Babcock Fire Training (Avonmouth) Limited

(formerly VT Fire Training (Avonmouth) Limited)

Directors' report and financial statements for the year ended 31 March 2011

Registered number 4168329

Babcock Fire Training (Avonmouth) Limited
(formerly VT Fire Training (Avonmouth) Limited)
Directors' report and financial statements

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The Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2011

Principal activity

The company's principal activity is the design, construction and maintenance of Fire Fighting Units for use in the provision of fire fighting training to the Somerset and Avon and Gloucestershire Fire Brigades

Results

Acquisition by Babcock International Group plc
On 23 March 2010 Babcock International Group PLC ("Babcock") and the company's ultimate parent undertaking, VT Group plc, announced that they had reached agreement on the terms of a recommended acquisition by Babcock of all the issued and to be issued share capital of VT Group plc

The acquisition was completed with effect from 8th July 2010 with VT Group plc shares being de-listed from the London Stock Exchange on 9th July 2010

On 2nd July 2010 the Company was renamed Babcock Fire Training (Avonmouth) Limited

Key performance indicators:

	2011	2010
	£000	£000
Turnover	**2,416**	2,311
Operating profit	**460**	504

As noted from the financial results above, the business has traded in line with expectations In addition to these financial measures, the company's performance is monitored by a variety of qualitative measures in terms of service delivery that can result in performance deductions To date the level of performance deductions has remained below original expectations

The interest charge for the year on long term inter-company funding amounted to £797,000 *(2010 £814,000)* resulting in a loss before tax of £335,000 *(2010 £307,000 loss)*

The key risk facing the company is maintaining high quality delivery to the client ensuring that the fire fighting training facilities are available as and when required This is mitigated by ensuring that there is a close working relationship with the Fire Authority and a detailed maintenance schedule based upon historical experience of managing similar contracts

The company has 17 years remaining of the original 25 year contract with the Fire Authority in respect of the operation of the facilities, providing visibility of future trading income

Dividends

The directors do not recommend the payment of a dividend *(2010 £nil)*

Future Developments

The future outlook for the company is good and will continue in line with the financial model agreed at the contract inception

The Directors' report *(continued)*

Principal risks and uncertainties

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

Babcock Group's key risks relate to successful delivery of projects and services in a timely fashion and to a technically proficient standard As such the company employs a robust risk register process by contract to ensure that all key risks are identified, evaluated and ultimately managed as successfully as possible Key risks are regularly reviewed by senior management and a weekly KPI system is used to enable prompt identification of issues

Financial risks are discussed further below The other key business risks and uncertainties affecting the company are considered to relate to overexposure to any one of our market sectors, the political and regulatory environment and the ability to recruit and retain quality staff Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 39 to 45 of the annual report of Babcock International Group PLC, which does not form part of this report

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes to credit risk, liquidity risk, interest rate risk, and price risk The company has in place a risk management programme that seeks to limit the 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 are managed by the group finance department The Babcock Group has a policy and procedures manual that sets out guidelines to allow it to manage financial risks and this is applied by the company

Credit risk
The company has implemented policies that require appropriate credit checks on potential companies before sales are made The company also monitors existing company accounts on an ongoing basis and takes appropriate action where necessary to minimise any potential credit risk The main customer associated with Babcock Fire Training (Avonmouth) Limited is Gloucestershire County Council Material cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit ratings agencies

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

Interest rate cash flow risk
The company has interest bearing assets in the form of cash balances, interest on which is at a variable rate Intercompany borrowings are at a fixed rate and repayments are made according to an agreed schedule which is used to manage the cash balances to settle interest payments when they fall due The company does not use derivative financial instruments to manage interest rate costs

Foreign currency exchange rate risk
There is no foreign exchange risk to the company

Price risk
Prices for the main contract have been set out for the duration of the life to vary in line with agreed indices Third party prices are set using the prevailing market rate for an equivalent service in the local area

The Directors' report *(continued)*

Qualifying third party indemnity provisions

Under their respective Articles of Association, the directors of the company are, and were during the year to 31 March 2011, entitled to be indemnified by the company against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006

Charitable Contributions

During the year the company made no charitable contributions (2010 £nil) There were no political contributions during the year (2010 £nil)

Directors

The directors who held office during the year were as follows

Philip Harrison – resigned (9th July 2010)
John Davies – resigned (1st October 2010)
Franco Martinelli – appointed (9th July 2010)
Graham Leeming – appointed (1st October 2010)
Matthew Jowett – resigned (9th July 2010)
Secretary- Valerie Teller – appointed (9th July 2010)

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law, the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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

The Directors' report *(continued)*

Disclosure of information to auditors

Each of the directors at the date of approval of this report, as shown on page 3 confirm the following

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

Independent Auditors

During the year the company changed its auditor to PricewaterhouseCoopers LLP, as a result in the change of ownership of the company's parent The company has dispensed with the requirement for an Annual General Meeting and the need to appoint auditors annually

By order of the Board

G Leeming 7 December 2011
Director
Babcock Fire Training (Avonmouth) Limited (formerly VT Fire Training (Avonmouth) Limited)

