Babcock Vehicle Engineering Limited (formerly S.MacNeillie & Son Limited)

Annual report

For the year ended 31 March 2018

Company registration number:

00434529

Directors and advisors

Current directors
S West
R Taylor
S White
I S Urquhart

Company secretary
Babcock Corporate Secretaries Limited

Registered office
33 Wigmore Street
London
W1U 1QX

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Donington Court
Pegasus Business Park
Herald Way
East Midlands
DE74 2UZ

Strategic report for the year ended 31 March 2018

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

Principal activities

The Company provides specialist vehicle conversion services in the Emergency Services and Defence sectors.

On 3 May 2017 the company changed its name from S.MacNeillie & Son Limited to Babcock Vehicle Engineering Limited

Key performance indicators and business review

	2018 £000	2017 £000
Revenue	**37,700**	31,574
Profit before interest and taxation	**2,156**	2,697

The Company's major customer bases, being the differing government agencies, performed in line with expectations.

Revenue increases in the year are derived from increased demand from customers and production improvements increasing production output.

Management continues to use all relevant financial information in operating the Company's core contracts, in reviewing its production and in controlling its cost base. Individual contracts have key performance indicators (KPIs) integrated into their terms and conditions.

In the last year the company has continued to maintain the high levels of quality and service to its existing and new customers and deliver a consistently high service to the customer throughout the year. The company's key customers continue to express a high level of satisfaction with this performance.

Principal risks and uncertainties

The principal risk of the company is external market factors. The company is dependent upon external party's vehicle replacement cycles and funding availability of different government agencies. The Company monitors projected replacement programmes and continually reviews its pipeline of opportunities to ensure it is appropriately resourced and has the appropriate level of infrastructure.

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

Future developments

The Company continues to pursue and develop opportunities within the sectors in which it operates and is confident that revenue growth will be seen over the course of the coming one to two years.

On behalf of the board

S West

Director

14 December 2018

Directors' report for the year ended 31 March 2018

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

Results and dividends

The company's results for the year are set out in the income statement on page 11 showing a profit for the financial year of £2,070,000 (2017: £2,686,000). At 31 March 2018 the company had net assets of £9,033,000 (2017: £22,134,000).

A total dividend of £15,171,000 (2017: £8,859,000) has been paid in the current year and no final dividend for the year ended 31 March 2018 has been provided by the directors (2017: £nil).

Future developments

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

Financial risk management

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

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments. The department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

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

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

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

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

Directors

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

I S Urquhart	
R Taylor	
S White	
J Parker	Resigned 30 April 2018
S West	Appointed 30 April 2018
J Davies	Resigned 19 May 2017

Employment of disabled persons

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

Employee involvement

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

Safety policy

The Company recognises the promotion of health and safety at work as an important objective. It is Company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the Company.

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

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate.

The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The directors are 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.

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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

Qualifying third party indemnity provisions

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

On behalf of the board

S West

Director

14 December 2018

Independent auditors' report to the members of Babcock Vehicle Engineering Limited (formerly S.MacNeillie & Son Limited)

Report on the audit of the financial statements

Opinion

In our opinion, Babcock Vehicle Engineering Limited (formerly S.MacNeillie & Son Limited)'s financial statements:

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

Independent auditors' report to the members of Babcock Vehicle Engineering Limited (formerly S.MacNeillie & Son Limited) (continued)

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Independent auditors' report to the members of Babcock Vehicle Engineering Limited (formerly S.MacNeillie & Son Limited) (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Alan Walsh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
17 December 2018

Income statement
for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Revenue	4	**37,700**	31,574
Cost of sales		**(35,179)**	(28,584)
Gross profit		**2,521**	2,990
Administrative expenses		**(365)**	(293)
Operating profit	5	**2,156**	2,697
Profit before interest and income tax		**2,156**	2,697
Finance expense	6	**(72)**	(7)
Profit before income tax		**2,084**	2,690
Income tax expense	9	**(14)**	(4)
Profit for the financial year		**2,070**	2,686

All of the above results derive from continuing operations.

