Babcock Flagship Limited

Annual Report

For the year ended 31 March 2017

Company registration number:
03086376

Babcock Flagship Limited

Directors and Advisors

Directors

N Borrett
D Jones
I Urquhart
J Wadham

Company Secretary

N Borrett

Registered office

33 Wigmore Street
London
W1U 1QX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Savannah House
3 Ocean Way
Southampton
SO14 3TJ

Strategic report for the year ended 31 March 2017

The directors present their strategic report on the Company for the year ended 31 March 2017.

Principal activities

The principal activities of the Company are the provision of training and support services in the UK defence sector and also to international customers.

Business review

	2017	2016
	£000	£000
Revenue	**48,854**	43,304
Profit for the financial year	**5,545**	5,212

The Company has continued to provide training & support services to the Royal Navy across a 5th consecutive year of its current contract. A key strand of the Company's ongoing support to the Royal Navy is the transformation of its engineering training. The transformation project has proved challenging and is nearing completion. This is reflected in the Company's financial performance compared with the prior year, but it has allowed the Company to introduce a series of innovative approaches to training.

The Hunter Training Programme 2 for the Royal Saudi Naval Forces, contracted through BAE systems, continues.

The directors consider the financial position of the company to be satisfactory.

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 Babcock International Group (the "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 the political and regulatory environment. 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 68 to 79 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities.

Strategic report for the year ended 31 March 2017 *(continued)*

Key performance indicators

The Company'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. The growth and performance of Babcock Defence and Security, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 30 to 37 and 44 to 47 of the Group's report, which does not form part of this report.

Financial risk management

Information on the financial risk management of the Company can be found in the Directors' report.

On behalf of the board

J Wadham

J Wadham

Director

29 June 2017

Directors' report

The directors present their report and the audited financial statements of the Company, for the year ended 31 March 2017.

Results and dividends

The Company's results for the year are set out in the income statement on page 12 showing a profit for the financial year after tax of £5,545,000 (*2016: £5,212,000*). At 31 March 2017 the Company had net assets of £59,741,000 (*2016: £48,342,000*).

No dividend was paid in the year (2016: £20,000,000) and the directors do not recommend the payment of a final dividend (2016: £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 cash flow 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 finance departments. The department has a policy and procedures manual that sets out 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.

All treasury transactions are carried out only with prime rated counter-parties. Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 34 to 37 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

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

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

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

Directors' report (continued)

Financial risk management (continued)

Interest rate cash flow risk

The Company has both interest-bearing assets and interest-bearing liabilities. Inter-company loans and cash balances earn interest at both fixed and floating rates. 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.

Directors

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

N Anderson	Resigned 8 August 2016
N Borrett	
R Hardy	Resigned 1 April 2017
K Hayzen-Smith	Appointed 14 November 2016 and resigned 1 April 2017
D Jones	Appointed 1 April 2017
P Kingshott	Resigned 1 April 2017
B O'Connor	Resigned 27 January 2017
R Taylor	Resigned 13 July 2016
I Urquhart	
J Wadham	Appointed 8 August 2016
S White	Resigned 9 June 2016

Employment of disabled persons

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

Employee involvement

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

Safety policy

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

Directors' report (continued)

Environment

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

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

Statement of directors' responsibilities

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

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

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

The directors are 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.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' protection

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.

Directors' report *(continued)*

Disclosure of information to auditors

Each director, as at the date the directors' report is approved, 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

J Wadham

J Wadham
Director
29 June 2017

Independent auditors' report to the members of Babcock Flagship Limited

Report on the financial statements

Our opinion

In our opinion, Babcock Flagship 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 2017 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 Balance Sheet as at 31 March 2017;
- the Income Statement and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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.

Independent auditors' report to the members of Babcock Flagship Limited (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 7, 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.

