VT Communications Limited

Directors' report and financial statements

Registered number 3196204

31 March 2010

VT Communications Limited
Directors' report and financial statements

Contents

The directors' report and the business review

The directors present their annual report and the audited financial statements for the year ended 31 March 2010

Principal activities

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

Review of the business

Key performance indicators:

	2010 **£000**	2009 £000
Turnover	**122,247**	120,297
Operating profit (before exceptional item)	**14,316**	19,160
Order book	**441,323**	476,627

Turnover has increased by £2m (1 6%) driven by additional volume from the Government Communications contract, offset by a reduction in Defence revenue from completion of several projects in 2009

Operating profit (before exceptional item) has decreased by £4 8m (25%) principally due to completion of MoD projects in 2009 (with no similar projects being awarded this year) and a reduction in the margin on the DHFCS contract due to completion of the capital enhancement phase of the project Adverse pressure on costs from increases in world fuel prices and the impact of increases in overseas costs due to the weakening of sterling have been partially mitigated by strong cost control across the business

The Broadcast business has reduced by 5%, the main impacts coming from reduced hours from Short Wave broadcast customers and increased pressure on performance on the BBC contract, offset by improved performance on the Digital Switchover Programme

The Security business revenue has increased by 14% Growth is mainly driven by increased business from the Government Communications contract

Revenue in the Defence business has reduced by 5% on the previous year The reduction is due to reduced revenue & margin on the DHFCS contract due to completion of the capital enhancement phase of the project and completion of other MoD projects in the prior year, offset by growth in the FSTA (Future Strategic Tanker Aircraft) programme, and the MFTS (Military Flight Training Service)

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

Charitable Contributions

During the year the company made charitable contributions of £2,165 *(2009 £12,272)*

The directors' report and the business review *(continued)*

Dividends

Dividends paid during the year comprise a final dividend of £nil per share (£nil in total) in respect of the year ended 31 March 2010 *(2009 £13,000,000)*

Events after the balance sheet date

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

The acquisition is expected to be completed in July 2010 with the VT Group plc shares being delisted from the London Stock Exchange and VT Group plc and its subsidiary undertakings becoming subsidiaries of Babcock Following the acquisition by Babcock, the change of control may have an impact on the basis of preparation applied to certain of the company's assets and liabilities however there is no consequential impact on the financial statements for the year ended 31 March 2010 The impact on the financial statements in the year ending 31 March 2011 and beyond, if any, has not yet been determined although the immediate effect of the change in control of the Group is discussed in the basis of preparation

Directors

The directors of the company during the year were as follows

D Umbers	(resigned 11 June 2009)
PJ Harrison	
SB Withey	(appointed 11 June 2009)

PJ Harrison is also a director of VT Group plc and his interests in the shares of that company and his rights to subscribe for shares of that company are shown in its directors' report

Creditor Payment Policy

It is the company's policy to make payment to its suppliers within their stated payment terms Where invoices for properly incurred expenses are correctly submitted the company remains successful in meeting this aim for the vast majority of transactions processed in the year The company takes 22 days on average to pay its trade creditors *(2009 39 days)*

Employment of disabled persons

Full and fair consideration is given to employment applications from disabled persons having regard to their particular aptitude and abilities If an appropriate vacancy is available then, where practicable, arrangements will be made to continue the employment of an employee who becomes disabled Disabled employees are given fair consideration for training, career development and promotion

Employment policies

The development of employee involvement in the company's business is kept under regular review and the directors are committed to encouraging greater involvement of all employees Formal and informal briefing of employees takes place as appropriate

The company takes all reasonable steps to ensure that all employment conditions are applied regardless of sex, race, colour, ethnic background, religion or disability

The directors' report and the business review *(continued)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

With reference to note 27, after the acquisition of the ultimate parent company by Babcock International PLC is completed, KPMG Audit Plc will resign as auditor of the company

By order of the Board

MP Jowett
Secretary

22 June 2010

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

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG Audit Plc

Independent auditors' report to the members of VT Communications Limited

We have audited the financial statements of VT Communications Limited for the year ended 31 March 2010 on pages 7 to 25 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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 (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with the UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

