ALC (FMC) Limited

Directors' report and financial statements
Registered number 05424243
For the year ended 31 December 2017

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Strategic report

Principal activities

The Company's principal activity is the operation of the service element of a 16 year Private Finance Initiative (the "C Vehicle Contract") through a subcontract arrangement with ALC (SPC) Limited ("SPC"), a fellow subsidiary of ALC (SuperHoldCo) Limited, wherein the Company is responsible for the service element of the provision of C Vehicle Capability on a global basis. No change in the Company's activities is anticipated.

Business Review

Overview
On 10 June 2005, SPC entered into a 16 year Contract with the Secretary of State for Defence (the "C Vehicles Capability Contract") to provide C Vehicle Capability to the Ministry of Defence ("MOD" or "the Authority") under the Government's Private Finance Initiative. The provision of the service was subcontracted by SPC to ALC (FMC) Limited ("FMC"), the principal subcontractor, for the full 16 years. Together the two companies of SPC and FMC are known as "ALC". The service provider, SPC, holds all the equipment, bid costs and funding for the project.

The C Vehicle Capability Contract provides the MOD with a worldwide capability to use an extensive range of construction and field mechanical handling equipment. This equipment is operated largely by the Royal Engineers and the Royal Logistic Corps and are specifically designed and specified to support the MOD on operations. In late 2006 the Equipment Replacement and Refurbishment Programme ("ERRP") started with the disposal of a number of assets that had already been identified as being surplus to requirement, together with the trials and testing and consequent purchase of new vehicles and ancillaries to ensure that the soldier in the field has the best possible equipment that is up to date and reliable. This process has continued, in line with the ERRP, and the final contracted ERRP procurement was completed and delivered in 2016, with just ongoing refurbishment programmes remaining to be delivered. Training is also given in respect of all equipment to ensure optimal use and maintenance.

Services in respect of vehicle allocation and maintenance are managed in-house via the Fleet Management System, which can be accessed by both the MOD and ALC. Services provided by sub-contractors, most of whom were an integral part of the bidding process, include spares provision; access to online and hard copy technical publications; training of plant operators and maintainers; transporting of equipment; hiring in/out of commercial equipment to optimise the fleet holding; together with the provision of IT services to support the business-wide processes.

Praise for the project and the service provided has been given at the highest of levels by the MOD together with recognition in the Public Private Finance Awards in 2007 where ALC's C Vehicle Capability was voted the Best Operational Defence Scheme. ALC gained the ISO 9001 Quality accreditation in 2007 and during 2008 achieved further management systems accreditations in Health and Safety (BS18001) and Environmental (ISO 14001). These accreditations have been maintained during 2017 with ALC winning a sixth consecutive Gold RoSPA (The Royal Society for the Prevention of Accidents) Health and Safety award during the year in recognition of its continued high level of performance in Occupational Health. ALC has not had any reportable accidents for over six years under RIDDOR regulation (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013).

The C Vehicle project is thoroughly integrated across the armed services from senior command levels to soldiers in the field, with all the support functions provided, such as logistics and training, directly supporting current Operations.

Strategic report *(continued)*

Progress in 2017

Noteworthy achievements by ALC in 2017 have been:

- Continuing recognition by the MOD of the quality and reliability of service delivered and evidenced through the support provided to a number of Operations in the year.
- Continued focus on raising internal standards for quality and safety management to offset the dangers of complacency arising in a long-term contract and to ensure information available to management is as accurate as possible.
- *Working jointly with the MOD on a number of ideas raised in the 10 Year Value for Money* Review to improve End User engagement with a focus on reducing unnecessary expenditure.
- Agreeing and implementing ALC's eleventh Contract Change to adjust equipment numbers in response to changing demand patterns.
- Continue with the in-house refurbishment of equipment in accordance with the ERRP, including the CAT D5N bulldozer and the Rough Terrain Container Handler.
- Continuing a number of business' focus initiatives aimed at developing an improved understanding of our cost drivers and the maintenance trends on the equipment fleet to ensure their availability levels can be sustained through the contract term and enhancing our engineering and information quality.
- Giving all staff 'resilience' training as part of a programme to assist staff in coping with work and home-life pressures.
- Further developing ALC's fleet management information system capability to aid management decision making.
- Continuing work to:
    - Raise the internal standards for quality and safety management to offset the dangers of complacency arising in a long-term contract.
    - Promote a culture of cyber and information security within the business.
    - Embed a 'Target Zero' health and safety culture.
    - Improve diversity and respect within the workforce, as part of the 'ALC Way'.
- Presenting the 11th Fleet Survey Report to the Authority.