Independent auditors' report to the members of Babcock Flagship Limited (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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Michael Coffin (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
29 June 2017

Babcock Flagship Limited

Income statement
for the year ended 31 March 2017

	Note	**2017**	2016
		£000	£000
Revenue	*4*	**48,854**	43,304
Cost of sales		**(39,569)**	(35,334)
Gross profit		**9,285**	7,970
Administration expenses		**(3,310)**	(2,676)
Profit before interest and taxation		**5,975**	5,294
Finance income	*5*	**1,239**	1,318
Finance costs	*5*	**(8)**	(17)
Other finance (costs) / income – pensions	*19*	**(66)**	122
Profit before income tax		**7,140**	6,717
Income tax expense	*9*	**(1,595)**	(1,505)
Profit for the financial year		**5,545**	5,212

All of the above results derive from continuing operations.

Statement of comprehensive income
for the year ended 31 March 2017

	Note	**2017**	2016
		£000	£000
Profit for the financial year		**5,545**	5,212
Other comprehensive income / (expense):			
Items that will not subsequently be reclassified to the income statement			
Actuarial gain / (loss) on pension scheme	*19*	**7,101**	(5,255)
Movement on deferred tax in relation to pension (surplus) / deficit	*9*	**(1,247)**	1,009
Other comprehensive income / (expense) for the year		**5,854**	(4,246)
Total comprehensive income for the year		**11,399**	966

Babcock Flagship Limited

Balance Sheet
as at 31 March 2017

	Note	2017 £000	2016 £000
Non-current assets			
Property plant and equipment	10	-	-
Investments	11	50	50
Gross pension assets	19	4,380	-
		4,430	50
Current assets			
Trade and other receivables - amounts falling due within one year	12	89,125	84,551
Trade and other receivables - amounts falling due after more than one year	12	830	1,812
Cash and cash equivalents		4,829	2,655
		94,784	89,018
Creditors - amounts falling due within one year	13	30,582	31,045
Net current assets		64,202	57,973
Total assets less current liabilities		68,632	58,023
Provision for liabilities	14	8,891	7,569
Gross pension liabilities	19	-	2,112
Net assets		59,741	48,342
Equity			
Called up share capital	16	500	500
Retained earnings		59,241	47,842
Total shareholders' funds		59,741	48,342

The notes on pages 15 to 33 are an integral part of these financial statements.

The financial statements on pages 12 to 33 were approved by the board of directors and signed on its behalf by:

J Wadham

J Wadham
Director
29 June 2017

Babcock Flagship Limited

Statement of changes in equity

for the year ended 31 March 2017

	Called up share capital	Retained earnings	Total Shareholders' funds
	£000	£000	£000
Balance as at 1 April 2015	500	66,876	67,376
Profit for the financial year	-	5,212	5,212
Other comprehensive expense	-	(4,246)	(4,246)
Dividends paid	-	(20,000)	(20,000)
Balance as at 31 March 2016	**500**	**47,842**	**48,342**
Profit for the financial year	-	5,545	5,545
Other comprehensive income	-	5,854	5,854
Balance as at 31 March 2017	**500**	**59,241**	**59,741**

Notes to the financial statements
(forming part of the financial statements)

1. *General information*

Babcock Flagship Limited is a private company limited by shares 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 applied FRS 101 in these financial statements.

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 certain financial assets and liabilities measured at fair value through the income statement, and in accordance with the Companies Act 2006. The financial statements are prepared in pounds sterling which is the functional currency of the Company and rounded to the nearest £'000.

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

The Company is a wholly owned subsidiary of Babcock Defence & Security Holdings LLP and of its ultimate parent, Babcock International Group Plc. It is included in the consolidated financial statements of Babcock International Group Plc which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirements to prepare consolidated financial statements.

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

a) 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)

2 Summary of significant accounting policies *(continued)*

Basis of preparation (continued)

b) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136
c) IAS 7, 'Statement of cash flows'
d) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
e) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
f) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
g) IFRS 7 financial instruments: disclosures.
h) 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).

Going concern

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

Revenue

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

a) Sale of 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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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 over/under 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.

