# Babcock International Limited

## Directors' report and financial statements

## For the year ended 31 March 2012

**Company registration number:**
**00065805**

**Directors**

P L Rogers
W Tame
F Martinelli

**Company Secretary**

| | |
|---|---|
| N Borrett | (Appointed 27 July 2012) |
| V Teller | (Resigned 27 July 2012) |

**Registered office**

33 Wigmore Street
London
W1U 1QX

**Independent Auditors**

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

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

## Principal activities

The principal activity of the company is to hold the Babcock name, which is licensed out to Babcock Integration LLP which in turn sub licences out to Babcock group companies as appropriate It also provides finance to other group companies and incurs certain costs as agent for Babcock Holdings Limited, which are recharged to Babcock Holdings Limited There are no plans to alter significantly the business of the company

## Results and dividends

The loss on ordinary activities after taxation for the financial year is £1,638,000 (2011 profit £1,613,000) The company paid a dividend of £33,000,000 (£0 33 per share) on ordinary shares during the year (2011 £nil) The retained loss for the year of £1,638,000 (2011 profit £1,613,000) will be deducted from reserves

## Key performance indicators (KPIs)

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

## Principal risks and uncertainties

The management of the business is subject to a number of risks Procedures are in place across the Group to identify, assess and mitigate major business risk The management of risk is an integral part of our operational review process and is supplemented at Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee Further details can be found in the Babcock International Group PLC Financial Statements pages 40-43

## Financial risk management

All treasury transactions are carried out only with prime rated counter-parties Financial risk is managed in accordance with Group policies and procedures For further information refer to Note 2 of the Babcock International Group PLC financial statements

## Directors of the company

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

P L Rogers
W Tame
F Martinelli

## Qualifying third party indemnity provisions

Under their respective Articles of Association, the directors of the Company are, and were during the year to 31 March 2012, entitled to be indemnified by the Company against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006

## Charitable and political donations

In the year ended 31 March 2012 the company made charitable donations of £nil (2011 £nil) There were no political contributions during the financial year (2011 £nil)

## Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing 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 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

## Auditors and the disclosure of information

So far as the directors are aware, there is no relevant audit information, being information required by the auditors in connection with the preparation of the auditors' report, of which the auditors are unaware Having made enquiries of fellow directors, each director has taken all steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information

## Reappointment of independent auditors

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

By order of the Board 19 December 2012

F Martinelli
Director

## Independent auditors' report to the members of Babcock International Limited

We have audited the financial statements of Babcock International Limited for the year ended 31 March 2012 which comprise the Profit and loss account, the Balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

### Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### Opinion on other matter prescribed by the Companies Act 2006

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

## Independent auditors' report to the members of Babcock International 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

James Parker (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

19 December 2012

| | Notes | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| Premium on grant of intellectual property licence | | - | 2,343 |
| Administrative expenses | | (309) | (639) |
| Operating (loss)/profit | | (309) | 1,704 |
| Interest payable and similar charges | 2 | (1,719) | (1,698) |
| Interest receivable and similar income | 2 | 351 | 1,631 |
| (Loss)/profit on ordinary activities before taxation | 3 | (1,677) | 1,637 |
| Tax on (loss)/profit on ordinary activities | 5 | 39 | (24) |
| (Loss)/profit for the financial year | 13 | (1,638) | 1,613 |

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

There were no other recognised gains or losses aside from those shown in the Profit and loss account and therefore no separate statement of total recognised gains and losses has been presented

All results derive from continuing operations

The accompanying notes form an integral part of these financial statements

## Balance sheet as at 31 March 2012

| | Notes | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 6 | **2,229** | 1,948 |
| Shares in group undertakings | 7 | **20,838** | 20,838 |
| | | **23,067** | 22,786 |
| **Current assets** | | | |
| Debtors | 8 | **259,880** | 216,991 |
| Cash at bank and in hand | | **928** | 109 |
| | | **260,808** | 217,100 |
| **Creditors** – amounts falling due within one year | 9 | **(238,982)** | (160,355) |
| **Net current assets** | | **21,826** | 56,745 |
| **Total assets less current liabilities** | | **44,893** | 79,531 |
| **Creditors** – amounts falling due after more than one year | 10 | **(26,439)** | (26,439) |
| **Net assets** | | **18,454** | 53,092 |
| **Capital and reserves** | | | |
| Called-up share capital | 12 | **10,500** | 10,500 |
| Share premium account | 13 | **4,633** | 4,633 |
| Profit and loss account | 13 | **3,321** | 37,959 |
| **Total shareholders' funds** | 13 | **18,454** | 53,092 |

The financial statements on pages 6-15 were approved by the board of directors and signed on its behalf by

F Martinelli
Director
19 December 2012

## 1. Accounting policies

The principal accounting policies are summarised below They have all been applied consistently throughout the year

*Basis of preparation*

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom

*Tangible fixed assets and depreciation*

Tangible fixed assets are stated at historic cost less accumulated depreciation and any provision for impairment in value Cost includes the original purchase price of the asset and the costs attributable to bring the asset to its working condition for its intended use

