

# **Cavendish Nuclear Manufacturing Limited**

## **Annual report**

**For the year ended 31 March 2016**

**Company registration number:**

**2763400**



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## **Cavendish Nuclear Manufacturing Limited**

### **Directors and advisors**

#### **Current directors**

S C Bowen  
J R Davies  
K J Garvey  
F Martinelli  
R H Taylor

#### **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  
Castle Donington  
East Midlands  
DE74 2UZ

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## **Cavendish Nuclear Manufacturing Limited**

### **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 activities of the Company are the fabrication of containers and associated equipment for the nuclear industry.

#### **Review of the business**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Revenue	<b>7,323</b>	6,984
Operating (loss)/ profit for the financial year	<b>(775)</b>	344

One major contract was completed during the year while the manufacture of the remaining product streams continued to see increased throughputs and revenue. Increased costs and machine breakdowns resulted in an operating loss in the year. Higher production volumes are expected to continue which together with improved efficiencies is expected to return the business to profitability in future years. Post year end, this business has secured two new contracts.

#### **Principal risks and uncertainties**

The Company's largest operational risk is the management of contracts to customer satisfaction. This is managed via regular project appraisals and continued dialogue with the customers as programmes progress. In addition, all major contracts have a live risk register.

The Company is exposed to risks associated with the contamination of workplace sites, non-compliance with environmental, health and safety law and personal injury claims resulting from injuries sustained at work. A comprehensive framework of policies and procedures is in place to minimise this risk and the result is our excellent safety record.

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.

#### **Future developments**

The financial statements have been prepared on the going concern basis as the Company's ultimate parent undertaking has confirmed that it will provide such financial support and other support as is necessary to enable the Company to meet its liabilities for the foreseeable future.

#### **Key performance indicators**

The Group's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company.

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## **Cavendish Nuclear Manufacturing Limited**

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

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

The growth and performance of Support Services, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 28 to 35 and 46 to 49 of the annual report of Babcock International Group PLC, which does not form part of this report.

By order of the board



K J Garvey

Director

8/11/2016

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## **Cavendish Nuclear Manufacturing 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**

The directors do not recommend a dividend for the year ended 31 March 2016 (2015: £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.

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.

##### *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.

##### *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**

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

K M Douglas (resigned 2 June 2015)  
J R Davies (appointed 1 December 2015)  
S C Bowen (appointed 1 December 2015)  
K J Garvey (appointed 1 December 2015)  
F Martinelli

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## **Cavendish Nuclear Manufacturing Limited**

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

#### **Directors (continued)**

K R Thomas (resigned 2 November 2015)

G D Leeming (resigned 1 July 2016)

R H Taylor (appointed 1 July 2016)

#### **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.

#### **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 seeks 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**

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 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.

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## **Cavendish Nuclear Manufacturing Limited**

### **Directors' report for the year ended 31 March 2016 *(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 the 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 were in force during the financial year and also at the date of approval of the financial statements.

#### **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.

By order of the board



K J Garvey

Director

8 / 11 / 2016

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# **Independent auditors' report to the members of Cavendish Nuclear Manufacturing Limited**

## **Report on the financial statements**

### **Our opinion**

In our opinion, Cavendish Nuclear Manufacturing 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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **What we have audited**

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

- the Balance sheet 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 for the year then ended; and
- 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 judgements, 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 the 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.

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## **Independent auditors' report to the members of Cavendish Nuclear Manufacturing Limited (*continued*)**

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

#### **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.

### **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 set out on page 5, 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 & 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' judgements against available evidence, forming our own judgements, 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.

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## **Independent auditors' report to the members of Cavendish Nuclear Manufacturing Limited *(continued)***

### **Responsibilities for the financial statements and the audit *(continued)***

#### **What an audit of financial statements involves *(continued)***

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.



Jackie Bradshaw (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
East Midlands 8/11/2016

## Cavendish Nuclear Manufacturing Limited

### Income statement

for the year ended 31 March 2016

	Note	2016 £000	2015 £000
Revenue	4	7,323	6,984
Cost of sales		(7,806)	(6,272)
<b>Gross (loss)/ profit</b>		<b>(483)</b>	<b>712</b>
Administration expenses		(292)	(368)
<b>Operating (loss)/ profit</b>	6	<b>(775)</b>	<b>344</b>
Finance costs	5	(82)	(29)
Other finance income/ (costs)- pensions	19	44	(46)
<b>(Loss)/ profit on ordinary activities before taxation</b>		<b>(813)</b>	<b>269</b>
Income tax on ordinary activities	9	3	(65)
<b>(Loss)/ profit for the financial year</b>		<b>(810)</b>	<b>204</b>

All of the above results derive from continuing operations.