KPMG

KPMG Audit Plc

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

Matters on which we are required to report by exception

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

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

S McCallion

S McCallion (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

28 June 2010

8 Salisbury Square
London
EC4Y 8BB

Profit and loss account
for the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Turnover	2	**122,247**	120,297
Cost of sales		**(96,746)**	(93,393)
Gross profit		**25,501**	26,904
Distribution costs		**(286)**	(494)
Administrative expenses		**(10,899)**	(7,250)
Reorganisation provision	17	**949**	(2,284)
		(9,950)	(9,534)
Operating profit		**15,265**	16,876
Interest receivable and similar income	5	**616**	3,169
Interest payable and similar charges	6	**(444)**	(1,628)
Profit on ordinary activities before taxation	7	**15,437**	18,417
Tax on profit on ordinary activities	8	**(4,733)**	(6,220)
Profit for the financial year	20	**10,704**	12,197

All current and prior year amounts relate to continuing activities

There are no recognised gains or losses other than the profit *(2009 profit)* for the year reported above There is no difference between the profit *(2009· profit)* on ordinary activities before taxation and the profit *(2009 profit)* for the financial year stated above, and their historical cost equivalents

Balance sheet
at 31 March 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Intangible assets	10	**777**	896
Tangible assets	11	**17,044**	17,898
Investments	12	**260**	260
		18,081	19,054
Current assets			
Stocks	13	**10,280**	7,623
Debtors - due within one year	14	**68,704**	65,964
- due after more than one year	14	**-**	10,664
		68,704	76,628
Cash at bank and in hand		**12,430**	6,685
		91,414	90,936
Creditors amounts falling due within one year	15	**(58,781)**	(57,429)
Net current assets		**32,633**	33,507
Total assets less current liabilities		**50,714**	52,561
Creditors amounts falling due after more than one year	16	**(10,100)**	(20,742)
Provisions for liabilities and charges	17	**(853)**	(3,048)
Net assets		**39,761**	28,771
Capital and reserves			
Called up share capital	19	**1,000**	1,000
Share premium account	20	**9,204**	9,204
Capital reserve	20	**1,417**	1,131
Profit and loss account	20	**28,140**	17,436
Shareholders' funds	21	**39,761**	28,771

These financial statements were approved by the board of directors on 22 June 2010 and were signed on its behalf by

Philip Harris

PJ Harrison
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation
The financial statements have been prepared in accordance with UK generally accepted accounting principles using the historical cost convention The company is exempt by virtue of S400(1) of the Companies Act 2006 from the requirement to prepare group accounts These financial statements present information about the company as an individual undertaking and not about its group

Under FRS1 (1996 Revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking

In addition, advantage has been taken of the exemption available under FRS8 not to disclose details of transactions with VT Group plc or other group undertakings, as the consolidated financial statements of VT Group plc in which the company is included are publicly available

As explained in note 27 to the financial statements, the offer for the company's ultimate parent, VT Group plc, by Babcock International PLC ("Babcock") is expected to become unconditional on 8 July 2010 Accordingly, the company and the Group will be under the control of Babcock and, in particular, Babcock group's treasury arrangements At 31 March 2010 the Group headed by VT Group plc ('the Group') had net cash and significant committed facilities In the light of this and the company and the Group's financial projections, the directors consider that the company has adequate resources to continue in operational existence for the foreseeable future However, following completion of the acquisition of VT Group plc by Babcock. the committed facilities may be cancelled and the Group's cash will be managed as a component of the treasury arrangements for the enlarged Babcock group The directors of the company understand that Babcock has indicated to the directors of VT Group plc that it intends to provide financial support to VT Group plc and its subsidiaries at least for the period of twelve months from the date of completion of the transaction, to enable the Group to continue to trade and meet its liabilities as they fall due

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

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

Sale of goods

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

Rendering of services

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

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover *(continued)*

Construction contracts

Turnover from construction contracts, including long-term service provision contracts, is recognised by reference to the stage of completion of the contract The stage of completion is determined by the costs incurred on the contract to date or labour hours if appropriate, to the extent that such costs or labour hours represent progress made on the project A prudent level of profit attributable to the contract activity is recognised if the final outcome of such contracts can be reliably assessed An expected loss on a contract is recognised immediately in the income statement

Stock

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

Provision is made for obsolete and slow moving items.