Trade and other receivables

Trade and other debtors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

Interest payable

All borrowing costs are recognised in the income statement in the period in which they are incurred.

2 Summary of significant accounting policies *(continued)*

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. Depreciation 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 reporting date) at the following annual rates:

Vehicles, plant and machinery	6.6% to 33.3%

Where property, plant and equipment are purchased for specific projects and the remaining project life is less than the above periods, the asset is written off over the remaining project life.

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.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

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 reporting 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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

***Taxation** (continued)*

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 substantively enacted by the reporting 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, in which case the tax is also recognised in other comprehensive income or directly in equity respectively.

Pensions costs and other post-retirement benefits

The Company participates in a defined benefit scheme that shares risks between entities under common control. The defined benefit scheme defines 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 scheme are charged to operating profit in the entities who 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, are 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 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 a defined contribution scheme. Obligations for contributions to the defined contribution pension plan are recognised as an expense in the income statement.

Foreign currencies

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

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

2 Summary of significant accounting policies *(continued)*

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

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

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

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

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

3. Critical accounting estimates and judgements

The preparation of the financial statements requires management to make estimates, judgements and assumptions that affect the amounts reported for assets and liabilities as at the reporting 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 estimates and judgements 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 disclosures of the defined benefit pension scheme.

Notes to the financial statements *(continued)*

Critical accounting judgements and estimates *(continued)*

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.

Contract provisions

The Company recognises provisions based upon the probable outflow of resources that will be required to settle the obligation. Provisions are calculated using the best reliable estimates available to management at the signing date. Reorganisation provisions comprise employee termination payments.

Deferred tax

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements, with the following exceptions: Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each reporting date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

4. Revenue

Revenue is wholly attributable to the principal activity of the Company and is of United Kingdom origin and destination.

5. Finance income and costs

	2017	2016
	£000	£000
Finance income		
Bank interest	**2**	9
Loan interest receivable from group undertakings	**1,237**	1,309
	1,239	1,318
Finance costs		
Bank interest on overdrafts	**(8)**	(17)
	(8)	(17)

6. Operating profit

Operating profit is stated after charging:

	2017	2016
	£000	£000
Operating lease charges	**263**	102
Impairment of trade receivables	**3**	-
Foreign exchange losses	**6**	1
Services provided by the company's auditors		
- fees payable for the audit	**55**	55

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.

Fees payable for the audits of Flagship Fire Fighting Training Limited £7,000, *(2016: £7,000)* and Babcock Fire Services Limited £7,000 *(2016: £7,000)* have been borne by the Company.

7. Staff costs

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

	2017 Number	2016 Number
By activity		
Operations	**809**	**725**
Management and administration	**9**	**19**
	818	**744**

Their aggregate remuneration comprised:

	2017 £000	2016 £000
Wages and salaries	**24,227**	20,103
Social security costs	**2,462**	1,929
Other pension costs (note 19)	**2,150**	2,299
	28,839	24,331

Included in other pension costs are £1,098,000 (2016: £1,296,000) in respect of the defined benefit scheme and £1,052,000 (2016: £1,003,000) in respect of the defined contribution scheme.

The employment costs above include those of employees providing management services to other group companies, as well as staff seconded to other group companies. These are recharged to those business entities.

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:

	2017 £000	2016 £000
The remuneration of the directors which were paid by the Company was as follows:		
Emoluments (including benefits-in-kind)	**125**	-
Defined contribution pension scheme	**7**	-
	132	-

During the year no (2016: no) directors remunerated by Babcock Flagship Limited exercised share options under long term incentive plans and no (2016: no) directors were entitled to receive share options under long term incentive plans.

8. Directors' remuneration (continued)

Retirement benefits are accruing to one director (2016: none) under SIPS money purchase scheme.

Except for one director (2016: none), 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.