### Statement of comprehensive income

for the year ended 31 March 2016

	Note	2016 £000	2015 £000
<b>(Loss)/ profit for the financial year</b>		<b>(810)</b>	<b>204</b>
<b>Other comprehensive income:</b>			
<i>Items that may be subsequently reclassified to income statement:</i>		-	-
<i>Items that will not be subsequently reclassified to income statement:</i>		-	-
Actuarial and experience (losses)/ gains recognised in the pension scheme	19	(1,413)	1,980
Deferred tax arising on (losses)/ gains in the pension scheme	19	283	(416)
Impact of change in UK tax rate		(13)	21
<b>Total comprehensive (expense)/ income for the year</b>		<b>(1,953)</b>	<b>1,789</b>

# Cavendish Nuclear Manufacturing Limited

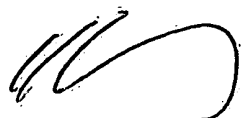
## Balance sheet

as at 31 March 2016

	Note	2016 £000	2015 £000
<b>Non-current assets</b>			
Tangible fixed assets	10	751	794
<b>Retirement benefit assets</b>	19	-	877
<b>Current assets</b>			
Inventories	11	672	392
Trade and other receivables	12	5,002	3,891
		5,674	4,283
Trade and other payables – amounts falling due within one year	13	(10,082)	(8,269)
<b>Net current liabilities</b>		(4,408)	(3,986)
<b>Total assets less current liabilities</b>		(3,657)	(2,315)
Trade and other payables – amounts falling due after more than one year	13	-	(60)
Provision for liabilities	14	(493)	(452)
Retirement benefit liabilities	19	(630)	-
<b>Net liabilities</b>		(4,780)	(2,827)
<b>Equity</b>			
Called up share capital	16	1,000	1,000
Retained losses		(5,780)	(3,827)
<b>Total shareholders' deficit</b>		(4,780)	(2,827)

The notes on pages 13 to 29 are an integral part of these financial statements.

The financial statements on pages 10 to 29 were approved by the board of directors and signed on its behalf by:



K J Garvey

Director

8/11/2016

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## Cavendish Nuclear Manufacturing Limited

### Statement of changes in equity

	Called-up share capital £000	Retained losses £000	Total equity £000
<b>Balance at 1 April 2014</b>	<b>1,000</b>	<b>(5,616)</b>	<b>(4,616)</b>
Profit for the financial year	-	204	<b>204</b>
Other comprehensive income	-	1,585	<b>1,585</b>
Dividends paid	-	-	-
<b>Balance at 31 March 2015</b>	<b>1,000</b>	<b>(3,827)</b>	<b>(2,827)</b>
Loss for the financial year	-	(810)	<b>(810)</b>
Other comprehensive expense	-	(1,143)	<b>(1,143)</b>
Dividends paid	-	-	-
<b>Balance at 31 March 2016</b>	<b>1,000</b>	<b>(5,780)</b>	<b>(4,780)</b>
<i>for the year ended 31 March 2016</i>			

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# **Cavendish Nuclear Manufacturing Limited**

## **Notes to the financial statements**

### **1 General information**

Cavendish Nuclear Manufacturing 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. The Company has adopted FRS 101 in these financial statements. Details of the transition to FRS 101 are disclosed in note 21.

#### **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. 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) 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)
- c) The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- d) IAS 7, 'Statement of cash flows'
- e) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- f) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

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## **Cavendish Nuclear Manufacturing Limited**

### **Notes to the financial statements *(continued)***

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

##### **Basis of preparation *(continued)***

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 as the Company's ultimate parent undertaking has confirmed that it will provide such financial support and other support as is necessary to enable the Company to meet its liabilities for the foreseeable future.

##### **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 accounted for by reference to the stage of completion of the transaction. The provision of services over a long-term period is 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.

