

**Frazer-Nash Consultancy Limited**

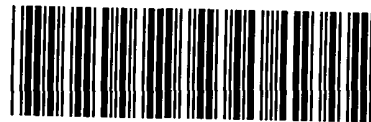
**Annual report**

**For the year ended 31 March 2016**

**Company registration number:**

**02562870**

WEDNESDAY



\*A5AMPSQ1\*

A07

06/07/2016

#406

COMPANIES HOUSE

---

## **Frazer-Nash Consultancy Limited**

### **Directors and advisors**

#### **Current directors**

A A Bethel

R R Burge

F Martinelli

N M McDougall

I S Urquhart

#### **Company secretaries**

R R Burge

Babcock Corporate Secretaries Limited

#### **Registered office**

c/o Devonport Royal Dockyard Ltd

Devonport, Plymouth

PL1 4SG

#### **Independent auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Princess Court

23 Princess Street

Plymouth PL1 2EX

**Strategic report for the year ended 31 March 2016**

The directors present their Strategic report on the Company for the year ended 31 March 2016.

**Principal activities**

The principal activity of the Company is the provision of engineering and systems consultancy.

**Review of the business**

The results for the financial year ended 31 March 2016 show revenue of £81.7million (2015: 71.4million), an increase of 14%. This reflects the growth of the business via expansion in our markets through the delivery of both existing and newly developed consultancy services. This underling progress has been supported by growth in our average staff numbers to 690 (2015: 616) an increase of 12%. Operating profit before tax and interest grew to £11.7million (2015: 9.1million) an increase of 29% driven by good project delivery and maintaining control of overhead costs as well as a change in presentation of research and development tax credit due to claim made under the new Research and Development Enhanced Credit (RDEC).

**Key performance indicators**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Revenue growth	<b>14%</b>	12%
Operating return on revenue	<b>14%</b>	13%
Orderbook	<b>33,276</b>	26,643
Current assets as a % of current liabilities	<b>233%</b>	278%
Average number of employees (including directors)	<b>690</b>	616
Debtor days	<b>54</b>	44

The growth and performance of Babcock Marine & Technology, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 28 to 35 and 36 to 41 of the annual report of Babcock International Group PLC, which does not form part of this report.

**Development and performance**

A key feature of the sustainability of the growth of the business over many years has been the strategic imperative to maintain a balanced portfolio of business. Throughout 2015/16 we continued to operate this long-standing strategy.

Budgetary challenges have continued in some areas of the UK defence sector, particularly in our marine domains in during 2015/16, but overall our strong offering has enabled the business to grow over that achieved in 2014/15. The company has continued to fulfil key, long-term roles supporting a wide range of programmes across the land, sea and air domains. That support is founded on our broad systems engineering capabilities, which have continued to grow and mature through 2015/16.

The wholesale oil price has remained low during 2015/16 and this has impacted the business with the knock-on effect that this has had on wholesale energy prices, particularly those for electricity. The focus of our Power and Energy business which serves electricity generators has been more towards life extension of ageing assets rather than the new-build activity we had been planning on supporting. The pace of growth in nuclear new-build is slower than anticipated but activity has picked up recently and this looks set to continue as we look forward to 2016/17 and beyond.

**Strategic report for the year ended 31 March 2016 (continued)**

We remain convinced that the long-term prospects in this area are good. Our transportation, commercial marine and industrial sectors grew strongly in 2015/16 and we see opportunities for further growth in 2016/17.

**Geographical presence**

A central element of the company's strategy remains the development of operations close to our main client bases. Our continued growth saw us sign a lease for a new building in the centre of Bristol and we plan to move in over the summer of 2016. Our business in Melbourne, Australia grew strongly during the year, and plans to move to a new, larger office have been brought forward into 2016.

**Staff and management team**

2015/16 represented another good year for the continued growth and development of our engineering, management and support teams. Our intake of new staff (both senior and junior) was complemented by growth, training and development of our existing staff and support teams. My personal thanks go to the entire team for yet another strong performance during the year. By the year-end permanent staff numbers had risen from just over 650 at the end of last year to over 720 at the end of the current year.

