,737
	Repayments	(19,353)	-
	Closing balance	5,223	13,737

		30 June 2009 £'000	30 June 2008 £'000
<b>Interest Rate Swaps</b>			
- Entities with joint control or significant influence	Interest Rate Swap Settlements Received	23,190	6,024
	Interest Rate Swap Settlements Paid	(39,026)	-
	Unrealised Interest Rate Swap Liability	(88,135)	(1,135)

Related party transactions with Directors and key management are detailed in note 22.

Following the acquisition of Airwave, the Group's parent company, Guardian Digital Communications Holdings Limited ("GDCHL"), entered into an agreement to guarantee any financial claim made by the National Policing Improvement Agency, the Secretary of State for Health, the Scottish Ambulance Board or the Secretary of State for Communities and Local Government, to the extent that such a claim had not been satisfied by the Company within a prescribed period. In the event that the claim is not satisfied in full by GDCHL within a further prescribed period, MEIFIL, Macquarie MCG International Limited and MCG have agreed to indemnify the Customers in respect of any claim, subject to a cap on liability.

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Notes to the Consolidated Financial Statements (continued)

**21 Pension Scheme**

The Airwave Plan is a defined contribution arrangement and employer contributions are recognised as a benefit expense when they are due.

The amounts charged to the income statement for defined benefit and defined contribution pension arrangements are set out below.

	Year ended 30 June 2009 £'000	16 months ended 30 June 2008 £'000
Defined benefit – O2 PP	-	1,214
Defined contribution – O2 PP	-	434
Defined contribution – Airwave Plan	<b>3,254</b>	<b>2,643</b>
	<b>3,254</b>	<b>4,291</b>

The Company's contributions to the Airwave Plan consists of payments made under a company policy to match employee contributions into the pension plan. In June 2009 the Company commenced a salary sacrifice pension scheme to provide additional benefits for employees in retirement.

The amount payable at year-end for the month of June, included within Trade and Other Payables on the consolidated balance sheet, was £491,265 (2008: £405,281).

Until 19 October 2007, the Group participated in the O2 Pension Plan ("O2PP") Following the acquisition of Airwave by the Company, all employees were provided with an option to opt into the new Airwave group stakeholder plan. Members of the O2 defined benefits schemes retain deferred entitlements under the scheme. Members of the O2 defined contribution scheme can leave their entitlements within the O2 scheme or elect to transfer into the Airwave Plan. The Group has no further obligations in respect of the O2 PP. All obligations were settled as a consequence of completing the acquisition.

**22 Key Management and Director Compensation**

The compensation of key management for the year ended 30 June 2009 was, as follows:

	Year ended 30 June 2009 £'000	16 months ended 30 June 2008 £'000
Salaries and short-term employee benefits	<b>2,726</b>	<b>2,577</b>
Bonuses paid on acquisition by Telefónica	-	1,531
Loss of office	-	325
Post-employment benefits	<b>170</b>	<b>139</b>
Share based payments	-	606
<b>Total key management compensation</b>	<b>2,896</b>	<b>5,178</b>

The key management compensation analysed above represents compensation earned by the Group's Management Board.

None of the Directors were remunerated for their services to the Group for the 12 months ended 30 June 2009 (nor 16 months ending 30 June 2008). The emoluments of Messrs Beckley, Shore and McHutchison are paid by entities related to the Group's parent entities. No recharge is made to the Group. Accordingly, the above details include no emoluments in respect of these Directors.

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**23 Employees**

	30 June 2009	30 June 2008
<b>Average monthly number of full time employee equivalents (including executive Directors):</b>		
Network construction	242	273
Operations and administration	522	461
<b>Total employees</b>	<b>764</b>	<b>734</b>

The benefits expense incurred in respect of these employees were:

	Note	Year ended 30 June 2009 £'000	16 months ended 30 June 2008 £'000
Wages and salaries		43,322	48,367
Social security costs		4,369	5,131
Pension costs	21	3,254	4,291
<b>Total employee benefits expense</b>		<b>50,945</b>	<b>57,789</b>

**24 Financial Commitments**

**Operating lease commitments**

At 30 June 2009 the Group was committed to making the following payments in respect of operating leases:

	30 June 2009 £'000	30 June 2008 £'000
<b>Commitments under non-cancellable operating leases expiring:</b>		
Within one year	28,365	30,466
Later than one year but not later than five years	96,085	94,911
Later than five years	92,866	111,470
	<b>217,316</b>	<b>236,847</b>

The Group leases various offices, vehicles and mast sites under non-cancellable operating lease agreements. These leases have various terms and renewal rights. The Company recognised lease payments of £32,760,000 in the consolidated income statement for year ended 30 June 2009 (2008: £41,131,000).