Intangible fixed assets – goodwill

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

Tangible fixed assets and depreciation

The cost of tangible fixed assets comprises the purchase price and any directly attributable costs incurred in acquiring the assets Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

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

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

Investments

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

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Taxation

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

Leases

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

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

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

Pension costs

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

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

Share based payments

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

Notes *(continued)*

1 Accounting policies *(continued)*

Dividends on shares presented within shareholders' funds
Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

2 Analysis of turnover

	2010 £000	2009 £000
By geographical area		
United Kingdom	**109,994**	106,497
Rest of Europe	**7,674**	7,858
North America	**3,095**	3,775
Africa and Asia	**1,484**	2,167
	122,247	120,297

The company has one class of business being its principal activity

3 Remuneration of directors

	2010 £000	2009 £000
Directors emoluments	**46**	304
Compensation for loss of office	**286**	-
	332	304

Retirement benefits are accruing to the following number of directors under

	Number of directors 2010	2009
Defined benefit schemes	**1**	1

Only one director received remuneration from the company No other directors received remuneration as their services provided to the company are incidental to their wider role in the group *(2009 one director)*

Notes *(continued)*

4 Staff numbers and costs

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

	Number of employees	
	2010	2009
Management and administration	**149**	156
Operations	**500**	523
Sales and marketing	**7**	8
	656	687

The aggregate payroll costs of these persons were as follows

	2010	2009
	£000	£000
Wages and salaries	**22,884**	21,885
Share based payments	**286**	479
Social security costs	**1,571**	1,823
Other pension costs (see note 24)	**4,713**	3,728
	29,454	27,915

5 Interest receivable and similar income

	2010	2009
	£000	£000
Interest receivable from group undertakings	**616**	2,572
Bank interest receivable	**-**	597
	616	3,169

6 Interest payable and similar charges

	2010	2009
	£000	£000
Finance charges payable in respect of finance leases	**430**	1,628
Interest on amounts owed to group undertakings	**14**	-
	444	1,628

Notes *(continued)*

7 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

		2010 £000	2009 £000
Depreciation of tangible fixed assets	- owned	**1,981**	1,885
	- leased	**467**	467
Amortisation of goodwill		**119**	119
Exchange loss		**79**	641
Operating lease rentals	- plant and machinery	**237**	117
	- other	**633**	663
Reorganisation provision (see note 17)		**(949)**	2,284
Auditors' remuneration	- audit fees	**73**	76

No other fees are paid to the company auditors, KPMG Audit Plc and its associates, in respect of this company, other than the statutory audit of the company Fees for other services are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, VT Group plc

The directors have reassessed the group reorganisation for which a provision of £2,284,000 was created as at 31 March 2009 As a result the reorganisation provision has been reduced by £949,000 which has been credited to the profit and loss account for the year ended 31 March 2010

8 Taxation

	2010 £000	2009 £000
Current tax		
UK corporation tax on profits of the year	**3,800**	5,679
Overseas tax	**419**	186
Adjustments in respect of prior periods	**159**	643
Total current tax charge	**4,378**	6,508
Deferred tax		
Origination and reversal of timing differences	**291**	(279)
Adjustments in respect of prior years	**64**	(9)
Total deferred tax charge/(credit)	**355**	(288)
Tax on profit on ordinary activities	**4,733**	6,220

Notes *(continued)*

8 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the year is higher *(2009 higher)* than the standard rate of corporation tax in the UK of 28% *(2009 28%)* The differences are explained below

	2010 £000	2009 £000
Profit on ordinary activities before tax	**15,437**	18,417
Profit on ordinary activities multiplied by standard rate in UK of 28% *(2009 28%)*	**4,322**	5,157
Effects of.		
Expenses not deductible for tax purposes	**38**	21
Difference between capital allowances and depreciation	**45**	(72)
Other timing differences	**(219)**	726
Goodwill amortisation	**33**	33
Adjustment to tax charge in respect of previous period	**159**	643
Current tax charge	**4,378**	6,508

Factors affecting future tax charge

Based on current capital investments, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years but at a lower level than in the current year

9 Dividends

	2010 £000	2009 £000
Ordinary shares		
Dividend paid of £nil *(2009 £13 00)* per share	-	13,000

10 Intangible fixed assets

	Goodwill £000
Cost	
At beginning and end of year	2,314
Amortisation	
At beginning of year	1,418
Charge for year	119
At end of year	1,537
Net book value	
At 31 March 2010	**777**
At 31 March 2009	896