9. Income tax expense

Tax expense included in income statement	**2017**	2016
	£000	£000
Current tax		
UK Corporation tax on profits for the year	**1,860**	1,134
Current tax charge for the year	**1,860**	1,134
Deferred tax		
Origination and reversal of timing differences	**(428)**	212
Adjustments in respect of prior years	**40**	-
Impact of change in UK tax rate	**123**	159
Total deferred tax (credit) / charge (note 15)	**(265)**	371
Tax on profit	**1,595**	1,505

Tax (expense) / income included in other comprehensive income	**2017**	2016
	£000	£000
Deferred tax:		
Actuarial gain / (loss) on pension liability	**1,420**	(1,051)
Impact of change in UK tax rate	**(173)**	42
Tax expense / (income) included in other comprehensive income	**1,247**	(1,009)

9. Income tax expense *(continued)*

The tax assessed for the year is higher *(2016: higher)* than the standard effective rate of corporation tax in the UK for the year ended 31 March 2017 of 20% *(2016: 20%)*. The differences are explained below:

	2017	2016
	£000	£000
Profit before taxation	**7,140**	6,717
Profit multiplied by the standard UK corporation tax rate of 20% (2016: 20%)	**1,428**	1,343
Effects of:		
Income not taxable for tax purposes	-	-
Expenses not deductible for tax purposes	**4**	3
Impact of change in UK tax rate	**123**	159
Adjustments in respect of prior years	**40**	-
Tax charge for the financial year	**1,595**	1,505

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

10. Property Plant and Equipment

	Vehicles, plant and machinery £000
Cost	
At 1 April 2016 and 31 March 2017	2,226
Accumulated depreciation	
At 1 April 2016 and 31 March 2017	2,226
Net book value	
At 31 March 2017 & 31 March 2016	-

11. Investments

The Company has a 100% owned subsidiary undertaking, Flagship Fire Fighting Training Limited, a company registered in England and Wales. The address of its registered office is 33 Wigmore Street, London W1U 1QX. Its activity is the supply of firefighting training under a PFI contract.

The directors believe that the carrying value of the investments is supported by their underlying net assets or value in use.

12. Trade and other receivables

	2017	2016
	£000	£000
Amounts falling due within one year:		
Amounts recoverable on contracts	**5,250**	283
Trade receivables	**1,082**	1,050
Amounts owed by group undertakings	**82,624**	83,080
Other receivables	**66**	17
Prepayments and accrued income	**103**	121
	89,125	84,551

	2017	2016
	£000	£000
Amounts due after more than one year:		
Recoverable deferred taxation (note 15)	**830**	1,812
	830	1,812

There are four major loans (*2016: five*) to group companies:

- A loan of £7,250,000 (*2016: £7,250,000*) is repayable on demand, the interest rate is the base rate minus 0.125%; the base rate is set at the prevailing 6 month LIBOR rate on each interest payment.
- A loan of £50,000,000 (*2016: £50,000,000*) is repayable on demand, the interest rate is the base rate minus the relevant margin of 0.125%. The base rate commenced at 0.7425% and thereafter is set at the prevailing 6 month LIBOR rate on each interest payment date.
- A loan of £20,000,000 (*2016: £20,000,000*) is repayable on demand. The interest rate is the 6 month LIBOR plus 4%.
- A loan totalling £4,838,000 (*2016: £4,838,000*) is repayable on demand, with no interest charge.
- A loan of £nil (*2016: £187,000*) was repayable in six monthly instalments up to March 2017. The interest rate was 8%.

All financial assets of the Company are carried at amortised cost.

The receivables are stated after provisions for impairment of £1,500 (2016: £3,000).

Notes to the financial statements *(continued)*

13. Creditors: amounts falling due within one year

	2017 £000	2016 £000
Bank overdraft	**82**	451
Trade payables	**1,826**	207
Payments received on account of long term contracts	**5,598**	7,963
Amounts owed to group undertakings	**13,978**	14,362
Other payables	-	68
UK corporation tax payable	**4,650**	2,790
Other taxation and social security	**1,534**	1,290
Accruals and deferred income	**2,914**	3,914
	30,582	31,045

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

All financial liabilities of the Company are carried at amortised cost.