**Other commitments**

	30 June 2009 £'000	30 June 2008 £'000
Contracts placed for capital expenditure not provided for in the accounts – property, plant and equipment	31,362	32,311

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**25 Contingent Liabilities**

The Group has no contingent liabilities or guarantees on which material losses are expected.

The Group does not believe there are any pending legal proceedings which would have a material adverse effect on the financial position or results of operations of the Group.

**26 Parent Company and Controlling Party**

The Company's ultimate parent company in the UK is Guardian Digital Communications Holdings Limited ("GDCHL"). The parent company of GDCHL is Guardian Digital Communications Luxembourg S.a.r.L. ("GDCLux"). As at 30 June 2009 GDCLux was owned 50.001% by the Macquarie European Infrastructure Fund II ("MEIFII"), an unlisted fund domiciled in Luxembourg, and 49.999% by the Macquarie Communications Infrastructure Group ("MCG"), a fund publicly listed in Australia. On 22 July 2009 all of the securities in MCG were acquired by the Canadian Pension Plan Investment Board ("CPPIB") following a public offer to its shareholders.

Guardian Digital Communications Luxembourg Sarl, is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 30 June 2009. The consolidated financial statements of Guardian Digital Communications Luxembourg Sarl are available at its registered office of 46, Place Guillaume II, L – 1648 Luxembourg.

**27 Events Occurring after Balance Sheet Date**

On 22 July 2009 all of the securities in MCG were acquired by the Canadian Pension Plan Investment Board ("CPPIB") following a public offer to its shareholders.

No other significant events have occurred after the balance sheet date.

## **Independent Auditors' Report to the members of Guardian Digital Communications Limited on the Parent Company Financial Statements**

We have audited the parent company financial statements of Guardian Digital Communications Limited for the year ended 30 June 2009 which comprise the Parent Company Balance Sheet, Parent Company Statement of Changes in Equity and the Parent Company Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the Companies Act 2006.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibility on page 9, 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 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 Sections 495 and 496 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 parent 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.

### **Opinion on financial statements**

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2009 and of its cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; 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 parent company financial statements are prepared is consistent with the parent company financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

### **Other matter**

We have reported separately on the Group financial statements of Guardian Digital Communications Limited for the year ended 30 June 2009.

J. Booker (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, 24 September 2009

**Guardian Digital Communications Limited****Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Parent Company Balance Sheet**

	Note	30 June 2009 £'000	30 June 2008 £'000
<b>Non-current assets</b>			
Investments	30	1,409,409	1,409,409
Trade and other receivables	31	449,136	-
Deferred income tax assets	35	30,255	-
<b>Total non-current assets</b>		<b>1,888,800</b>	<b>1,409,409</b>
<b>Current assets</b>			
Trade and other receivables	31	42,785	548,795
Cash and cash equivalents	32	16,550	6,667
Other financial assets	36	-	3,501
Deferred income tax assets	35	17,076	-
<b>Total current assets</b>		<b>76,411</b>	<b>558,963</b>
<b>Current liabilities</b>			
Bank overdraft	32	(1,059)	-
Borrowings	33	(40,748)	(25,635)
Other financial liabilities	36	(68,216)	(5,771)
Trade payables	34	-	(13)
<b>Total current liabilities</b>		<b>(110,023)</b>	<b>(31,419)</b>
<b>Net current (liabilities) / assets</b>		<b>(33,612)</b>	<b>527,544</b>
<b>Total assets less current liabilities</b>		<b>1,855,188</b>	<b>1,936,953</b>
<b>Non-current liabilities</b>			
Borrowings	33	(2,094,149)	(2,052,596)
Other financial liabilities	36	(108,054)	-
Deferred tax liabilities	35	-	(1,284)
<b>Total non-current liabilities</b>		<b>(2,202,203)</b>	<b>(2,053,880)</b>
<b>Net liabilities</b>		<b>(347,015)</b>	<b>(116,927)</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares	37	-	-
Accumulated loss	38	(347,015)	(116,927)
<b>Total equity</b>		<b>(347,015)</b>	<b>(116,927)</b>

The above Balance Sheet should be read in conjunction with the accompanying notes on pages 55 to 71.

The financial statements on pages 52 to 71 were authorised by the Board of Directors on 24 September 2009 and were signed on its behalf.