Notes *(continued)*

11 Tangible fixed assets

	Short leasehold land and buildings £000	Freehold land and buildings £000	Assets in course of construction £000	Vehicles, plant and equipment £000	Office equipment £000	Total £000
Cost						
At beginning of year	679	6,332	628	21,767	4,184	33,590
Additions	-	-	1,594	-	-	1,594
Transfers	-	-	(1,764)	1,764	-	-
At end of year	679	6,332	458	23,531	4,184	35,184
Depreciation						
At beginning of year	89	1,082	-	10,661	3,860	15,692
Charge for year	-	323	-	1,812	313	2,448
At end of year	89	1,405	-	12,473	4,173	18,140
Net book value						
At 31 March 2010	**590**	**4,927**	**458**	**11,058**	**11**	**17,044**
At 31 March 2009	590	5,250	628	11,106	324	17,898

Included under freehold land and buildings is land of £2,950,000 *(2009 £2,950,000)* which is not depreciated

The net book value of tangible fixed assets includes an amount of £1,748,000 *(2009 £2,215,000)* in respect of assets held under finance leases and hire purchase contracts The related depreciation charge on these assets for the year was £467,000 *(2009 £467,000)*

12 Investments

	Shares in group undertakings £000
Cost or valuation	
At beginning and end of year	**260**

The company has the following interests in subsidiary undertakings

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

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

Notes *(continued)*

13 Stocks

	2010 £000	2009 £000
Raw materials and consumables	**5,840**	4,636
Work in progress	**4,440**	2,987
	10,280	7,623

14 Debtors

	2010 £000	2009 £000
Amounts falling due within one year		
Trade debtors	**12,708**	8,880
Amounts owed by group undertakings	**38,712**	38,228
Prepayments and accrued income	**17,284**	18,703
Deferred taxation (note 18)	**-**	153
	68,704	65,964
Amounts falling due after more than one year		
Amounts owed by group undertakings	**-**	10,664
	-	10,664
	68,704	76,628

15 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Obligations under finance leases	**10,642**	10,174
Trade creditors	**5,615**	9,361
Amounts owed to group undertakings	**10,721**	10,273
Taxation and social security	**1,001**	374
Other creditors	**3,190**	4,134
Accruals and deferred income	**27,612**	23,113
	58,781	57,429

Notes *(continued)*

16 Creditors: amounts falling due after more than one year

	2010 £000	2009 £000
Obligations under finance leases	-	10,642
Amounts owed to parent and group undertakings	10,100	10,100
	10,100	20,742

The amount shown of £10,100,000 (*2009 £10,100,000*) is interest free and the parent company has indicated that repayment of this amount will not be made within 12 months from the approval of these accounts

Finance leases

Amounts due under finance leases are repayable as follows

	2010 £000	2009 £000
In one year or less	11,131	11,131
In more than one year but not more than two years	-	11,131
In more than two years but not more than five years	-	-
	11,131	22,262
Less finance charges allocated in future periods	(489)	(1,446)
	10,642	20,816

Notes *(continued)*

17 Provisions for liabilities and charges

	Reorganisation Provisions £000	Dilapidation Provisions £000	Contract provisions £000	Deferred Tax £000	Total £000
At beginning of year	2,284	200	564	-	3,048
Created during year	-	-	-	202	202
Released during the year	(949)	(109)	-	-	(1,058)
Utilised during the year	(1,094)	(91)	(154)	-	(1,339)
At end of year	**241**	**-**	**410**	**202**	**853**

Reorganisation provisions
Provisions are made to cover costs to be incurred in respect of committed programmes and other liabilities arising from such reorganisations Such liabilities are generally incurred within one year of the balance sheet date, however, certain employee termination costs may lead to commitments for payments to be made after more than one year from the balance sheet date The directors have reassessed the group reorganisation for which a provision of £2,284,000 was created as at 31 March 2009 As a result the reorganisation provision has been reduced by £949,000 which has been credited to the profit and loss account for the year ended 31 March 2010

Dilapidations provisions
Dilapidations provision is in relation to the move from head office in March 2008, and was based on an assessment of future costs Agreement was reached in the year and the necessary provision was utilised and the remainder released

Contract provisions
Contract provisions are based on the assessment of future costs and are assessed with reference to past experience

18 Deferred tax

Deferred tax movements are

	Deferred taxation £000
Asset at beginning of year	153
Charge during the year	(355)
Liability at end of year	**(202)**

The deferred tax asset / (liability) is analysed as follows

	2010 £000	2009 £000
Accelerated capital allowances	**(1,153)**	(1,133)
Other timing differences	**951**	1,286
Deferred tax (liability)/asset	**(202)**	153