The bank overdraft is repayable on demand, unsecured and bears interest at 1% over base rate.

14. Provisions for liabilities

	Contract provisions £000
At 1 April 2016	**7,569**
Charged to income statement	**2,468**
Utilised during the year	**(1,146)**
At 31 March 2017	**8,891**

Contract provisions
Contract provisions relate to a review of the major programmes in Babcock Flagship Limited following the acquisition by Babcock International Group PLC and relate to expected contract losses, accrued liabilities currently not provided and excess construction costs. These are based on the assessment of future costs and are assessed with reference to past experience. Provisions are expected to be utilised over future years up to 2037, including an element which is expected to be utilised within one to two years.

Notes to the financial statements *(continued)*

15. Deferred taxation

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

Deferred tax (assets)/liabilities	Accelerated capital allowances £000	Defined Benefit Pension £000	Other £000	Total £000
At 1 April 2015:	(93)	588	(1,669)	(1,174)
- Charged to the income statement	24	41	306	371
- Credited to other comprehensive income	-	(1,009)	-	(1,009)
At 31 March 2016	(69)	(380)	(1,363)	(1,812)
- Charged/(credited) to the income statement	**7**	**(122)**	**(150)**	**(265)**
- Charged to other comprehensive income	-	**1,247**	-	**1,247**
At 31 March 2017	**(62)**	**745**	**(1,513)**	**(830)**

Other deferred tax relates to contract provisions held at the balance sheet date

16. Called up share capital

	Number	£000
Allotted, called up and fully paid		
At 31 March 2017 & 31 March 2016		
"A" ordinary shares	250,000	250
"B" ordinary shares	250,000	250
	500,000	500

All ordinary shares have the same rights.

Notes to the financial statements *(continued)*

17. Dividends

	2017	2016
	£000	£000
Equity – ordinary		
Interim paid (£40 per £1 share)	-	20,000

The 2016 dividend was paid on 3 March 2016. There are no plans for a final dividend.

18. 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 (2016: £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 (2016: £nil).

b) *Operating lease commitments*

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

	Land & buildings 2017 £000	Other 2017 £000	Land & buildings 2016 £000	Other 2016 £000
- within one year	300	64	194	61
- between one and five years	509	125	696	131
- over five years	-	-	-	-
	809	189	890	192

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

19. Pension commitments

The Company accounts for pension costs in accordance with IAS 19R Employee Benefits (IAS 19R). The Company contributes to a defined contribution scheme 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 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 have been recognised in these financial statements are 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.

Notes to the financial statements *(continued)*

19. Pension commitments (continued

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 scheme has 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 though 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 a legally separate trustee-administered fund. 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.

BIG Pension Scheme

The IAS 19R valuation has been updated at 31 March 2017 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19R. The date of the last full actuarial valuation was 31 March 2013. The major assumptions used for the IAS 19R valuation were:

Major assumptions	2017 %	2016 %	2015 %
Rate of increase in salaries	**2.3**	2.2	2.2
Rate of increase in pension payment	**3.0**	2.9	2.9
Discount rate	**2.6**	3.5	3.4
Inflation	**2.1**	1.9	1.9

The expected total employer contributions to be made by participating employers to the scheme in 2017/18 are £18.5m. The future service rate is 32.0%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £18.5m is £3.0m 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:

	2017 Years	2016 Years	2015 Years
Life expectancy from age 65 (male age 65)	**22.6**	22.9	23.0
Life expectancy from age 65 (male age 45)	**23.7**	24.5	24.7

19. Pension commitments (continued)

The changes to the Babcock International Group Plc balance sheet at March 2017 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 2017 £000	**Income statement 2017 £000**
Initial assumptions	1,371,686	11,776
Discount rate assumptions increased by 0.5%	(104,900)	(4,800)
Discount rate assumptions decreased by 0.5%	104,900	3,700
Inflation rate assumptions increased by 0.5%	62,400	2,600
Inflation rate assumptions decreased by 0.5%	(57,800)	(2,300)
Total life expectancy increased by half a year	28,200	1,000
Total life expectancy decreased by half a year	(28,200)	(900)
Salary increase assumptions increased by 0.5%	10,400	700
Salary increase assumptions decreased by 0.5%	(10,400)	(600)

The weighted average duration of cashflows (years) was 15.