Independent auditors' report to the members of Babcock Fire Training (Avonmouth) Limited (formerly VT Fire Training (Avonmouth) Limited)

We have audited the financial statements of Babcock Fire Training (Avonmouth) Limited for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the statement of the Directors' Responsibilities set out on pages 3-4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

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

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its loss for the year then ended,

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and

- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

Independent auditors' report to the members of Babcock Fire Training (Avonmouth) Limited (formerly VT Fire Training (Avonmouth) Limited) *(continued)*

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

MR

Michael Coffin (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

8 December 2011

Profit and loss account

for the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Turnover	2	**2,416**	2,311
Cost of sales		**(1,947)**	(1,797)
Gross profit		**469**	514
Administrative expenses		**(9)**	(10)
Operating profit		**460**	504
Interest receivable and similar income	4	**2**	3
Interest payable and similar charges	5	**(797)**	(814)
Loss on ordinary activities before taxation	6	**(335)**	(307)
Tax on loss on ordinary activities	7	**36**	19
Loss for the financial year	14	**(299)**	(288)

The above results all relate to continuing activities

There are no recognised gains or losses other than the loss *(2010 loss)* for the year reported above and therefore no separate statement of total recognised gains and losses has been presented There is also no difference between the loss *(2010 loss)* on ordinary activities before taxation and the loss *(2010 loss)* for the financial year stated above, and their historical cost equivalents

Balance sheet
at 31 March 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Tangible assets	8	**6,343**	6,745
Current assets			
Debtors	9	**135**	126
Cash at bank and in hand		**909**	815
		1,044	941
Creditors amounts falling due within one year	10	**(943)**	(687)
Net current liabilities		**(101)**	(254)
Total assets less current liabilities		**6,444**	6,999
Creditors amounts falling due after more than one year	11	**(8,443)**	(8,863)
Provision for liabilities and charges	12	**(432)**	(468)
Net liabilities		**(2,431)**	(2,132)
Capital and reserves			
Called up share capital	13	**-**	-
Profit and loss account	14	**(2,431)**	(2,132)
Total Shareholder's deficit	15	**(2,431)**	(2,132)

The financial statements on pages 7 to 16 were approved by the board of directors on 7 December 2011 and were signed on its behalf by

G Leeming
Director
Babcock Fire Training (Avonmouth) Limited (formerly VT Fire Training (Avonmouth) Limited)

Notes to the financial statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with UK generally accepted accounting principles using the historical cost convention

Under Financial Reporting Standard 1 (1996 Revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking

In addition, advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with Babcock International Group plc or other group undertakings, as the consolidated financial statements of Babcock International Group plc in which the company is included are publicly available

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future The project was entered into and a full financial model generated to support the company's agreement to provide services which covers inception to the end of the service life and demonstrates that the company will remain a going concern for the duration The performance of the company has not deviated from this model and Vosper Thornycroft UK Limited with whom the significant level of funding is held have informally agreed to support the activities of the company for the foreseeable future The directors have a formal letter of support from Babcock International Group PLC to confirm that the company and it's subsidiaries will not seek repayment of amounts due for a period of 12 months from the date of approval of these financial statements unless the company generates sufficient cash flow from its operations to meet third party obligations as they fall due Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements

Turnover

Turnover 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

Rendering of services

Turnover from services rendered is recognised by reference to the stage of completion of the transaction measured by the costs incurred against the total cost to complete Turnover from services provided on a short-term or one-off basis is recognised when the service is complete

Leasing

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment Tangible fixed assets are reviewed for impairment where indicators for impairment exist Where an impairment loss has been identified, it is recorded within accumulated depreciation Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use
Depreciation is provided evenly on the cost of all tangible fixed assets, at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over the expected useful life as follows

Land and buildings	- Over the term of the contract to which it relates
Plant and machinery	- 2 – 25 years

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain tax items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 Deferred taxation assets are recognised only to the extent that, in the opinion of the directors, there is a reasonable probability that the asset will crystallise in the foreseeable future Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date

2 Analysis of turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom

3 Directors remuneration, staff numbers and costs

All of the directors of the company are subject to service agreements with and remunerated by other group companies It is not possible to make an accurate apportionment of their emoluments relating to the services provided to the company Therefore, none of the directors received remuneration for their services to the company *(2010 £nil)*

There were no employees of the company during the current or prior year

4 Interest receivable and similar income

	2011	2010
	£000	£000
On bank deposits	**2**	3

Notes to the financial statements *(continued)*

5 Interest payable and similar charges

	2011 £000	2010 £000
Finance charges payable to fellow group undertakings	**797**	814

6 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging

		2011 £000	2010 £000
Depreciation	- owned tangible fixed assets	**466**	449
Operating lease rentals	- other	**102**	100
Auditors' remuneration			
Fees payable for the audit		**4**	5

No fees are paid to PricewaterhouseCoopers LLP, or its associates, in respect of this company, other than the statutory audit of the company Fees for other services provided by the auditor to the group of companies are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group plc