Leonard Peter Shore  
Director

**Guardian Digital Communications Limited****Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Parent Company Statement of Changes in Equity**

	Note	Ordinary share capital £'000	Retained earnings - deficit £'000	Total £'000
Balance on incorporation		-	-	-
Loss for the period			(116,927)	(116,927)
Balance at 30 June 2008		-	(116,927)	(116,927)
Loss for the year			(230,088)	(230,088)
Balance at 30 June 2009		-	(347,015)	(347,015)

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 55 to 71.

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

**Parent Company Cash Flow Statement**

	Note	30 June 2009 £'000	30 June 2008 £'000
<b>Loss for the period</b>	29	(230,088)	(116,927)
Interest payable		323,771	154,437
Increase in trade and other receivables		(1,419)	(39,648)
(Decrease) / increase in trade and other payables		(13)	13
(Decrease) / increase in tax liabilities		(50,336)	1,284
<b>Net cash flows from operating activities</b>		<b>41,915</b>	<b>(841)</b>
<b>Cash flows from investing activities</b>			
Loans granted to subsidiary undertakings		-	(547,405)
Loan repayments from subsidiary undertakings		55,822	42,448
Acquisition of subsidiary		-	(1,409,409)
<b>Net cash flows from investing activities</b>		<b>55,822</b>	<b>(1,914,366)</b>
<b>Cash flows from financing activities</b>			
Interest received		28,570	45,813
Realised gains on interest rate swaps		-	19,168
Borrowing costs paid		(164,455)	(209,482)
Proceeds from borrowings	33	83,000	1,593,817
Repayment of borrowings		-	(8,817)
Proceeds from related party loans		-	483,180
Repayment of related party loans	39	(36,028)	(1,805)
<b>Net cash flows from financing activities</b>		<b>(88,913)</b>	<b>1,921,874</b>
<b>Net increase in cash and cash equivalents</b>		<b>8,824</b>	<b>6,667</b>
Cash and cash equivalents at the beginning of the year / period		6,667	-
<b>Cash and cash equivalents at the end of the period</b>	32	<b>15,491</b>	<b>6,667</b>

The above Cash Flow Statement should be read in conjunction with the accompanying notes on pages 55 to 71.

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Year ended 30 June 2009

Notes to the financial statements

**28 Summary of Significant Accounting Policies**

The significant policies which have been adopted in the preparation of the financial statements are stated to assist in a general understanding of these financial statements.

**(a) General information**

The principal activities of Guardian Digital Communications Limited ('the Company') are the development and provision of mobile Information and Communication Technology ("ICT") to Public Safety Organisations in Great Britain.

The Company is a private limited company domiciled and registered in England and Wales. The registered address is Charter Court, 50 Windsor Road, Slough, Berkshire SL1 2EJ.

The registered number of the Company is 6143540.

**(b) Basis of Preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), and IFRIC (International Financial Reporting Interpretations Committee) interpretations applicable to Companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group'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 28(m).

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A statement on going concern is included in the Directors' Report. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore can continue to adopt the going concern basis in preparing the financial statements.

The Company has a strong opening cash position with access to further committed bank facilities. Therefore these financial statements have been prepared on a going concern basis.

**(c) Financial assets**

The Company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

**Guardian Digital Communications Limited**  
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Year ended 30 June 2009

Notes to the financial statements (continued)

**28 Summary of Significant Accounting Policies (continued)**

**(c) Financial assets (continued)**

If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and conventional option pricing models making maximum use of observable market inputs and relying as little as possible on entity-specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Company of financial assets is impaired. Impairment testing of trade receivables is described in note 28(d).

**(d) Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

**(e) Cash and cash equivalents**

Cash and cash equivalents in the cash flow statement includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

**(f) Trade payables**

Trade payables initially are recognised at fair value and subsequently measured at amortised cost using the effective interest method

**(g) Borrowing costs**

Borrowing costs are written off as incurred and are not capitalised as part of qualifying assets.

**(h) Borrowings**

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest bearing liabilities are measured at amortised cost and classified as financial liabilities. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method. Transaction costs are included in the carrying amount and are charged to the income statement over the period of the borrowings using the effective interest method.

Notes to the financial statements (continued)

**28 Summary of Significant Accounting Policies (continued)**

**(i) Foreign currencies**

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss in finance cost or income.

**(j) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Pounds Sterling (GBP), which is the Company's functional and presentational currency.

**(iii) Transactions and balances**

Transactions denominated in foreign currencies are translated, at the exchange rate on the day the transaction occurred, to the functional currency of the entity. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Foreign exchange differences arising on translation are recognised in the Consolidated Income Statement. Non-monetary assets and liabilities denominated in foreign currency are translated at the foreign currency exchange rate prevailing at the dates the values were determined.