Notes *(continued)*

19 Called up share capital

	2010	2009
	£000	£000
Allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	**1,000**	1,000

20 Reserves

	Share premium account £000	**Capital reserve £000**	**Profit and loss account £000**	**Total £000**
At beginning of period	9,204	1,131	17,436	27,771
Profit for the year	-	-	10,704	10,704
Capital contribution relating to share based payments	-	286	-	286
At end of period	**9,204**	**1,417**	**28,140**	**38,761**

Capital reserve arises on contributions to share based payment schemes

Share based payments

Employees of the company participate in the following share plans operated by the parent company

Share option plans
The group operates 2 share option plans under which directors and other executives are eligible to participate at the discretion of the remuneration committee Options are granted at market value, determined immediately before the grant

Share options vest in equal tranches on the 3rd, 4th and 5th anniversaries of the date of the grant subject to achievement of a performance condition The performance condition currently applying is real growth in earnings per share of at least 2% per annum over 3 consecutive years These share options have a maximum life of 10 years On change of control (see note 27), all outstanding awards are expected to vest in full

Notes *(continued)*

20 Reserves *(continued)*

Share based payments (continued)

Share incentive plan (SIP)
The group operates a SIP open to all employees Under this plan employees are granted share options subject to the group meeting certain financial profit targets Options are granted at the market value on date of the award and vest unconditionally if the employee remains in service for a period of 3 years from the date of the award Shares may vest at earlier dates only in certain circumstances, such as early retirement or redundancy The contractual life of the options is 5 years and there are no cash settlement alternatives The awards do not carry any dividend rights On change of control on 8 July 2010, all outstanding awards vested in full

Employee Share Option Savings Plans (ESOP)
The group operates ESOPs for all eligible employees, whereby employees can save towards the exercise price payable for an award of share options The exercise price of these options is set at 90% of the market value of the share price at the date of grant Under awards granted by the group, the savings period is ether 3 or 5 years At the end of the savings period, the options vest and the option holders have a 6 month window in which to exercise their options On change of control on 8 July 2010, all outstanding awards vested in full

Performance Share Plan (PSP)
Under this scheme certain employees are granted nil cost options which vest after a 3 year performance period, subject to the satisfaction of performance conditions and continued employment Awards are subject to 2 performance conditions being either the group's earnings per share growth or the relative Total Shareholder Return (TSR) On change of control (see note 27), outstanding awards are expected to vest in accordance with the scheme rules on a time apportioned basis

Long Term Incentive Plans (LTIP)
Under this scheme executive directors and certain senior executives were awarded shares equal in value up to 50% of basic salary Awards are subject to performance criteria The Total Shareholder Return (TSR) performance of the group is compared to members of the FTSE 250 (excluding investment trusts) Shares are granted at the discretion of the Remuneration Committee Shares vest if the group's performance equals the upper quartile of the comparator group, but there is no vesting if performance is below the median There are no new awards under this scheme

Deferred annual bonus scheme (DABS)
The group operates a DABS for senior executives Under the provisions of the scheme members are required to defer 40% of their annual bonus which is used to acquire shares to that value In addition, employees have the option to defer a further portion of annual bonus to acquire additional shares, up to a maximum of 35% of annual bonus On change of control (see note 27), outstanding awards are expected to vest in accordance with the scheme rules on a time apportioned basis

Notes *(continued)*

20 Reserves *(continued)*

Share based payments *(continued)*

The deferred shares are held in trust for a period of 3 years At the end of the 3 year period employees will receive these shares together with a matching element from the company The quantum of the matching element is dependant upon earnings per share growth targets The maximum matching element obtainable is 3 times the deferred shares originally held for an employee On change of control on 8 July 2010, outstanding awards vested in accordance with the scheme rules on a time apportioned basis

The number and weighted average exercise price of share options are as follows

	2010 Number of Options	**2010** Weighted average exercise price (p)	2009 Number of options	2009 Weighted average exercise price (p)
Outstanding at beginning of year	**504,654**	**321**	534,217	325
Granted during the year	**259,628**	**409**	87,203	-
Transfers to group undertakings	**(3,161)**	**66**	(17,899)	592
Exercised during the year	**(177,007)**	**360**	(95,115)	261
Forfeited during the year	**(85,326)**	**21**	(3,462)	155
Lapsed during the year	**(5,897)**	**364**	(290)	261
Outstanding at end of year	**492,891**	**313**	504,654	321