##### **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 as 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.

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

##### **Property, plant and equipment**

Property, plant and equipment 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. Specialised plant and equipment has been purchased to

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## **Cavendish Nuclear Manufacturing Limited**

### **Notes to the financial statements** *(continued)*

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

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

manufacture containers in respect to a specific contract. The depreciation on these assets is written off in proportion to the number of containers produced. Depreciation on all other assets is provided on a straight-line basis to write off the cost of property, plant and equipment over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Plant and machinery	5 to 10 years
Fixtures and fittings	3 to 7 years

Property, plant and equipment 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. In the case of work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable 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.

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.

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## **Cavendish Nuclear Manufacturing Limited**

### **Notes to the financial statements *(continued)***

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

##### **Pensions costs and other post-retirement benefits**

The Company participates in defined benefit schemes that share risks between entities under common control. The defined benefit schemes define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension schemes are charged to operating profit in the entities which participate in the scheme. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income.

The fair value of plan assets is measured in accordance with FRS 101 fair value hierarchy and includes the use of appropriate valuation techniques.

The extent to which the Company recognises its share of the income statement charge, the assets and liabilities of the scheme, and the actuarial gain or loss is determined by the proportion of active members of the scheme that it employs.

The scheme's asset or liability is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

The Company participates in defined benefit contribution schemes. Obligations for contributions to the defined benefit pension plans 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.

##### **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.

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.

Registered number 2763400

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## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements *(continued)*

#### 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.

#### Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 19 for the result of the defined benefit pension scheme.

#### 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 result in an adjustment of earnings. Where necessary, provisions are established for any probable future losses.

#### 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:		
Sales of goods	7,323	6,984

All the revenue in the year ended 31 March 2016 and the year ended 31 March 2015 originated in the United Kingdom.

#### 5 Finance costs

	2016 £000	2015 £000
Finance costs:		
Bank interest	(71)	(20)
Unwinding of discount	(11)	(9)
	(82)	(29)

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## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements *(continued)*

#### 6 Operating (loss)/ profit

Operating (loss)/ profit is stated after charging / (crediting):

	2016 £000	2015 £000
Profit on disposal of property, plant and equipment	-	(21)
Depreciation of tangible fixed assets	127	55
Operating lease charges		
- Land and buildings	154	144
- Plant and machinery	6	11
Audit fees payable to the Company's auditor	11	11

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than the 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 accounts are required to comply with the statutory disclosure requirements.

#### 7 Staff costs

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

	2016 Number	2015 Number
By activity:		
Operations	37	34
Management and administration	8	8
	<u>45</u>	<u>42</u>

Their aggregate remuneration comprised:

	2016 £000	2015 £000
Wages and salaries	1,461	1,314
Social security costs	118	102
Other pension costs	655	461
	<u>2,234</u>	<u>1,877</u>

Included in other pension costs are £632,000 (2015: £445,000) in respect of the defined benefit schemes and £23,000 (2015: £16,000) in respect of the defined contribution scheme.

#### 8 Directors' remuneration

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.

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## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements *(continued)*

#### 9 Income tax

##### Tax (income)/ expense included in income statement

	2016 £000	2015 £000
<b>Current tax:</b>		
UK Corporation tax on profits for the year	-	-
Adjustment in respect of prior year	-	-
<b>Current tax charge for the year</b>	<b>-</b>	<b>-</b>

##### Deferred tax:

	2016 £000	2015 £000
Origination and reversal of timing differences	(6)	67
Impact of change in UK tax rate	3	(2)
<b>Total deferred tax (credit) / charge (note 15)</b>	<b>(3)</b>	<b>65</b>
<b>Tax on (loss)/ profit on ordinary activities</b>	<b>(3)</b>	<b>65</b>

##### Tax expense / (income) included in other comprehensive income

###### Current tax

###### Deferred tax:

- Origination and reversal of temporary differences	-	-
- Impact of change in tax rates	-	-

##### **Tax expense/ (income) included in other comprehensive income**

##### Tax expense/ (income) included in equity

Current tax	-	-
<b>Total tax expense/ (income) included in equity</b>	<b>-</b>	<b>-</b>

Tax expense for the year is higher (2015: higher) 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:

## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements (continued)

#### 9 Income tax (continued)

	2016 £000	2015 £000
<b>(Loss)/ profit on ordinary activities before taxation</b>	<b>(813)</b>	<b>269</b>
(Loss)/ profit on ordinary activities multiplied by standard UK corporation tax rate of 20% (2015: 21%)	<b>(163)</b>	<b>56</b>
Effects of:		
Group relief for nil consideration	<b>157</b>	<b>11</b>
Impact of change in UK tax rate	<b>3</b>	<b>(2)</b>
<b>Tax (credit)/ charge for the year</b>	<b>(3)</b>	<b>65</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.