Statement of comprehensive Income
for the year ended 31 March 2018

	2018 £000	2017 £000
Profit for the financial year	**2,070**	2,686
Other comprehensive income:		
Items that may be subsequently reclassified to income statement:		
Fair value adjustment of interest rate and foreign exchange hedges	-	-
Tax on fair value adjustment of interest rate and foreign exchange hedges	-	-
Items that will not be subsequently reclassified to income statement:		
Result on remeasurement of net defined obligation	-	-
Tax on net defined benefit obligation	-	-
Total comprehensive income for the financial year	**2,070**	2,686

Statement of financial position
as at 31 March 2018

	Note	2018 £000	2017 £000
Non-current assets			
Tangible assets	10	**2,692**	2,830
		2,692	2,830
Current assets			
Inventories	11	**5,093**	5,589
Trade and other receivables	12	**8,603**	18,901
Cash and cash equivalents		**3,963**	4,033
		17,659	28,523
Trade and other payables – amounts falling due within one year	13	**(11,318)**	(9,219)
Net current assets		**6,341**	19,304
Net assets		**9,033**	22,134
Equity			
Called up share capital	14	**-**	-
Retained earnings		**9,033**	22,134
Total shareholders' funds		**9,033**	22,134

The notes on pages 14 to 29 are an integral part of these financial statements.

The financial statements on pages 11 to 29 were approved by the board of directors and signed on its behalf by:

S West
Director
14 December 2018

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

	Note	Called up share capital £000	Retained Earnings £000	Total Shareholders' Funds £000
Balance at 1 April 2016		-	28,307	28,307
Profit for the financial year		-	2,686	2,686
Other comprehensive income / (loss)		-	-	-
Dividends paid	15	-	(8,859)	(8,859)
Balance at 31 March 2017 and at 1 April 2017		--	**22,134**	**22,134**
Profit for the financial year		-	**2,070**	**2,070**
Other comprehensive income		-	-	-
Dividends paid	15	-	**(15,171)**	**(15,171)**
Balance at 31 March 2018		-	**9,033**	**9,033**

Notes to the financial statements

1 General information

Babcock Vehicle Engineering Limited (formerly S.MacNeillie & Son Limited) is a private company which is incorporated and domiciled in the UK. The address of the registered Office is 33 Wigmore Street, London, W1U 1QX.

2 Summary of significant accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention in accordance with the Companies Act 2006. The financial statements are prepared in pounds sterling which is the functional currency of the Company and rounded to the nearest £'000.

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

The Company is a wholly owned subsidiary of Babcock Critical Services Limited and of its ultimate parent, Babcock International Group PLC. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available.

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

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

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

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

h) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
i) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going Concern

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

Revenue

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

(a) Sale of goods

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

(b) Sale of services

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. In a limited number of contracts where performance and revenue are measured annually the revenue and costs are similarly recognised over the course of the year.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Intangible assets

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

a) *Research and development*

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

b) *Computer software*

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

Property, plant and equipment

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

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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

Inventory and work in progress

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

Trade receivables

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

Taxation

(a) Current income tax

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

(b) Deferred income tax

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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

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

Pensions costs and other post-retirement benefits

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

Foreign currencies

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

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

Operating leases

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Provisions for liabilities

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

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly. A provision is made where the operating leases are deemed to be onerous.

A provision for employee benefits is recognised when there is a realistic expectation of the liability.

3 Critical accounting estimates and judgements

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

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

Profit and Revenue Recognition

Profit and revenue recognition on contracts is a key judgement exercised by management on a contract by contract basis. In order to make such a judgement an estimate of when control passes and the contract outturn is made of all significant contracts. Management review and challenge estimates made.

Notes to the financial statements *(continued)*

4 Revenue

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

	2018 £000 Principal activity	2017 £000 Principal activity
By area of activity:		
Rendering of goods and services	**37,700**	31,574
	37,700	31,574

£37,653k (2017: £27,627k) of revenue in the year ending 31 March 2018 originated in the United Kingdom.

5 Operating profit

Operating profit is stated after charging:

	2018 £000	2017 £000
Depreciation of tangible fixed assets	**255**	259
Inventory charged as an expense	**23,310**	14,105
Audit fees payable to the Company's auditors	**22**	27

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

Notes to the financial statements *(continued)*

6 Finance expenses

	2018 £000	2017 £000
Finance expense:		
Bank interest	**72**	7
	72	7

7 Staff costs

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

	2018 Number	2017 Number
By activity:		
Production	**298**	306
Management and administration	**66**	65
	364	371

Their aggregate remuneration comprised:

	2018 £000	2017 £000
Wages and salaries	**9,278**	9,166
Social security costs	**916**	908
Other pension costs	**354**	380
	10,548	10,454

8 Directors' remuneration

All of the directors of the Company are remunerated by other Babcock Group companies in the current and prior year. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