**(j) Taxation**

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. However, the deferred income tax is not accounted for if it 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. 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.

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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Income tax relating to items recognised directly in equity is recognised in equity, not in the Income Statement.

**(k) Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 17. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Derivative instruments do not qualify for hedge accounting and are therefore accounted for as derivatives at fair value through the Consolidated Income Statement. Changes in the fair value of any of these derivative instruments are recognised immediately in the income statement within 'net finance costs'.

**Guardian Digital Communications Limited**  
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Year ended 30 June 2009

Notes to the financial statements (continued)

**28 Summary of Significant Accounting Policies (continued)**

**(l) Accounting Standards and interpretations**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 July 2009 or later periods but which the Company has chosen not to early adopt. The new standards and interpretations, applicable to the Company, which will be adopted by the Company as appropriate are as follows:

- IAS 1 (Amendment) 'Presentation of Financial Statements' affects certain disclosures within the financial statements especially in relation to the income statement and statement of recognised income and expense but will have no effect on the financial results of the Company. The revised standard is effective for annual periods beginning on or after 1 January 2009 and the Company will adopt the amendments for the year ending 30 June 2010.
- IFRS 1 (Amendment) 'First-time Adoption of International Financial Reporting Standards' and IAS 27 (Amendment) 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate'. The Company will adopt the amendments for the year ending 30 June 2010.
- IFRS 3 (Revised) 'Business Combinations' effective for the year ending 30 June 2010.
- IFRS 7 (Amendment) 'Financial Instruments: Disclosures' effective for the year ending 30 June 2010.
- IAS 23 (Amendment) 'Borrowing Costs' requires the Group to capitalise borrowing costs directly attributable to a qualifying asset as part of the cost of that asset. The Company has adopted the amendments for the year ending 30 June 2009.
- IAS 27 (Revised), 'Consolidated and Separate Financial Statements' effective for the year ending 30 June 2010.

The Company has not elected to early adopt these amendments. The Company is currently assessing the impact of these amendments and does not expect at this stage that they would significantly impact the Company's financial position.

**Guardian Digital Communications Limited**  
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Year ended 30 June 2009

Notes to the financial statements (continued)

**28 Summary of Significant Accounting Policies (continued)**

**(m) Critical accounting estimates and judgments**

The preparation of financial statements in conformity with IFRS 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. A significant change in the facts and circumstances on which these estimates are based could have a material negative impact on the Company's earnings and financial position. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are discussed below:

***(i) Deferred tax assets and liabilities***

The Company evaluates the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Company's ability to generate taxable earnings over the course of the period for which the deferred tax assets remain deductible. This analysis is based on the estimated reversal of deferred taxes as well as estimates of taxable earnings, which are sourced from internal projections and are updated to reflect the latest trends.

The appropriate classification of tax assets and liabilities depends on a series of factors including estimates as to the timing and materialisation of deferred tax assets and the forecast tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Company as a result of changes in tax legislation or unforeseen transactions that could affect tax balances. Details of deferred tax assets and liabilities are provided in note 16.

**29 Income Statement**

As permitted by Section 408 of the Companies Act of 2006, the Company's income statement has not been included in these financial statements. The Company's loss for the period was £230,088,000 (2008: £116,927,000). The loss included an unrealised mark-to-market loss on interest rate swaps of £173,629,000 (2008: £5,771,000).

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Year ended 30 June 2009

## Notes to the financial statements (continued)

**30 Investments in Subsidiary Undertakings**

Investment in subsidiary undertakings :	30 June 2009 £000	30 June 2008 £000
Airwave Solutions Limited	1,409,409	1,409,409

The investments in group companies were holdings of 100% of the ordinary shares of United Kingdom registered companies. Valuations are the acquisition cost of each, less amounts provided for loss in value. Details of the companies are as follows:

Name of Company	Country of Registration	Nature of Business	Total Equity at 30 June 2009 £000	Income Statement results for the year ended 30 June 2009 £000	Total Equity at 30 June 2008 £000	Income Statement results for the period ended 30 June 2008 £000
Airwave Solutions Limited	England and Wales	Mobile Information and communication technology	25,579	24,169	1,410	3,553

**Guardian Digital Communications Limited**  
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Year ended 30 June 2009

Notes to the financial statements (continued)

**31 Trade and Other Receivables**

	30 June 2009 £'000	30 June 2008 £'000
<b>Current</b>		
Other receivables	2,203	784
Amounts owed by group undertakings	40,582	38,862
Loans to group undertakings	-	509,149
	<b>42,785</b>	<b>548,795</b>
<b>Non-Current</b>		
Loans to group undertakings	449,136	-
	<b>449,136</b>	<b>-</b>

The fair value of other receivables and prepayments was equal to the carrying value at year end. The fair value of loans to group undertakings at 30 June 2009 was £438,096,058 (2008: £456,760,439). The fair values are based on forecast cash flows assuming full repayment in 2014, discounted at prevailing market rates with a credit spread of 2% based on management estimation as at 30 June 2009.