**Business prospects and future developments**

2015/16 was another successful period during which good progress was made. Our business model, where we address a broad range of markets across Defence, Power & Energy and Transport & Industry, has proved resilient to lower demand in some markets. This has allowed staff to transfer skills between sectors and geographies to help other parts of the business develop. The continued growth of the company is adding to our capabilities and we are able to support clients with a broader range of technical capability on larger projects than would have been possible only three years ago. Our philosophy remains to develop long-term, sustainable relationships with our clients, an approach that is increasingly yielding long-term income streams. The company will continue to invest in a balanced way to ensure that it is well positioned to develop key opportunities in its chosen markets.

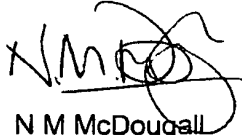
**Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks and uncertainties. These are managed through the operational review process supplemented at Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee.

The key risks and uncertainties affecting the Company are considered to be related to overexposure to any one of our market sectors, the political and regulatory environment and the ability to recruit and retain high quality and appropriately experienced staff. The directors manage this risk by meeting on a regular basis to discuss these risks.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 64 to 74 of the annual report of Babcock International Group PLC, which does not form part of this report.

On behalf of the board



N M McDougall

**Director**

23 June 2016

Registered number 02562870

## **Frazer-Nash Consultancy Limited**

### **Directors' report for the year ended 31 March 2016**

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2016.

#### **Dividends**

A dividend of £17.5million was declared and paid in the year (2015: £7.0million).

#### **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.

##### *Interest rate cash flow risk*

The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assets earn interest at a fixed rate, with the exception of interest earned on cash balances which accrue interest at a floating rate. Interest-bearing liabilities accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

---

## **Frazer-Nash Consultancy Limited**

### **Directors' report for the year ended 31 March 2016 *(continued)***

#### **Directors**

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

A A Bethel  
R R Burge  
F Martinelli  
N M McDougall  
I S Urquhart

#### **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.

#### **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.

#### **Research and development**

The Company commits resources to research and development to the extent management considers reasonable for the evolution and development of the business.

#### **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.

---

## **Frazer-Nash Consultancy Limited**

### **Directors' report for the year ended 31 March 2016 (continued)**

#### **Statement of directors' responsibilities**

The directors are responsible for preparing the Strategic report, 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). 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, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of the disclosure exemptions, if any, of FRS 101 used in the preparation of these 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.

#### **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.

#### **Disclosure of information to auditors**

Each director, as at the date of this report, has confirmed that in so far as they are 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 this information.

On behalf of the board



R R Burge

**Director**

23 June 2016

---

## **Frazer-Nash Consultancy Limited**

### **Independent auditors' report to the members of Frazer-Nash Consultancy Limited**

#### **Report on the financial statements**

##### **Our opinion**

In our opinion, Frazer-Nash Consultancy Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit 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.

##### **What we have audited**

The financial statements, included within the Annual Report, comprise:

- the Statement of Financial Position as at 31 March 2016
- the Income Statement and the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards comprising FRS 101 "Reduced Disclosure Framework" and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgments, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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

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

##### **Other matters on which we are required to report by exception**

##### **Adequacy of accounting records and information and explanations received**

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, 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.

We have no exceptions to report arising from this responsibility.

##### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.



## **Frazer-Nash Consultancy Limited**

### **Independent auditors' report to the members of Frazer-Nash Consultancy Limited** (continued)

#### **Responsibilities for the financial statements and the audit**

##### **Our responsibilities and those of the directors**

As explained more fully in the Statement of directors' responsibilities on page 6, 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)) ("ISAs (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.

##### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgments against available evidence, forming our own judgments, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

*Heather Ancient*

Heather Ancient (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Plymouth

30 June 2016

## Frazer-Nash Consultancy Limited

### Income Statement

for the year ended 31 March 2016

	Note	2016 £000	2015 £000
Revenue	4	81,701	71,409
Cost of sales		(53,676)	(46,943)
<b>Gross profit</b>		<b>28,025</b>	<b>24,466</b>
Administrative expenses		(16,316)	(15,366)
<b>Profit on ordinary activities before interest, other income and taxation</b>	6	<b>11,709</b>	<b>9,100</b>
Finance income	5	21	5
<b>Profit on ordinary activities before income tax</b>		<b>11,730</b>	<b>9,105</b>
Income tax expense	10	(2,706)	(1,017)
<b>Profit for the year</b>		<b>9,024</b>	<b>8,088</b>

All of the above results derive from continuing operations.