Notes to the financial statements *(continued)*

9 Income tax expense

Tax expense included in income statement

	2018 £000	2017 £000
Current tax:		
UK Corporation tax on profits for the year	-	-
Current tax charge for the year	-	-
Deferred tax:		
Origination and reversal of timing differences	**(5)**	1
Adjustments in respect of prior years	**18**	-
Impact of change in UK tax rate	**1**	3
Total deferred tax charge	**14**	4
Tax on profit	**14**	4

Notes to the financial statements *(continued)*

9 Income tax expense *(continued)*

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

	2018	2017
	£000	£000
Profit before income tax	**2,084**	2,690
Profit activities multiplied by standard UK corporation tax rate of 19% (2017: 20%)	**396**	538
Effects of:		
Expenses not deductible for tax	**17**	24
Group relief for nil consideration	**(418)**	(561)
Adjustments in respect of prior years	**18**	-
Impact of change in UK tax rate	**1**	3
Total tax charge for the year	**14**	4

In the UK 2015 Budget it was announced that the UK corporation tax rate will reduce to 19% for April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. It was subsequently announced in 2017 UK Budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been remeasured at 17% as this is the tax rate that will apply on reversal.

Notes to the financial statements *(continued)*

10 Tangible assets

	Freehold and Long Leasehold Buildings £'000	Plant and equipment £'000	Total £000
Cost			
At 1 April 2017	3,720	1,391	5,111
Additions	42	107	149
Disposals	-	(108)	(108)
At 31 March 2018	**3,762**	**1,390**	**5,152**
Accumulated depreciation			
At 1 April 2017	1,350	931	2,281
Charge for the year	85	169	254
Disposals	-	(75)	(75)
At 31 March 2018	**1,435**	**1,025**	**2,460**
Net book value			
At 31 March 2018	**2,327**	**365**	**2,692**
At 31 March 2017	2,370	460	2,830

Notes to the financial statements *(continued)*

11 Inventories

	2018 £000	2017 £000
Raw materials and Consumables	**982**	716
Work in Progress	**3,990**	4,873
Finished goods and goods for resale	**121**	-
	5,093	5,589

There is no significant difference between replacement costs of finished goods and goods for resale and their carrying amounts. No inventory amounts were written off or written back during the financial year.

12 Trade and other receivables

	2018 £000	2017 £000
Amounts falling due within one year:		
Trade receivables	**7,326**	6,436
Corporation tax	-	-
Deferred tax (note 18)	**36**	50
Amounts owed by group undertakings	-	12,028
Amounts recoverable on contract	-	-
Other receivables, prepayments and accrued income	**1,241**	387
	8,603	18,901

Amounts owed by group undertakings are unsecured and repayable on demand.

Trade receivables are stated after provision for impairment of £nil (2017 £nil).

Notes to the financial statements *(continued)*

13 Trade and other payables

	2018 £000	2017 £000
Amounts falling due within one year:		
Trade creditors	**2,883**	1,871
Amounts owed to parent and group undertakings	**5,633**	-
Corporation tax	**1,458**	1,493
Other taxation and social security	**-**	24
Payments received on account	**192**	3,938
Other creditors	**-**	24
Accruals and deferred income	**1,152**	1,869
	11,318	9,219

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

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 16(a)).

14 Called up share capital

	2018 £	2017 £
Allotted and fully paid		
136 ordinary A shares of £1 each (2017: 136)	**136**	136
64 ordinary B shares of £1 each (2017: 64)	**64**	64
40 ordinary C shares of £1 each (2017: 40)	**40**	40
4 ordinary D shares of £1 each (2017: 4)	**4**	4
1 ordinary E shares of £1 each (2017: 1)	**1**	1
1 ordinary F shares of £1 each (2017: 1)	**1**	1
	246	246

All classes of shares rank pari passu in respect of dividend entitlement and voting rights.

Notes to the financial statements *(continued)*

15 Dividends paid

Dividends declared and paid were £15,171,000 (2017: £8,859,000), this is equivalent to £61,671 per share (2017: £36,012). There are no plans for a final dividend.

16 Guarantees and financial commitments

a) Contingent liabilities

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

No securities have been provided by the Company in relation to these contingent liabilities. There is no current expectation that these contingent liabilities will crystallise.

17 Related party disclosures

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

18 Deferred taxation

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

Deferred tax liabilities / (assets)	**Accelerated capital allowances £'000**
At 1 April 2017:	**(50)**
- Current year credit	**(5)**
- Prior year adjustment	**18**
- Impact of change in tax rate	**1**
At 31 March 2018:	**(36)**

19 Ultimate parent undertaking

The Company's immediate parent company is Babcock Critical Services Limited, a limited company registered in Scotland. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

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

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