Depreciation is provided on a straight line basis to write off the cost of all tangible fixed assets over their estimated useful lives or contract period if shorter, to their estimated residual value The estimated useful lives of the assets are reassessed periodically

Short term leasehold property is depreciated over the term of the lease ending in December 2019

| | |
|---|---|
| Fixtures and fittings | 10% to 33 3% |

*Investments in subsidiary undertakings*

Investments in subsidiary undertakings are stated at cost less provision for impairment Any impairment is recognised in the profit and loss account in the period it arises

*Taxation*

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

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

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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

## 1. Accounting policies (continued)

*Intellectual Property Licence Premiums*

Where a licence is granted to group companies any premium received is released to the profit and loss account evenly over the period of the licence

Included in deferred income are premiums received in respect of Intellectual Property Rights The premiums received on the Intellectual Property Rights Licenses granted by the company are being released to the profit and loss account in line with this policy

*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

*Group financial statements*

The Company has taken advantage of Section 400 of the Companies Act 2006 and has not prepared group financial statements as it is a wholly owned subsidiary undertaking of Babcock International Group PLC, which prepares consolidated financial statements that are publicly available

*Cash flow statement*

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

*Agency agreement effective 1 April 2003*

The company acts as an agent for Babcock Holdings Limited in the management and stewardship of its investments Where it acts as an agent the employee and administration costs are not reflected within these financial statements but are shown in the financial statements of Babcock Holdings Limited

## 2. Interest receivable/(payable) and similar income/(charges)

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Interest payable and similar charges | | |
| Bank interest | **(11)** | - |
| Loan interest payable to group undertakings | **(1,708)** | (1,698) |
| | **(1,719)** | (1,698) |
| Interest receivable and similar income | | |
| Bank interest | **-** | 1,438 |
| Loan interest receivable from group undertaking | **351** | 193 |
| | **351** | 1,631 |
| Net interest and similar charges | **(1,368)** | (67) |

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

(Loss) / profit on ordinary activities before taxation is stated after charging

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Depreciation – owned fixed assets (note 6) | **437** | 496 |

Costs are incurred in carrying out services for Babcock Holdings Limited as an agent These costs are reimbursed by Babcock Holdings Limited and are not borne in these financial statements Auditors' remuneration in respect of audit services is borne by Babcock International Group PLC in the current and prior year

## 4. Staff costs and directors' remuneration

All directors and staff costs in the current year and prior year have been reimbursed by Babcock Holdings Limited and are disclosed in those financial statements

## 5. Tax on (loss)/profit on ordinary activities

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Current tax | | |
| UK Corporation tax on (loss)/profit for the year | - | - |
| Adjustment in respect of prior years | - | - |
| Group relief for consideration | - | - |
| Current tax charge for the year | - | - |
| Deferred tax | | |
| Origination and reversal of timing differences | 3 | (28) |
| Adjustment in respect of prior years | (50) | 48 |
| ACT irrecoverable written off | - | - |
| Impact of change in UK tax rate | 8 | 4 |
| Tax (credit)/charge | (39) | 24 |

The tax assessed for the year is higher (2011 lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2012 of 26% (2011 28%) The differences are explained below

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| (Loss)/profit on ordinary activities before tax | (1,677) | 1,637 |
| Tax on profit on ordinary activities at standard UK corporation tax rate of 26% (2011 28%) | (436) | 458 |
| Effects of | | |
| Timing differences | (3) | 28 |
| Expenses not deductible for tax purposes | 33 | (622) |
| Adjustments in respect of prior years | - | - |
| Group relief for nil consideration | 406 | 136 |
| Non-taxable gains | - | - |
| Current tax charged for the year | - | - |

*Factors affecting current and future tax charges*

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

## 6. Tangible fixed assets

| | Short leasehold land and buildings £'000 | Furniture, fittings and equipment £'000 | **Total £'000** |
|---|---|---|---|
| Cost | | | |
| At 1 April 2011 | 1,675 | 2,333 | **4,008** |
| Additions | 24 | 694 | **718** |
| **At 31 March 2012** | **1,699** | **3,027** | **4,726** |
| **Accumulated depreciation** | | | |
| At 1 April 2011 | 247 | 1,813 | **2,060** |
| Charge for the year | 126 | 311 | **437** |
| **At 31 March 2012** | **373** | **2,124** | **2,497** |
| **Net book value** | | | |
| **At 31 March 2012** | **1,326** | **903** | **2,229** |
| At 31 March 2011 | 1,428 | 520 | **1,948** |

The company had no capital commitments as at 31 March 2012 (2011 £nil)

## 7. Fixed assets investments

| | Total £'000 |
|---|---|
| **Cost** | |
| At 1 April 2011 | 21,454 |
| Additions | - |
| At 31 March 2012 | 21,454 |
| **Provision for impairment** | |
| At 1 April 2011 | (616) |
| Additions | - |
| At 31 March 2012 | **(616)** |
| **Net book value** | |
| **At 31 March 2012** | **20,838** |
| At 31 March 2011 | 20,838 |