### Statement of Comprehensive Income

for the year ended 31 March 2016

	2016 £000	2015 £000
<b>Profit for the year</b>	<b>9,024</b>	<b>8,088</b>
<b>Other comprehensive loss:</b>		
<i>Items that may be subsequently reclassified to income statement:</i>		
Fair value adjustment of interest rate and foreign exchange hedges	(23)	-
<b>Total comprehensive income for the year</b>	<b>9,001</b>	<b>8,088</b>

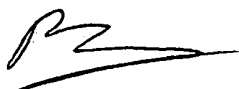
# Frazer-Nash Consultancy Limited

## Statement of Financial Position as at 31 March 2016

	Note	2016 £000	2015 £000
<b>Non-current assets</b>			
Intangible assets	11	635	467
Property, plant and equipment	12	2,040	1,725
		<u>2,675</u>	<u>2,192</u>
<b>Current assets</b>			
Trade and other receivables	13	29,074	42,783
Other financial assets	16	6	2
Cash and cash equivalents		12,657	3,935
		<u>41,737</u>	<u>46,720</u>
Trade and other payables – amounts falling due within one year	14	(22,912)	(19,012)
Other financial liabilities	16	(24)	-
<b>Net current assets</b>		<u>18,801</u>	<u>27,708</u>
<b>Total assets less current liabilities</b>		<u>21,476</u>	<u>29,900</u>
Provisions	15	(683)	(608)
<b>Net assets</b>		<u>20,793</u>	<u>29,292</u>
<b>Equity</b>			
Called up share capital	18	216	216
Share premium		22	22
Other reserves		1	24
Retained earnings		20,554	29,030
<b>Total shareholders' funds</b>		<u>20,793</u>	<u>29,292</u>

The notes on pages 12 to 27 are an integral part of these financial statements.

The financial statements on pages 9 to 27 were approved by the board of directors and signed on its behalf by:



R R Burge  
Director

23 June 2016

## Frazer-Nash Consultancy Limited

### Statement of Changes in Equity for the year ended 31 March 2016

	Note	Called up share capital £000	Share premium £000	Other Reserves £000	Retained earnings £000	Total £000
<b>Balance at 1 April 2014</b>		216	22	24	27,942	28,204
Profit for the year		-	-	-	8,088	8,088
Dividends paid	19	-	-	-	(7,000)	(7,000)
<b>Balance at 31 March 2015</b>		216	22	24	29,030	29,292
Profit for the year		-	-	-	9,024	9,024
Other comprehensive loss		-	-	(23)	-	(23)
Dividends paid	19	-	-	-	(17,500)	(17,500)
<b>Balance at 31 March 2016</b>		216	22	1	20,554	20,793

## **Frazer-Nash Consultancy Limited**

### **Notes to the financial statements**

#### **1 General information**

Frazer-Nash Consultancy Limited is a private company which is incorporated and domiciled in the UK. The address of the registered Office is c/o Devonport Royal Dockyard Limited, Devonport, Plymouth PL1 4SG.

#### **2 Summary of significant accounting policies**

The principle 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. The Company has adopted FRS 101 in these financial statements. Details of the transition to FRS 101 are disclosed in note 24.

#### **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, as modified by the revaluation of and certain financial assets and liabilities measure at fair value through profit and loss in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The financial statements are prepared in 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 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'
- 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.

**Notes to the financial statements**

**2 Summary of significant accounting policies (continued)**

**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) Rendering of services**

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. The provision of services over a long-term period are accounted for under the principles of construction contracts, and the revenue recognised as set out below. 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.

**(b) Long-term service contracts**

Revenue from long-term service contracts is recognised by reference to the stage of completion of the contract in accordance with IAS 18 'Revenue' and IAS 11 'Construction contracts'. The stage of completion is determined according to the nature of the specific contract concerned. Methods used to assess the stage of completion include incurred costs as a proportion of total costs; labour hours incurred or earned value of work performed.