Credit risk is not considered material within the Company as the majority of the balances are with group undertakings. The intercompany loan to Airwave Solutions Limited is repayable on demand at any time or as otherwise agreed, provided repayment does not make the borrower insolvent. The Company has reclassified the loan from current to non-current on the basis that management does not expect the loan to be repaid within 12 months.

**32 Cash and Cash Equivalents**

	30 June 2009 £'000	30 June 2008 £'000
Bank overdraft	(1,059)	-
Short term money market investments	16,550	6,667
	<b>15,491</b>	<b>6,667</b>

The carrying value of cash and cash equivalent approximates fair value. All cash and cash equivalents are denominated in Pounds Sterling (GBP).

**(a) Short term money market investments**

The short term money market investments outstanding at the period end mature overnight.

**(b) Bank overdraft**

The bank overdraft is repayable on demand.

**Guardian Digital Communications Limited**  
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Year ended 30 June 2009

Notes to the Financial Statements (continued)

**32 Cash and Cash Equivalents (continued)**

**Credit risk**

Cash and cash equivalents credit risk is monitored on an overall basis by Treasury function through the application of counter party credit limits which are dependent on the Long Term Credit Rating of the Counterparty. The credit limits are as follows:

30 June 2009			
Long term rating	Counterparty Limit £'000	Balance £'000	No of Counterparties
AAA	75,000	-	-
AA	50,000	15,491	1
A	25,000	-	-
BBB	10,000	-	-
		<u>15,491</u>	

30 June 2008			
Long term rating	Counterparty Limit £'000	Balance £'000	No of Counterparties
AAA	75,000	-	-
AA	50,000	6,667	2
A	25,000	-	-
BBB	10,000	-	-
		<u>6,667</u>	

**33 Borrowings**

	Notes	Average Interest Rate %	Maturity Year	Accrued Interest 30 June 2009 £'000	30 June 2009 £'000
<b>Current &amp; Non-Current unsecured borrowings</b>					
Eurobond – Guardian Digital Communications SarL	i	12.00	2017	8,926	150,000
Loan – Guardian Digital Communications Holdings Ltd	ii	12.00	On-demand	18,657	308,131
HSBC Facility A	iii	6.95	2014	165	1,500,000
Less: capitalised transaction costs					(18,982)
HSBC Facility B	iv	4.20	2014	-	155,000
<b>Total (Non-current)</b>				<b>27,748</b>	<b>2,094,149</b>
HSBC Facility C	v	5.00	2010		13,000
Accrued Interest					27,748
<b>Total (Current)</b>					<b>40,748</b>
<b>Total Interest bearing loans and borrowings</b>					<b>2,134,897</b>

**Guardian Digital Communications Limited**  
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Year ended 30 June 2009

Notes to the financial statements (continued)

**33 Borrowings (continued)**

	Notes	Average Interest Rate %	Maturity Year	Accrued Interest 30 June 2008 £'000	30 June 2008 £'000
<b>Current &amp; Non-Current unsecured borrowings</b>					
Eurobond – Guardian Digital Communications SarL	i	12.00	2017	9,740	162,785
Loan – Guardian Digital Communications Holdings Ltd	ii	12.00	On-demand	15,689	331,375
HSBC Facility A	iii	7.52	2014	206	1,500,000
Less: capitalised transaction costs					(26,564)
HSBC Facility B	iv	7.31	2014	-	85,000
<b>Total (Non-current)</b>				<b>25,635</b>	<b>2,052,596</b>
HSBC Facility C	v	7.77	2009		-
<b>Accrued interest (Current)</b>					<b>25,635</b>
<b>Total interest bearing loans and borrowings</b>					<b>2,078,231</b>

**Notes**

The current portion of the above loans and borrowings due within 1 year is £40,748,000 as disclosed in the balance sheet under current liabilities.

i) Eurobond – Guardian Digital Communications SarL

The Guardian Digital Communications SarL (GDCLux) loan to Guardian Digital Communications Ltd for £150 million was issued by GDCLux as part of the financing of the purchase of Airwave Solutions Limited from the Telefónica Group in April 2007. This is a 12% fixed rate note maturing on 31 December 2017.