7 Taxation

	2011 £000	2010 £000
Current tax		
UK corporation tax on loss for the year	**-**	(21)
Adjustment in respect of previous years	**-**	(2)
Total current tax credit	**-**	(23)
Deferred tax		
Origination and reversal of timing differences	**(17)**	12
Impact of change in UK tax rate	**(33)**	-
Adjustment in respect of previous years	**14**	(8)
Total deferred tax (credit)/charge	**(36)**	4
Tax credit on loss on ordinary activities	**(36)**	(19)

Notes to the financial statements *(continued)*

Factors affecting the tax (credit)/charge for the current year

The current tax credit for the year is lower *(2010 tax charge lower)* than the standard rate of corporation tax in the UK of 28% *(2010 28%)* The differences are explained below

	2011 £000	2010 £000
Loss on ordinary activities before tax	**(335)**	(307)
Loss on ordinary activities multiplied by standard rate in UK of 28% *(2010 28%)*	**(94)**	(86)
Effects of		
Depreciation on assets not qualifying for allowances	**68**	77
Difference between capital allowances and depreciation	**17**	(12)
Group relief surrendered for nil consideration	**9**	-
Adjustments in respect of previous years	**-**	(2)
Current tax (credit)/charge for the year	**-**	(23)

Factors affecting future tax charges

A number of changes to the UK Corporation tax system were announced in the March 2011 Budget Statement The rate of corporation tax was reduced from 28% to 26% with effect from 1 April 2011 Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 was substantively enacted on 5 July 2011 in the Finance Act 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014 These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

Notes to the financial statements *(continued)*

8 Tangible assets

	Land and buildings £000	Plant and machinery £000	Total £000
Cost			
At beginning of year	8,121	1,984	10,105
Additions	-	65	65
At end of year	8,121	2,049	10,170
Depreciation			
At beginning of year	2,272	1,089	3,361
Charge for year	325	141	466
At end of year	2,597	1,230	3,827
Net book value			
At 31 March 2011	**5,524**	**819**	**6,343**
At 31 March 2010	5,849	896	6,745

The asset of the fire training facility shall, at the option of the Fire Authority, be transferred to that Authority at the end of the contract, subject to the agreement of compensating sums, where applicable, in accordance with the terms of that underlying contract

9 Debtors

	2011 £000	2010 £000
Prepayments and accrued income	**135**	126

10 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	**106**	101
Amounts owed to group undertakings	**255**	244
Accruals and deferred income	**519**	295
Other taxes	**63**	47
	943	687

Notes to the financial statements *(continued)*

11 Creditors: amounts falling due after more than one year

	2011	2010
	£000	£000
Amounts owed to group undertakings	**8,443**	8,663

Amounts owed to group undertakings are due

	2011	2010
	£000	£000
- in one year or less	**220**	203
- in more than one year but not more than two years	**242**	220
- in more than two years but not more than five years	**868**	796
- in more than five years	**7,333**	7647
	8,663	8,866

The amounts owed to group undertakings represents two loans which are repayable by six-monthly capital and interest bearing a fixed interest rate of 9 04% The loans are due to be repaid in full by March 2026 and instalments commence on 1 January 2011 at £1,000,000 per annum

12 Provisions for liabilities and charges

	Deferred taxation
	£000
At 1 April 2010	468
Credit for the year	(36)
At 31 March 2011	**432**

The deferred taxation liability is analysed as follows

	2011	2010
	£000	£000
Accelerated capital allowances	**432**	468

13 Called up share capital

	2011	2010
	£	£
Allotted, called up and fully paid		
1 ordinary shares of £1 each	**1**	1

Notes to the financial statements *(continued)*

14 Reserves

	Profit and loss account £000
At 1 April 2010	(2,132)
Loss for the year	(299)
At 31 March 2011	**(2,431)**

15 Reconciliation of movements in shareholder's deficit

	2011 £000	2010 £000
Loss for the financial year	**(299)**	(288)
Net increase in shareholder's deficit	**(299)**	(288)
Opening shareholder's deficit	**(2,132)**	(1,844)
Closing shareholder's deficit	**(2,431)**	(2,132)

16 Commitments under operating leases

Annual commitments under non-cancellable operating leases are as follows

	Land & buildings 2011 £000	2010 £000
Operating leases which expire		
After more than five years	**114**	100

17 Cash Balance

Within the cash balance, £109,000 (2010 £108,000) is held in favour of the financiers, pursuant to the Financing agreements and withdrawals may only be made subject to any consent required from the Financiers

Notes to the financial statements *(continued)*

18 Ultimate parent company

The company is a subsidiary undertaking of Babcock Project Investments Limited, a company incorporated in Great Britain and registered in England and Wales

Since the acquisition of VT Group plc by Babcock International Group plc on 9 July 2010, the ultimate parent undertaking and controlling party is Babcock International Group plc, a company incorporated in Great Britain and registered in England and Wales

The largest group in which the results of the company are reported is that headed by Babcock International Group plc The consolidated financial statements are available to the public at that company's registered office of 33 Wigmore Street, London, W1U 1QX No other financial statements include the results of the company