The profit element of the revenue attributable to a contract is recognised if the final outcome can be reliably assessed. In order to assess the likely outcome of a contract a full estimated cost of completion is produced which will assess risks and opportunities including cost rates, time, volume and performance for the contract and apply a probability to these being realised. As time elapses, these risks and opportunities will become more predictable. Risks and opportunities will vary dependent on the terms of each contract and the commercial environment of each market. Where certain contracts have pain/gain share arrangements, whereby target cost under/over spends are shared with the customer, these sharing arrangements are included in assessing the overall contract outturn and the expected profit.

Any expected loss on a contract is recognised immediately in the income statement.

**Contract accounting balances**

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Pre-contract costs are recognised as expenses are incurred, except that directly attributable costs are recognised as an asset and amortised over the life of the contract when it can be reliably expected that a contract will be obtained and the contract is expected to result in future net cash inflows.

**Notes to the financial statements**

**2 Summary of significant accounting policies (continued)**

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life of the contract.

**Intangible assets**

*a) 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.

*b) 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.

**Property, plant and equipment**

Property, plant and equipment (PPE) is shown at cost less subsequent depreciation and 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:

- Plant and equipment                      6.6% to 33.3%

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

**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.

**Share based payments**

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

**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.

**Notes to the financial statements**

**2 Summary of significant accounting policies *(continued)***

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.

**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 consolidated 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.

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**

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

**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 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.



**Notes to the financial statements**

**2 Summary of significant accounting policies (continued)**

A provision for deferred consideration on acquisitions is recognised when the Company has a realistic expectation of the expense based on the Purchase and Sale Agreement.

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

**Derivative financial instruments**

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

**Dividend distribution**

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company shareholders.

**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.

**Contract accounting**

The Company has long term contracts where revenue and expenses are incurred over multiple financial periods. This requires estimates of revenue and expenses over multiple periods, considering various elements such as the frequency and extent of the number of employees, materials and other resources required to fulfil the contract terms, billing rates and cost changes. Revisions that affect a contract's total estimated profitability results in an adjustment of earnings. Where necessary, provisions are established for any probable future losses.

**Useful economic lives of property, plant and equipment**

The annual depreciation charge for the property, plant and equipment is sensitive to changes in the estimated useful lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 12 for the carrying amount of the property, plant and equipment, and note 2 for the useful economic lives of for each class of assets.

## Frazer-Nash Consultancy Limited

### Notes to the financial statements

#### 4 Revenue

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

	2016 £000	2015 £000
By area of activity:	Consultancy	Consultancy
Rendering of services	81,701	71,409
By geographical area:	2016 £000	2015 £000
United Kingdom	75,932	66,402
Europe	795	373
Rest of the world	4,974	4,634
	81,701	71,409

#### 5 Finance and Other income

	2016 £000	2015 £000
Bank interest	21	5

#### 6 Operating profit

Operating profit is stated after charging / (crediting):

	2016 £000	2015 £000
Depreciation of tangible fixed assets	652	560
Amortisation of intangible assets	179	160
(Reversal)/ impairment of trade receivables	(141)	50
Operating lease charges		
- Hire of plant and machinery	291	302
- Other	1,140	974
Foreign exchange (gains) / losses	(21)	18
Audit fees payable to the Company's auditor	42	30

Cost of sales for the year ended 31 March 2016 also includes research and development tax credits of £1,467,008

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.

## Frazer-Nash Consultancy Limited

### Notes to the financial statements

#### 7 Staff costs

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

By activity:	2016 Number	2015 Number
Direct	585	527
Non-direct	105	89
	<u>690</u>	<u>616</u>

Their aggregate remuneration comprised:

	2016 £000	2015 £000
Wages and salaries	38,152	33,611
Social security costs	3,995	3,613
Other pension costs (note 22)	2,010	1,875
	<u>44,157</u>	<u>39,099</u>

Included in wages and salaries is a total expense of share-based payments of £187k (2015: £239k) all of which related to equity-settled share-based payment transactions (note 9).

#### 8 Directors' remuneration

The emoluments of the directors, including pension contributions, paid by any company in respect of services provided to this Company were as follows:

	2016 £000	2015 £000
Emoluments (including benefits in-kind)	480	447
Gains on share options exercised	252	350
Defined contribution pension scheme	80	90
	<u>812</u>	<u>887</u>

During the year one (2015: one) director remunerated by Frazer-Nash Consultancy Limited exercised share options under long term incentive plans and one (2015: one) director was entitled to receive share options under long term incentive plans.