ii) Loan – Guardian Digital Communications Holdings Ltd

The Guardian Digital Communications Holdings Ltd loan to Guardian Digital Communications Ltd of £308 million was utilised on 20 April 2007 as part of the financing of the purchase of Airwave Solutions Limited from the Telefónica Group. This is an intercompany loan with a fixed interest rate of 12% (2008: 12%). The loan is repayable on demand at any time or as otherwise agreed, provided repayment does not make the Company insolvent. The Company has classified the loan as non-current on the basis that management does not expect the loan to be repaid within 12 months.

iii) HSBC Facility A

The HSBC Facility A was utilised on acquisition of Airwave Solutions Limited from the Telefónica Group. This facility has a floating interest charge which is fixed by interest rate swaps.

iv) HSBC Facility B

The HSBC Facility B was first utilised in November 2007 to fund capital expenditure. The conditions on this facility determine that once drawn it cannot be repaid without lowering the overall facility by the repaid amount, and drawings in a 12 month period are limited to 90% of the capital spend in that period. £155 million of the £250 million facility has been utilised. This facility has a floating interest charge.

v) HSBC Facility C

The HSBC Facility C is the working capital facility and was first utilised in May 2007. The facility offers £50 million, of which £13 million had been utilised at year end. The facility must be fully repaid at least once every year. This facility has a floating interest rate charge.

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

Notes to the financial statements (continued)

**33 Borrowings (continued)**

The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying Amount		Fair Value	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	£'000	£'000	£'000	£'000
Bank Borrowings	1,649,018	1,558,436	1,635,181	1,571,987
Eurobond – Guardian Digital Communications SarL	158,926	172,525	193,217	195,820
Loan – Guardian Digital Communications Holdings Ltd	326,788	347,064	390,337	391,679

The fair values are based on forecast cash flows assuming full repayment in 2014, discounted at prevailing market rates with a credit spread of 2% based on management estimation as at 30 June 2009.

All borrowings are unsecured and are denominated in Pounds Sterling (GBP).

**34 Trade and Other Payables**

	30 June 2009 £'000	30 June 2008 £'000
<b>Current</b>		
Trade payables	-	(5)
Accrued expenses	-	(8)
	-	(13)

The carrying value of trade and other payables approximates the fair value.

**35 Deferred Taxation**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28%.

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

Notes to the financial statements (continued)

**35 Deferred Taxation (continued)**

The gross movements in deferred tax balances are as follows:

	30 June 2009 £'000	30 June 2008 £'000
As at the beginning of the period	(1,284)	-
Income statement charge	48,615	(1,284)
As at the end of the period	47,331	(1,284)

Deferred tax assets are recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets when it is probable that these assets will be recovered.

**Deferred tax assets/ (liabilities)**

	30 June 2009 £'000	30 June 2008 £'000
<b>Provisions &amp; unrealised Gain &amp; Losses</b>		
As at the beginning of the period	(1,284)	-
Charge for the period	48,615	(1,284)
As at the end of the period	47,331	(1,284)
Unused tax losses for which no deferred tax asset has been recognised	9,463	20,300
Potential tax benefit of unused tax losses	2,650	5,684

	30 June 2009 £'000	30 June 2008 £'000
<b>Deferred tax assets:</b>		
- Deferred tax asset to be recovered after more than 12 months	30,255	-
- Deferred tax asset to be recovered within 12 months	17,076	-
	47,331	-
<b>Deferred tax liabilities</b>		
- Deferred tax liability to be recovered after more than 12 months	-	-
- Deferred tax liability to be recovered within 12 months	-	(1,284)
	-	(1,284)
<b>Deferred tax liabilities (net)</b>	47,331	(1,284)

Deferred tax assets have increased because the Company has recognised the future income tax benefit of the unrealised interest rate swap liability. The company expects to have sufficient taxable profits within the group to enable the benefit of these losses to be realised as the swaps losses are realised.

**Guardian Digital Communications Limited**  
**Annual Report and Consolidated Financial Statements**

Year ended 30 June 2009

Notes to the financial statements (continued)

**36 Financial Instruments**

**Instruments used by the Company**

At 30 June 2009 the Company has used derivative financial instruments in order to hedge exposure to fluctuations in interest rates in accordance with the Company's financial risk management policies.

Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

**Interest rate swap contracts**

In April 2007, the Company entered into a 12 year interest rate hedge when such that all floating rate payments due on the £1,500 million term loan (refer to note 14) were fixed. The swap contracts entered into have structured fixed payments at levels that are static over the life of the swap. The fixed payments level is 5.496%. The swap contracts are settled on a six monthly basis.