#### 10 Tangible fixed assets

	Plant and machinery £000	Fixtures and fittings £000	Total £000
<b>Cost</b>			
At 1 April 2015	7,195	211	7,406
Additions	84	-	84
Disposals	-	-	-
<b>At 31 March 2016</b>	<b>7,279</b>	<b>211</b>	<b>7,490</b>
<b>Accumulated depreciation</b>			
At 1 April 2015	6,401	211	6,612
Charge for the year	127	-	127
Disposals	-	-	-
<b>At 31 March 2016</b>	<b>6,528</b>	<b>211</b>	<b>6,739</b>
<b>Net book value</b>			
<b>At 31 March 2016</b>	<b>751</b>	<b>-</b>	<b>751</b>
At 31 March 2015	794	-	794

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## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements (continued)

#### 11 Inventories

	2016 £000	2015 £000
Raw materials and consumables	592	348
Work-in-progress	80	44
	<u>672</u>	<u>392</u>

#### 12 Trade and other receivables

	2016 £000	2015 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	3,958	3,538
Amounts due from customers for contract work	829	241
UK corporation tax receivable	15	15
Deferred tax asset (note 15)	143	-
Other receivables	-	43
Prepayments and accrued income	57	54
	<u>5,002</u>	<u>3,891</u>

#### 13 Trade and other payables

	2016 £000	2015 £000
<b>Amounts falling due within one year:</b>		
Bank loans and overdrafts	5,554	5,390
Trade creditors	206	170
Amounts owed to parent and group undertakings	584	974
Taxation and social security	565	659
Deferred tax (note 15)	-	130
Payments received on account	902	257
Other payables	167	4
Accruals and deferred income	2,104	685
	<u>10,082</u>	<u>8,269</u>

#### Amounts falling due after more than one year:

	2016 £000	2015 £000
Payments received on account	-	60

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

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## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements (continued)

#### 14 Provisions for liabilities

	Continuing Annual Payments provision £000	Dilapidations provision £000	Contract provision £000	Total £000
At 1 April 2015	126	326	-	452
Charged to the income statement	-	38	21	59
Released to the income statement	-	-	-	-
Unwinding of discount	11	-	-	11
Utilised in the year	(29)	-	-	(29)
<b>At 31 March 2016</b>	<b>108</b>	<b>364</b>	<b>21</b>	<b>493</b>

##### *Continuing Annual Payments provision*

On being made redundant, certain staff are entitled to receive their annual pension immediately and the amounts payable include a contribution from the Company. The continuing annual payments provision comprises the Company's contribution to the annual pensions payable.

##### *Dilapidations provision*

This provision is for the cost of returning the leasehold building to its original pre-lease state.

#### 15 Deferred taxation

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

	Accelerated capital allowances £000	Other £000	Total £000
<b>Deferred tax assets/ (liabilities)</b>			
At 1 April 2014:	52	278	330
- (Charged) to the income statement	(32)	(33)	(65)
- (Charged) directly to other comprehensive income	-	(395)	(395)
At 31 March 2015:	20	(150)	(130)
- (Charged)/ credited to the income statement	(11)	14	3
- Credited directly to other comprehensive income	-	270	270
At 31 March 2016:	9	134	143

## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements (continued)

#### 16 Share capital

	2016 £000	2015 £000
<b>Allotted and fully paid</b>		
1,000,000 (2015: 1,000,000) ordinary shares of £1 each	1,000	1,000

#### 17 Guarantees and financial commitments

##### a) Contingent liabilities

At the year-end date 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 had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2015: £15.0 million).

##### b) Operating lease commitments

At 31 March 2016, the Company had future minimum rentals 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:				
- not later than one year	-	5	70	10
- later than one year and not later than five years	-	7	-	15
- later than five years	-	-	-	-
	-	12	70	25

The entity leases plant and machinery under non-cancellable operating leases.