2018 Strategy

As in 2017, ALC will be looking to continue its efforts to improve and optimise its service delivery processes during 2018 and ensure they are sustainable as the business needs change and evolve.

Key focuses during 2018 will be:

- Unrelenting focus on raising internal standards for quality and safety management to mitigate any risk of complacency arising and to ensure information available to management is as accurate as possible.
- Continuing to work jointly with the MOD, where possible, to improve End User engagement with a focus on reducing unnecessary expenditure.
- Whilst no significant changes are anticipated, agreeing and implementing eleventh twelth Contract Change to reflect any minor changes required from the Fleet Survey Report delivered in 2017.
- Continue with the in-house refurbishment of equipment in accordance with the ERRP.
- Continuing a number of business' focus initiatives to understand the maintenance trends on the equipment fleet and deliver appropriate interventions to ensure their availability levels can be sustained through the contract term.
- Starting to develop an understanding of end of contract requirements to support the MOD with a transition of the ongoing C Vehicle service to a new service provider.
- Working on a number of strategies to retain staff as contract end approaches.
- Preparing the 12th Fleet Survey Report.

Strategic report *(continued)*

Project risks and uncertainties

ALC maintains a comprehensive risk register that monitors both internal and external risks and is reviewed quarterly by management to ensure that appropriate mitigation and risk reduction measures are in place. In the last year, the approach of the end of the Contract in 2021 has resulted in a number of new risks being added, the most significant being the risk to service delivery from failing to retain staff. This issue is being closely monitored and management are very aware of the need to keep staff informed on the MOD's progress with the re-let of the contract as part of Project MITER.

ALC is exposed to a number of financial risks. These are effectively managed with our increased knowledge base of the contract, built over the last 13 years:

- Demand – the MOD requesting less equipment than anticipated at Contract Award. This risk is mitigated by a minimum "take or pay level" to reduce exposure and the opportunity to earn 'third party revenue' as an offset.
- Demand volatility – the locations and numbers of transactions required to deliver the service may exceed that assumed at Contract Award. This is mitigated by the Contract rules on minimum hire periods, the management of equipment movement by ALC's operations team and the changes in transport risk arrangements introduced in the PFI Efficiency Review.
- Pricing risk – this is the assumption made to calculate the amount of labour and materials required to deliver the service. Pricing was based on previous parent company experience of operating in this field and continues to be proved materially accurate overall.
- Foreign exchange risk – whilst this is kept under review by the Board, with the procurement phase of the ERRP now complete and the closure of the German Regional office in 2016, ALC's exposure to foreign currency risk has diminished substantially. Most of ALC's operating costs are denominated in GBP, however, the strengthening of the Euro against the GBP has resulted in some costs increasing, for example, spares that are sourced overseas. The impact of this is not material but continues to be kept under review.
- Economic pressure – other than interest rate risk (see below), ALC remains largely unaffected by the impact of wider economic pressures directly (due to the existence of the minimum take or pay level of charge within the contract), but there is a risk that it will be impacted indirectly by a subcontractor or supplier failing, although, this situation has not had any adverse impact on ALC during 2017. Management continue to keep the situation under close scrutiny and work closely with and support its suppliers.
- Government Budgetary pressures – ALC has previously worked with the MOD's Private Finance Unit (PFU) wishing to explore any possible efficiencies in the C Vehicle contract and the findings of the review were implemented during 2014 through a Contract change that is acknowledged to have generated savings for the MOD overall. Further areas of potential joint efficiency have been explored in 2017 through the assessment of ideas raised in the Year 10 Value for Money Review, albeit the incremental benefits realised have been more limited.

Financial risk management policies and objectives

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities. Board approval is required for the use of any new financial instrument.