The Company has also entered into a 1 year basis swap, whereby the 6 month basis on the £1,500m debt, has been swapped to a one month basis, the net benefit to the Company is received monthly and this matures in May 2010.

Changes in the carry value of the derivative financial instruments are immediately recognised in the profit and loss account. These are unrealised losses which reflect the financial impact if the Company were to settle the swaps at the reporting date. The Company entered into the swaps in order to fix the interest rate on the £1.5 billion facility as part of its risk management policy and does not intend to realise this liability.

The fair value gain / loss on these interest rate swaps are shown in the table below.

At 30 June 2009, the notional principal amounts and periods of expiry of the Company's interest rate swap contracts are:

Maturity	30 June 2009 £'000	30 June 2008 £'000
Less than 5 years	1,500,000	1,500,000
5 – 15 years	1,500,000	1,500,000

The fair values of the derivatives held at the balance sheet date, determined by reference to their market values are as follows:

	30 June 2009 £'000	30 June 2008 £'000
Interest rate swap fair value asset	-	3,501
Interest rate swap fair value liability (Current)	(68,216)	(5,771)
Interest rate swap fair value liability (Non-current)	(108,054)	-
Interest rate swap fair value liability	(176,270)	(5,771)
Interest rate swaps (net)	(176,270)	(2,270)

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**36 Financial Instruments (continued)**

**Financial instruments by category**

The accounting policies for financial instruments have been applied to the line items below:

Group At 30 June 2009	Loans and receivables £'000	Assets at fair value through the profit and loss £'000	Total £'000
<b>Current assets as per balance sheet</b>			
Derivative financial instruments	-	-	-
Trade and other receivables (excluding pre-payments)	491,921	-	491,921
Cash and cash equivalents	15,491	-	15,491
<b>Total</b>	<b>507,412</b>	<b>-</b>	<b>507,412</b>
	Liabilities at fair value through the profit and loss £'000	Other financial liabilities £'000	Total £'000
<b>Liabilities as per balance sheet</b>			
Borrowings	-	(2,134,897)	(2,134,897)
Derivative financial instruments	(176,270)	-	(176,270)
Trade and other payables (excluding statutory liabilities) and deferred income	-	-	-
<b>Total</b>	<b>(176,270)</b>	<b>(2,134,897)</b>	<b>(2,311,167)</b>
Group At 30 June 2008	Loans and receivables £'000	Assets at fair value through the profit and loss £'000	Total £'000
<b>Current assets as per balance sheet</b>			
Derivative financial instruments	-	3,501	3,501
Trade and other receivables (excluding pre-payments)	548,795	-	548,795
Cash and cash equivalents	6,667	-	6,667
<b>Total</b>	<b>555,462</b>	<b>3,501</b>	<b>558,963</b>
	Liabilities at fair value through the profit and loss £'000	Other financial liabilities £'000	Total £'000
<b>Liabilities as per balance sheet</b>			
Borrowings	-	(2,078,231)	(2,078,231)
Derivative financial instruments	(5,771)	-	(5,771)
Trade and other payables (excluding statutory liabilities) and deferred income	-	(13)	(13)
<b>Total</b>	<b>(5,771)</b>	<b>(2,078,248)</b>	<b>(2,084,015)</b>

Financial risk management policies for the Group and the Company are disclosed in note 17.

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**37 Ordinary Shares**

**Authorised shares**

	30 June 2009 £	30 June 2008 £
5,000,000 Ordinary Shares of £0.01 each	50,000	50,000

**Allotted, called up and fully paid**

	30 June 2009 £	30 June 2008 £
100 Ordinary Share of £0.01 each	1	1

The Company has one class of authorised and issued share capital, comprising ordinary shares of £0.01 each. Subject to the Company's Articles of Association and applicable law, the Company's ordinary shares confer on the holder: the right to receive notice of and vote at general meetings of the Company; the right to receive any surplus assets on a winding-up of the Company; and an entitlement to receive any dividend declared on ordinary shares.

**38 Retained earnings - deficit**

	30 June 2009 £'000	30 June 2008 £'000
Balance at the beginning of the year / period	(116,927)	-
Loss for the period	(230,088)	(116,927)
Balance at the end of the year / period	(347,015)	(116,927)

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**39 Related Party Disclosures**

The Company's parent and ultimate parent companies are disclosed in note 41.

Kelvin Connect Limited is an associate of the Group as disclosed in note 10.

Arqiva, National Grid Wireless and Thames Water are entities under the common control of the Group's joint ultimate parents.