##### c) Capital commitments

At 31 March 2016 the Company had capital commitments of £Nil (2015: £68,000).

#### 18 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.

## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements (continued)

#### 19 Pension commitments

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to defined contribution schemes in the UK in respect of a number of its employees. The Company is also a contributing employer to a defined benefit scheme (the "Babcock International Group PLC Pension Scheme"). The Company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme which has been recognised in these financial statements is detailed in this note.

The nature of the scheme is that the employees contribute to the scheme with the employers paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the participating employer companies with the trustees who are advised by an independent, qualified actuary.

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps for approximately 54% of the obligations in respect of pensioners and their spouses, through a common investment committee have significantly hedged the interest rate and inflation risk through derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

The scheme is funded by payments to legally separate trustee-administered funds. The trustees of the scheme are required by law to act in the best interests of the scheme's members. In addition to determining future contribution requirements (with the agreement of the participating employers), the trustees are responsible for setting the scheme's investment strategy (subject to consultation). The scheme has an independent trustee and member nominated trustees. The scheme is subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

#### Babcock International Group PLC Pension Scheme

The IAS 19 valuation has been updated at 31 March 2016 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 1 April 2013. The major assumptions used for the IAS 19 valuation were:

	2016 %	2015 %	2014 %
<b>Major assumptions</b>			
Rate of increase in salaries	2.2	2.2	2.4
Rate of increase in pension payment	2.1	2.8	3.0
Discount rate	3.5	3.4	4.5
Inflation	1.9	1.9	2.1

The expected total employer contributions to be made by participating employers to the scheme in 2016/17 are £18.7m. The future service rate is 21.9%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in

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## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements *(continued)*

#### 19 Pension commitments *(continued)*

employer contributions of £18.7m is £6.6m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2016 Years	2015 Years	2014 Years
Life expectancy from age 65 (male age 65)	22.9	23.0	22.8
Life expectancy from age 65 (male age 45)	24.5	24.7	24.3

The changes to the Babcock International Group PLC balance sheet at March 2016 and the changes to the Babcock International Group PLC income statement for the year to March 2017, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2016 £000	Income statement 2017 £000
Initial assumptions	1,205,800	12,900
Discount rate assumptions increased by 0.5%	(87,800)	(4,400)
Discount rate assumptions decreased by 0.5%	87,800	3,500
Inflation rate assumptions increased by 0.5%	49,900	2,500
Inflation rate assumptions decreased by 0.5%	(46,300)	(2,200)
Total life expectancy increased by half a year	19,100	800
Total life expectancy decreased by half a year	(19,100)	(700)
Salary increase assumptions increased by 0.5%	9,400	700
Salary increase assumptions decreased by 0.5%	(9,400)	(600)

The weighted average duration of cash flows (years) was 16.

## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements (continued)

#### 19 Pension commitments (continued)

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2016 were:

<b>Fair value of plan of assets</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Equities	<b>285,320</b>	264,900
Property	<b>95,937</b>	33,567
Absolute return and multi strategy funds	<b>1,588</b>	7,374
Bonds	<b>426,204</b>	402,307
Matching assets	<b>423,129</b>	584,784
Active position on longevity swaps	<b>(50,692)</b>	(39,947)
<b>Total assets</b>	<b>1,181,486</b>	1,252,985
Present market value of liabilities - funded	<b>(1,205,869)</b>	(1,219,048)
<b>Gross pension (deficit)/ surplus</b>	<b>(24,383)</b>	33,937

All the assets of the scheme are quoted except for the longevity swaps.

The scheme does not invest directly in assets or share of Babcock International Group PLC.

The longevity swaps have been valued, in 2016, in line with assumptions that are consistent with the requirements of IFRS 13. The increasing maturity of the longevity swaps allows the estimate of value in line with IFRS 13 rather than the reimbursement rights approach to valuation adopted in 2015.

<b>Analysis of amount charged to the income statement in Babcock International Group PLC</b>	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Current service cost	<b>11,712</b>	11,301
Incurred expenses	<b>2,258</b>	1,922
<b>Total included within operating profit</b>	<b>13,970</b>	13,223
Net interest (income)/ cost	<b>(1,311)</b>	1,783
<b>Total charged to the income statement</b>	<b>12,659</b>	15,006

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group PLC charge, included £394,000 for service cost (2015: £294,000), £76,000 for incurred expenses (2015: £48,000), and net interest income of £44,000 (2015: cost £46,000).