Except for two (2015: two) directors, all of the directors of the Company are remunerated by other Babcock Group companies. 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.

## Frazer-Nash Consultancy Limited

### Notes to the financial statements

#### 8 Directors' remuneration (continued)

The above amounts for remuneration include the following in respect of the highest paid director:

	2016 £000	2015 £000
Emoluments (including benefits in-kind)	264	238
Gains on share options exercised	252	350
Defined contribution pension scheme	40	50
<b>Total</b>	<b>556</b>	<b>638</b>

The highest paid director exercised shares under long term incentive plans (2015: the highest paid director exercised shares under long term incentive plans)

#### 9 Share based payments

The charge to the income statement is based on the amount charged from Babcock International Group PLC. This charge represents an allocation of the total charge based on the proportion which relates to Frazer-Nash Consultancy Limited. The total charge has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report in the Babcock International Group PLC Annual Report and Accounts.

During the year the total charge relating to employee share-based payment plans was £187k (2015: £239k) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £150k (2015: £189k).

The fair value per option granted and the assumptions used in the calculation are as follows:

DBMP, PSPs, DBP and CSOP<sub>1</sub>

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2014 DBMP Matching	853,803	1,218.0	15.0%	4.0	40%	536.0	1,218.0	46%	12/6/14
2014 PSP	1,550,135	1,218.0	15.0%	4.0	40%	547.0	1,218.0	46%	12/6/14
2014 DBP	8,736	1,218.0	15.0%	4.0	100%	–	1,218.0	46%	12/6/14
2013 DBMP Matching <sup>2</sup>	1,014,364	1,155.0	16.0%	4.0	40%	549.9	1,018.4	46%	15/8/13
2013 PSP <sup>2</sup>	1,310,577	1,155.0	16.0%	4.0	40%	559.1	1,018.4	46%	15/8/13
2013 PSP Funding <sup>2</sup>	122,015	1,155.0	16.0%	4.0	40%	496.0	933.8	46%	15/8/13
2013 CSOP <sup>2</sup>	122,015	1,155.0	16.0%	4.0	40%	84.6	83.1	46%	15/8/13
2012 DBMP Matching <sup>2</sup>	370,583	874.5	18.0%	4.0	65%	549.7	771.0	46%	16/7/12
2012 PSP <sup>2</sup>	36,808	874.5	18.0%	4.0	65%	554.4	771.0	46%	16/7/12
2012 PSP Main <sup>2</sup>	1,575,789	879.5	18.0%	4.0	65%	578.2	775.5	46%	14/8/12
2012 PSP Funding <sup>2</sup>	79,683	879.5	18.0%	4.0	65%	507.2	698.7	46%	14/8/12
2012 CSOP <sup>2</sup>	79,683	879.5	18.0%	4.0	65%	69.0	76.8	46%	14/8/12

## **Frazer-Nash Consultancy Limited**

### **Notes to the financial statements**

#### **9 Share based payments (continued)**

Both the vesting period and the expected life of all DBMP, PSP and CSOP awards is three years, but for the DBP it is two years. The holders of all awards receive dividends, except for CSOP awards. The DBMP Matching awards are split evenly between the performance criteria of TSR, EPS and ROCE, whilst the PSP and CSOP awards are split evenly between TSR and EPS. There are no performance conditions attached to the DBP. The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan, DBP = 2012 Deferred Bonus Plan and CSOP = 2009 Company Share Option Plan.

2. These DBMP, PSP and CSOP have been restated to take account of the rights issue in May 2015.

## Frazer-Nash Consultancy Limited

### Notes to the financial statements

#### 10 Income tax

##### Tax expense included in income statement

	2016 £000	2015 £000
<b>Current tax:</b>		
UK Corporation tax on profits for the year	2,278	1,043
Adjustment in respect of prior year	298	-
<b>Current tax charge for the year</b>	<b>2,576</b>	<b>1,043</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	64	(28)
Adjustment in respect of prior years	32	1
Impact of change in UK tax rate	34	1
<b>Total deferred tax charge / (credit) (note 17)</b>	<b>130</b>	<b>(26)</b>
<b>Tax on profit on ordinary activities</b>	<b>2,706</b>	<b>1,017</b>