All transactions with related parties are conducted under normal trading terms. No guarantees are given or received on the above transactions. No provisions have been made for the above amounts, nor are any of the above related party transactions recognised or considered as bad or doubtful debt.

The following transactions were carried out with related parties:

a) Purchases of goods and services

	30 June 2009 £'000	30 June 2008 £'000
Capital expenditure		
- Entities with joint control or significant influence	-	15,125

b) Loans and other receivables and payables

		30 June 2009 £'000	30 June 2008 £'000
<b>Intercompany Loans</b>			
- GDCLux	Opening balance	(172,525)	-
	Loans advanced during the year	-	(162,785)
	Loan repayments during the year	12,785	-
	Interest charged	(18,306)	(22,525)
	Interest paid	19,120	12,785
	Closing balance	(158,926)	(172,525)
- GDCHL	Opening balance	(347,064)	-
	Loans advanced during the year	-	(333,180)
	Loan repayments during the year	23,243	1,805
	Interest charged	(38,701)	(47,784)
	Interest paid	35,734	32,095
	Closing balance	(326,788)	(347,064)
- Airwave	Opening balance	509,149	-
	Loans advanced during the year	-	537,405
	Loan repayments during the year	(55,822)	(32,448)
	Interest charged	24,264	48,701
	Interest paid	(28,455)	(44,509)
	Closing balance	449,136	509,149

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**39 Related Party Disclosures (continued)**

		30 June 2009 £'000	30 June 2008 £'000
<b>Other Payables</b>			
- GDCHL	Opening Balance	13,737	-
	Consideration for tax losses	10,839	13,737
	Repayments	(19,353)	-
	Closing Balance	5,223	13,737
- Airwave	Opening Balance	25,125	-
	Consideration for tax losses	34,237	25,125
	Repayments	(24,002)	-
	Closing Balance	35,360	25,125
		30 June 2009 £'000	30 June 2008 £'000
<b>Interest Rate Swaps</b>			
- Entities with joint control or significant influence	Interest Rate Swap Settlements Received	23,190	6,024
	Interest Rate Swap Settlements Paid	(39,026)	-
	Unrealised Interest Rate Swap Liability	(88,135)	(1,135)

Related party transactions with Directors and key management are detailed in note 22.

None of the Directors were remunerated for their services to the Company for the 12 months ended 30 June 2009 (nor 16 months ending 30 June 2008). The emoluments of Messrs Beckley, Shore and McHutchison are paid by entities related to the Company's parent entities. No recharge is made to the Company. Accordingly, the above details include no emoluments in respect of these Directors.

Following the acquisition of Airwave GDCL's parent company, Guardian Digital Communications Holdings Limited ("GDCHL"), entered into an agreement to guarantee any financial claim made by the National Policing Improvement Agency, the Secretary of State for Health, the Scottish Ambulance Board or the Secretary of State for Communities and Local Government, to the extent that such a claim had not been satisfied by the Company within a prescribed period. In the event that the claim is not satisfied in full by GDCHL within a further prescribed period, MEIFIL, Macquarie MCG International Limited and MCG have agreed to indemnify the Customers in respect of any claim, subject to a cap on liability.

**40 Contingent Liabilities**

The Company has no contingent liabilities or guarantees on which material losses are expected.

The Company does not believe there are any pending legal proceedings which would have a material adverse effect on the financial position or results of operations of the Company.

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**41 Parent Company and Controlling Party**

The Company's ultimate parent company in the UK is Guardian Digital Communications Holdings Limited ("GDCHL"). The parent company of GDCHL is Guardian Digital Communications Luxembourg S.a.r.l. ("GDCLux"). As at 30 June 2009 GDCLux was owned 50.001% by the Macquarie European Infrastructure Fund II ("MEIFII"), an unlisted fund domiciled in Luxembourg, and 49.999% by the Macquarie Communications Infrastructure Group ("MCG"), a fund publicly listed in Australia. On 22 July 2009 all of the securities in MCG were acquired by the Canadian Pension Plan Investment Board ("CPPIB") following a public offer to its shareholders.

Guardian Digital Communications Luxembourg Sarl, is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 30 June 2009. The consolidated financial statements of Guardian Digital Communications Luxembourg Sarl are available at its registered office of 46, Place Guillaume II, L - 1648 Luxembourg.

**42 Events Occurring after Balance Sheet Date**

On 22 July 2009 all of the securities in MCG were acquired by the Canadian Pension Plan Investment Board ("CPPIB") following a public offer to its shareholders.

No other significant events have occurred after the balance sheet date.