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## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements *(continued)*

#### 19 Pension commitments *(continued)*

Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCl")	2016 £000	2015 £000
Actuarial gain / (loss) recognised in the SOCl	21,071	(156,484)
Experience (losses)/ gains	(80,237)	247,122
Other gains/(losses)	(9,387)	(22,707)
	<b>(68,553)</b>	<b>67,931</b>

The actuarial loss recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £(1,413,000) (2015: gain of £1,980,000).

The equity investments and bonds are valued at bid price.

	2016 £000	2015 £000
<b>Reconciliation of present value of scheme assets in Babcock International Group PLC</b>		
At 1 April	1,292,931	1,050,052
Interest cost	43,539	46,825
Employee contributions	411	515
Employer contributions	22,892	29,296
Benefits paid	(62,146)	(57,067)
Actuarial (gain)/ loss	(65,450)	223,310
At 31 March	<b>1,232,177</b>	<b>1,292,931</b>

	2016 £000	2015 £000
<b>Reconciliation of present value of scheme liabilities</b>		
At 1 April	1,219,048	1,081,839
Service cost	11,712	11,301
Incurred expenses	2,258	1,922
Interest on liabilities	40,870	47,866
Employee contributions	411	515
Actuarial (gain) / loss – demographics	(15,784)	162,558
Actuarial (gain) / loss – financial	(5,287)	(6,074)
Experience losses/ (gains)	14,787	(23,812)
Benefits paid	(62,146)	(57,067)
At 31 March	<b>1,205,869</b>	<b>1,219,048</b>

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## **Cavendish Nuclear Manufacturing Limited**

### **Notes to the financial statements *(continued)***

#### **19 Pension commitments *(continued)***

The deficit recognised in these financial statements, based on the Company's allocation of the total Babcock International Group PLC assets and liabilities for this scheme, was (£630,000) (2015: asset £877,000).

#### **20 Ultimate parent undertaking**

The Company's immediate parent company is Cavendish Nuclear 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

#### **21 Transition to FRS 101**

This is the first year that the Company has presented its results under FRS 101. The last financial statements under UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 101 was 1 April 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 March 2015 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 - Profit for the year ended 31 March 2015 as previously reported</b>	<b>90</b>
Defined benefit pension scheme	144
Deferred tax impact of defined benefit scheme	(30)
<b>FRS 101 - Profit for the year ended 31 March 2015 as currently reported</b>	<b>204</b>

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## Cavendish Nuclear Manufacturing Limited

### Notes to the financial statements *(continued)*

#### 21 Transition to FRS 101 *(continued)*

Other comprehensive income ("OCI")	2015 £000
UK GAAP - OCI for the year ended 31 March 2015 as previously stated	90
Defined benefit pension scheme	A 2,124
Deferred tax impact of adjustments	
- Defined benefit pension scheme	(425)
FRS 101 - OCI for the year ended 31 March 2015 as currently stated	1,789

#### A *Defined benefit pension schemes*

The Company is a member of a group defined benefit pension plan that shares risks between entities under common control (the "Babcock International Group Pension PLC Scheme"). Under previous UK GAAP this scheme was accounted for as a defined contribution scheme. Under FRS 101 the Company recognises its share of the scheme's net surplus/deficit together with its share of the service costs and interest charge in the income statement. The Company's share is calculated based on the proportion of active members of the scheme that it employs.

At 1 April 2014 and 31 March 2015, the net (deficit)/ surplus of the plan was (£1,248,000) and £877,000 respectively. This is the difference between the contributions paid and the defined benefit accounting recorded in profit and loss. The additional amount recognised in other comprehensive income during the year ended 31 March 2015 was £2,512,000 and relates to the actuarial movement during the year. The additional expense recognised in the income statement under FRS 101 is (£388,000), making a net movement of £2,124,000.

Total equity	31 March 2015 £000	1 April 2014 £000
UK GAAP - Total equity as previously reported	(3,528)	(3,618)
Defined benefit pension scheme	877	(1,248)
Deferred tax impact of adjustments		
- Defined benefit pension scheme	(176)	250
FRS 101- Total equity as currently reported	(2,827)	(4,616)