Tax expense for the year is higher (2015: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2016 of 20% (2015: 21%). The differences are explained below:

	2016 £000	2015 £000
<b>Profit on ordinary activities before taxation</b>	<b>11,730</b>	<b>9,105</b>
Profit on ordinary activities multiplied by standard UK corporation tax rate of 20% (2015: 21%)	2,346	1,912
Effects of:		
Income not subject to tax	(58)	29
Expenses not deductible for tax purposes	(4)	14
Difference between capital allowances and depreciation	(6)	-
Research and development income tax credits	-	(912)
Prior adjustment	298	-
<b>Tax charge for the year</b>	<b>2,576</b>	<b>1,043</b>

In the 2015 Budget, it was announced that the UK corporation tax rate will reduce from 20% to 19% from April 2017. It was further announced in the 2016 Budget that it will be further reduced to 18% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 18% as this is the tax rate that will apply on reversal.

## Frazer-Nash Consultancy Limited

### Notes to the financial statements

#### 11 Intangible assets

	<b>Software £000</b>
<b>Cost</b>	
At 1 April 2015	1,874
Additions	347
At 31 March 2016	<u>2,221</u>
<b>Accumulated amortisation and impairment</b>	
At 1 April 2015	1,407
Amortisation of software	179
At 31 March 2016	<u>1,586</u>
<b>Net book value</b>	
At 31 March 2016	<u>635</u>
At 31 March 2015	<u>467</u>

Intangible assets amortisation is recorded in administrative expenses in the income statement.

#### 12 Tangible assets

	<b>Plant and equipment</b>
<b>Cost</b>	
At 1 April 2015	5,123
Additions	967
Disposals	(302)
At 31 March 2016	<u>5,788</u>
<b>Accumulated depreciation</b>	
At 1 April 2015	3,398
Charge for the year	652
Disposals	(302)
At 31 March 2016	<u>3,748</u>
<b>Net book value</b>	
At 31 March 2016	<u>2,040</u>
At 31 March 2015	<u>1,725</u>

## Frazer-Nash Consultancy Limited

### Notes to the financial statements

#### 13 Trade and other receivables

	2016 £000	2015 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	12,134	8,564
Amounts due from customers for contract work	4,714	5,162
Amounts owed by group undertakings	10,908	27,284
Deferred tax asset (note 17)	308	438
Prepayments and accrued income	1,010	1,335
	<u>29,074</u>	<u>42,783</u>

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

There are two major loans (2015: five) to group companies totalling £6,984k (2015: £24,484k) are repayable on demand, with no interest charge.

Trade receivables are stated after provisions for impairment of £42k (2015: £183k).

#### 14 Trade and other payables

	2016 £000	2015 £000
<b>Amounts falling due within one year:</b>		
Trade creditors	921	177
Amounts owed to parent and group undertakings	2,324	2,512
Taxation and social security	4,018	2,829
Income tax payable	4,217	3,108
Payments received on account	3,795	3,695
Accruals and deferred income	7,637	6,691
	<u>22,912</u>	<u>19,012</u>

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 20(a)).

#### 15 Provisions

	Dilapidations £000
At 1 April 2015	608
Charged to the income statement	<u>75</u>
<b>At 31 March 2016</b>	<u><b>683</b></u>

Dilapidations provisions relate to office buildings leased by the Company. At the end of each lease there is a requirement to reinstate the property to its prior condition, so the Company has provided for these reinstatement costs. The provisions will be fully utilised when the final lease expires during the year ending 31 March 2022.



## Frazer-Nash Consultancy Limited

### Notes to the financial statements

#### 16 Other financial assets and liabilities

Included in Derivative financial instruments at fair value:

	31 March 2016		31 March 2015	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward FX contracts – fair value hedges	6	(24)	2	-
<b>Total</b>	<b>6</b>	<b>(24)</b>	<b>2</b>	<b>-</b>
<b>Current portion</b>	<b>6</b>	<b>(24)</b>	<b>2</b>	<b>-</b>

The company uses forward foreign exchange contracts denominated in Euros and US Dollars to manage exposure to fluctuations in foreign currency exchange rates.