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

## 7. Fixed assets investments (continued)

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

| Company | Country of Registration | Principal Activities |
|---|---|---|
| Babcock Nominees Limited | United Kingdom | Not trading |
| The Stirling Boiler Company | United Kingdom | Not trading |
| Hiberna Contract Services Limited | United Kingdom | Not trading |

On 15 September 2010, the use of the Babcock name was sublicensed to Babcock Integration LLP in exchange for an interest in that partnership This was in order to facilitate the integration of the Babcock and VT groups The Babcock name was not capitalised in the financial statements of the company in accordance with FRS10 "Goodwill and Intangible Assets"

The partnership interest has been recognised at a cost of £nil given that the use of the Babcock name was not recognised in the financial statements of the company prior to the sublicense to the LLP

## 8. Debtors

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Trade debtors | **-** | - |
| Retirement liabilities | **-** | - |
| Amounts owed by group undertakings | **258,099** | 215,983 |
| Other debtors | **699** | 115 |
| UK corporation tax recoverable | **-** | - |
| VAT | **66** | 141 |
| Deferred tax (note 11) | **93** | 54 |
| Prepayments and accrued income | **923** | 698 |
| | **259,880** | 216,991 |

Included in amounts owed by group undertakings is £10,305,000 (2011 £10,305,000) due after more than one year, of which £10,000,000 (2011 £10,000,000) bears an interest rate of UK LIBOR plus 100 basis points The balance is interest free loans to group subsidiary undertakings The remaining £247,794,000 (2011 £205,678,000) is interest free and repayable on demand

## 9. Creditors – amounts falling due within one year

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Bank overdrafts | **34,425** | 12,604 |
| Trade creditors | **1,001** | 1,206 |
| Amounts owed to group undertakings | **190,763** | 137,549 |
| Other creditors | **-** | - |
| Other taxes and social security | **273** | - |
| UK corporation tax payable | **-** | - |
| VAT | **-** | - |
| Accruals and deferred income | **12,520** | 8,996 |
| | **238,982** | 160,355 |

Included in amounts owed to group undertakings are loans of £82,453,000 (2011 £82,453,000) bearing interest at UK LIBOR plus 100 basis points A loan of £1,252,000 (US $2,000,000) (2011 £1,247,000) bearing interest at US LIBOR plus 100 basis points The remaining £107,058,000 (2011 £53,849,000) is interest free

## 10. Creditors - amounts falling due after more than one year

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Amounts owed to group undertakings | **26,439** | 26,439 |

These debts are repayable between two and five years £7,970,000 (2011 £7,970,000) is non-interest bearing The debt of £18,469,000 (2011 £18,469,000) bears an interest rate of UK LIBOR plus 100 basis points

## 11. Deferred taxation

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

| | 2012 Provided £'000 | 2011 Provided £'000 | 2012 Full potential £'000 | 2011 Full potential £'000 |
|---|---|---|---|---|
| Accelerated capital allowances | **(93)** | (54) | **(93)** | (54) |
| Tax losses (revenue) | **-** | - | **-** | (260) |
| Capital losses | **-** | - | **(457)** | (495) |
| | **(93)** | (54) | **(550)** | (809) |

The movement on the deferred tax asset is as follows

| | Total £'000 |
|---|---|
| At 31 March 2011 | **(54)** |
| Current year movement | **3** |
| Acquired intangibles | **-** |
| Adjustment in respect of prior years | **(50)** |
| Impact of change in UK tax rate | **8** |
| **At 31 March 2012** | **(93)** |

## 12. Called up share capital

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 100,000,000 (2011 100,000,000) ordinary shares of £0 10 each | **10,000** | 10,000 |
| 5,000,000 (2011 5,000,000) preference shares of £0 10 each | **500** | 500 |

## 13. Reconciliation of movement in shareholders funds and reserves

| | Called up share capital £'000 | Share premium account £'000 | Capital Reserve £'000 | Profit and loss account £'000 | **Total £'000** |
|---|---|---|---|---|---|
| At 1 April 2011 | 10,500 | 4,633 | - | 37,959 | **53,092** |
| Loss for the year | - | - | - | (1,638) | **(1,638)** |
| Dividends paid | - | - | - | (33,000) | **(33,000)** |
| **At 31 March 2012** | **10,500** | **4,633** | **-** | **3,321** | **18,454** |

## 14. Guarantees and financial commitments

*Contingent liabilities*

The Company at the year end had guaranteed or had joint and several liabilities for drawn Babcock International Group PLC bank facilities of £nil (2011 £nil) provided to certain group companies

## 15. Related party disclosures

The Company, as a wholly owned subsidiary, has taken advantage of the exemption, granted under Financial Reporting Standard 8, Related Party Disclosures, from disclosing details of sales and purchases with other members of the group headed up by Babcock International Group PLC

## 17. Ultimate parent undertaking

The Company's immediate parent company is Birchill Investment Co Limited, a company registered in England and Wales The Company's ultimate parent company and ultimate controlling party is Babcock International Group PLC, a company registered in England and Wales The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC

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

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