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 2017 were:

Fair value of plan of assets	**2017 £000**	2016 £000
Equities	**321,942**	285,320
Property	**96,346**	95,937
Absolute return and multi strategy funds	**4,768**	1,588
Bonds	**445,079**	426,204
Matching assets	**596,325**	423,129
Active position on longevity swaps	**(48,451)**	(50,692)
Total assets	**1,416,009**	1,181,486
Present market value of liabilities – funded	**(1,371,686)**	(1,205,869)
Gross pension surplus / (deficit)	**44,323**	(24,383)

Notes to the financial statements *(continued)*

19. Pension commitments (continued)

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

The scheme does not invest directly in assets or shares of Babcock International Group Plc.

The longevity swaps have been valued, in 2017, in line with assumptions that are consistent with the requirements of IFRS 13.

Analysis of amount charged to the income statement in Babcock International Group Plc	**2017 £000**	2016 £000
Current service cost	**8,910**	11,712
Incurred expenses	**2,203**	2,258
Total included within operating profit	**11,113**	13,970
Net interest cost / (income)	**663**	(1,311)
Total charged to the income statement	**11,776**	12,659

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 £1,098,000 for service cost and incurred expenses (2016: £1,296,000), and net interest cost of £66,000 (2016: income of £122,000).

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCI")	**2017 £000**	2016 £000
Actuarial (loss) / gain recognised in the SOCI	**57,922**	21,071
Experience gains/(losses)	**(205)**	(80,237)
Other gains/(losses)	**4,015**	(9,387)
	61,732	(68,553)

The actuarial gain recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £7,101,000 (2016: loss of £5,255,000).

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets in Babcock International Group Plc	**2017 £000**	**2016 £000**
At 1 April	**1,232,177**	1,292,931
Interest cost	**42,556**	43,539
Employee contributions	**304**	411
Employer contributions	**18,751**	22,892
Benefits paid	**(70,210)**	(62,146)
Actuarial gain / (loss)	**240,882**	(65,450)
At 31 March	**1,464,460**	1,232,177

19. Pension commitments (continued)

Reconciliation of present value of scheme liabilities

	2017 £000	2016 £000
At 1 April	**1,205,869**	1,219,048
Service cost	**8,910**	11,712
Incurred expenses	**2,203**	2,258
Interest on liabilities	**41,444**	40,870
Employee contributions	**304**	411
Actuarial gain– demographics	**(29,948)**	(15,784)
Actuarial loss / (gain) – financial	**212,909**	(5,287)
Experience losses	**205**	14,787
Benefits paid	**(70,210)**	(62,146)
At 31 March	**1,371,686**	1,205,869

The surplus 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 £4,380,000 (2016: deficit of £2,112,000).

The Company also operated several defined contribution scheme. The pension charge for the year includes contributions payable by the Company to these funds amounting to £1,052,000 (2016: £1,003,000). At 31 March 2017, no contributions were payable to the funds (2016: £nil).

20. Subsidiary undertakings

The subsidiary undertaking of the Company at 31 March 2017 is shown below. The Company and its subsidiary are incorporated and domiciled in England and Wales. All holdings are in relation to ordinary shares. The registered office for this subsidiary is 33 Wigmore Street, London W1U 1QX.

Company Name	Country	Interest	Direct %	Ultimate%
Flagship Fire Fighting Training Limited	United Kingdom	100 Ordinary shares	100.0%	100.0%

21. Ultimate parent undertaking

The Company's immediate parent company is Babcock Defence & Security Holdings LLP, a limited liability partnership 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 smallest and largest 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