The weighted average share price at the date of exercise of share options exercised during the year was 577p *(2009· 518p)*

The options outstanding at the year end have an exercise price in the range of zero p to 489p and a weighted average contractual life of 2 7 years *(2009 2 7 years)*

Share option valuation assumptions

The fair value of options granted were measured using the Black-Scholes method for the share option plans and ESOP, the Monte-Carlo method for the grants under the LTIP and PSP scheme, and a simplified Black-Scholes method for the matching shares granted within the LTIP The weighted average assumptions used in determining fair value of options granted were as follows

	PSP 2010	PSP 2009
Expected volatility	**29.3%**	24 0%
Risk-free interest rate	**2.0%**	4 6%
Expected life	**3 years**	3 years

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur

Notes *(continued)*

20 Reserves *(continued)*

Share based payments *(continued)*

The LTIP and PSP include a market vesting condition linked to the TSR of a comparator group which requires the volatility of comparator companies' share prices and the average correlation between the share prices of the company and the comparator companies to be considered in assessing the fair value of options granted The following approach has been adopted for these items

Comparator company volatility – annualised, daily historic volatility assessed over a period prior to the date of grant that corresponds to the period over which the TSR is being projected,

Company correlation – Taken as the average correlation of TSR between all of the companies over the same historic period

Compensation expense

	2010 £000	2009 £000
Equity settled share based payments	**286**	479

21 Reconciliation of movements in shareholders' funds

	2010 £000	2009 £000
Profit on ordinary activities after taxation	**10,704**	12,197
Dividends	**-**	(13,000)
	10,704	(803)
Capital contribution relating to share based payments	**286**	479
Net increase /(decrease) in shareholders' funds	**10,990**	(324)
Opening shareholders' funds	**28,771**	29,095
Closing shareholders' funds	**39,761**	28,771

22 Capital commitments

	2010 £000	2009 £000
Contracted but not provided	**283**	720

Notes *(continued)*

23 Financial commitments

Annual commitments under non-cancellable operating leases are as follows

	2010		2009	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	**36**	**5**	-	7
Within two to five years	**561**	**86**	668	101
	597	**91**	668	108

The company has bank guarantees issued as at 31 March 2010 of £361,914 *(2009 £283,076)* In the opinion of the directors no further provision is required in respect of these obligations

The company is a guarantor to the group's revolving credit facility At the year-end an amount of £64,900,000 *(2009 £129,900,000)* was outstanding under this facility

24 Pension arrangements

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

The latest full actuarial valuation was carried out at 31 March 2007 and was updated for accounting purposes to 2010 by a qualified independent actuary The pension charge for the year was £4,249,065 *(2009 £3,341,691)* At 31 March 2010 there were outstanding contributions payable to the funds of £153,248 *(2009 £180,408)*

The net pension liability on the group wide pension scheme at 31 March 2010 was £64,765,000 *(2009 £50,048,000)* This represents the liability to VT Group plc as a whole and does not represent a liability to the company

The company also operated several defined contribution pension schemes The pension charge for the year includes contributions payable by the company to these funds amounting to £464,411 *(2009. £386,483)* At 31 March 2010 there were outstanding contributions payable to the funds of £37,011 *(2009 £33,418)*

25 Related party transactions

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

During the year the company invoiced Alert Communications Limited £3,163,073 *(2009 £3,179,983)* in connection with the project management, operation and maintenance fees The outstanding balance at the year end was £520,558 *(2009 £777,516)*

Notes *(continued)*

26 Ultimate parent company

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

The ultimate parent undertaking of the company is VT Group plc, a company incorporated in Great Britain and registered in England and Wales

The largest group in which the results of the company are reported is that headed by VT Group plc The consolidated financial statements are available to the public at that company's registered office of VT House, Grange Drive, Hedge End, Southampton, SO30 2DQ No other financial statements include the results of the company.

27 Events after the balance sheet date

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

The acquisition is expected to be completed in July 2010 with the VT Group plc shares being delisted from the London Stock Exchange and VT Group plc and its subsidiary undertakings becoming subsidiaries of Babcock Following the acquisition by Babcock, the change of control may have an impact on the basis of preparation applied to certain of the company's assets and liabilities however there is no consequential impact on the financial statements for the year ended 31 March 2010 The impact on the financial statements in the year ending 31 March 2011 and beyond, if any, has not yet been determined although the immediate effect of the change in control of the Group is discussed in the basis of preparation