In Euros the contracts include sales of €425k (2015: €56k). These contracts would lead to a net loss of £24k (2015: £nil) based on the foreign exchange rate at 31 March. These contracts will crystallise between October 2016 and February 2017.

In US Dollars the contracts include sales of \$337k (2015: \$228k). These contracts would lead to a net profit of £6k (2015: £2k profit) based on the foreign exchange rate at 31 March. These contracts will crystallise between April 2016 and May 2016.

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, 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 with compliance to IFRS.

#### 17 Deferred taxation

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

	Accelerated capital allowances	Other	Total
<b>Deferred tax asset</b>			
At 1 April 2014:	264	148	412
- Charged / (credited) to the income statement	(3)	29	26
At 31 March 2015:	261	177	438
- Charged / (credited) to the income statement	(17)	(113)	(130)
- Charged / (credited) to other comprehensive income	-	-	-
At 31 March 2016:	244	64	308

## Frazer-Nash Consultancy Limited

### Notes to the financial statements

#### 18 Called up share capital

	2016 £000	2015 £000
<b>Allotted and fully paid</b>		
115,671 ordinary shares of £1 each (2015: 115,671)	116	116
50,000 'A' preference shares of £1 each (2015: 50,000)	50	50
50,000 'B' preference shares of £1 each (2015: 50,000)	50	50
	<b>216</b>	<b>216</b>

#### 19 Dividends

Dividends declared and paid were £17.5million (2015: £7.0million), this is equivalent to £151.291162 per share (2015: £60.516465). There are no plans for a final dividend.

#### 20 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 (2015: £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 (2015: £15,000,000).

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.

##### b) Operating lease commitments

At 31 March 2016, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2016 Land and buildings £000	2016 Other £000	2015 Land and buildings £000	2015 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	918	237	969	237
- between two and five years	5,108	165	3,338	194
- after five years	3,885	-	436	-
	<b>9,911</b>	<b>402</b>	<b>4,743</b>	<b>431</b>

The entity leases various offices under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

## **Frazer-Nash Consultancy Limited**

### **Notes to the financial statements**

#### **21 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.

Transactions entered into and trading balances outstanding at 31 March 2016 are as follows:

	<b>Sales to related party £000</b>	<b>Amounts owed by related party £000</b>
Northrop Grumman Sperry Marine BV	18	22

Transactions entered into and trading balances outstanding at 31 March 2015 are as follows:

	<b>Sales to related party £000</b>	<b>Amounts owed by related party £000</b>
Northrop Grumman UK Ltd	30	-
Agusta Westland Ltd	124	25

All dealings with related parties noted above arise in the normal course of business and are subject to normal terms and conditions. These parties are related via common directorship.

#### **22 Pension commitments**

The Company accounts for pension costs in accordance with IAS 19.

The Company contributes to a defined contribution scheme (the "Defined contribution Scheme 1") in respect of a number of its employees.

#### **23 Ultimate parent undertaking**

The Company's immediate parent company is Frazer-Nash Consultancy Group Limited, a company registered in England and Wales. 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

## **Frazer-Nash Consultancy Limited**

### **Notes to the financial statements**

#### **24 Transition to FRS 101**

This is the first year that the Company has presented its results under FRS 101. The last financial statements under the UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 101 was 1 April 2014. There are no changes in accounting policies which reconcile profit for the financial year ended 31 March 2014 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 101.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1, 'First time adoption of International Financial Reporting Standards'.

<b>Profit for the financial year</b>	<b>2015 £000</b>
<b>UK GAAP - As previously reported</b>	<b>8,088</b>
<b>Total adjustment to profit for the financial year</b>	<b>-</b>
<b>FRS 101</b>	<b>8,088</b>

#### **Other Adjustments arising on transition to FRS 101**

The following adjustments have arisen which have had no effect on net equity or income statement but which have affected the presentation of these items on the Balance sheet.

- (a) Computer software, with a net book value of £467k at 1 April 2015, has been reclassified from tangible to intangible assets as required under FRS 101. This has no effect on the Company's net assets nor on the profit for the year.
- (b) Dilapidations provisions with a value of £608k at 1 April 2015 have been reclassified from current liabilities to provisions for liabilities as required under FRS 101. This has no effect on the Company's net assets nor on the profit for the year.