- **Interest rate risk:** The fall in bank base rates at the start of 2009 has resulted in the interest generated on funds on deposit reducing significantly, although the small rate increase seen in 2017 has helped mitigate this impact in the year.

Strategic report *(continued)*

Financial risk management policies and objectives *(continuation)*

- **Liquidity risk:** The overall pricing of the Contract was designed to ensure that sufficient funds were always available to pay its debt, with shareholders' guarantees in place to support any losses in FMC.
- **Currency risk**: As mentioned above, ALC's exposure to foreign currency risk is now minimal and is expected to remain so for future years. Further, any residual impact has been more than offset by continuing efforts in the year to improve efficiency and remove unnecessary cost from the business.
- **Bank default:** ALC has a policy of spreading its investment of deposits. ALC invests across five mainstream banks, all of whom were S&P long term credit rated 'A-' or better at 31 December 2017. Having a mix of banks that ALC can invest funds with has also enabled ALC to maximize the return it generates on funds invested.

KPI measurement

Measurement of contract performance falls into two categories: external with the MOD and internal with shareholders and lenders. Contractual KPIs, that aim to ensure ALC is providing the required level of service to the military user of ALC's equipment, are measured with the MOD on a monthly basis and reported to the ALC board. ALC's financial and operational performance is reviewed monthly with the shareholders, with a particular focus on cost drivers, information quality and service delivery. In 2017 (as in 2016) there were no KPI performance deductions incurred by ALC and only £1,841 (2016: £177) of deductions for unavailability of equipment due to breakdowns. ALC will continue to strive in 2018 to achieve service delivery to the Authority with zero penalties and continues to improve its methods of tracking internal operating performance measures, especially in relation to internal information quality and the readiness of the equipment fleet to meet demand requirements.

Overall Performance

FMC's financial results and, hence the return on investment for shareholders, are reflective of the high level of service performance that ALC continues to provide to the MOD. Revenue of £30.4M (2016: £29.4M) and Operating profit of £12.6M (2016: £11.9M) have both risen in the year, reflecting the high equipment demand levels seen in the year, albeit this is partially offset by lower third party hire revenue as the equipment demand levels have risen. Net Assets at the Balance Sheet date of £0.5M (2016: £3.5M) are lower this year, reflecting the Board's decision to distribute available profit earlier in 2017.

The partnership between the MOD and ALC continues to go from strength to strength due to the specific aims of both parties wishing to ensure success for the Contract and ultimately the service provided to the soldier in the field as the end user. ALC will continue to strive to build upon its success and aims to continue to be a supplier of choice for the MOD and continue to meet their evolving capability requirements.

By order of the Board

Nicolas C Anderson
Director

Registered Office
The Sherard Building
Edmund Halley Road
Oxford
OX4 4DQ
22 March 2018

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2017.

The results for the year are set out in the profit and loss account on page 10.

Dividends

The Directors approved and paid dividend payments of £13.3M in the year ended 31 December 2017 (2016: £9.1M).

Directors

The Directors who held office during the period were as follows:

Name	Appointed	Resigned
Nicolas C Anderson	1 December 2009	
Nicholas J Dawson (alternate to Asif Ghafoor)	19 September 2016	
Asif Ghafoor	25 January 2007	
Roger A Hardy	1 December 2015	1 April 2017
Karen Hayzen-Smith	14 December 2016	1 April 2017
Paul M Kingshott (alternate to Nicolas Anderson)	23 August 2016	
Mark D Lawton	1 April 2017	
Nicholas D Maggs	29 June 2016	
Richard J Ward	21 December 2015	

Supplier payment policy

When entering into commitments for the purchase of services and goods the Company gives due consideration to quality, price and the terms of payment. Suppliers are made aware of these terms. The Company abides by these terms where it is satisfied that suppliers have provided the services or goods in accordance with such agreed terms and conditions. In the event of disputes, every effort is made to resolve things quickly.

The amount due to the Company's trade creditors at 31 December 2017 represents 17 days *(2016: 18 days)* average daily purchases of goods and services received from those creditors, calculated in accordance with the Companies Act 2006, Statutory Instrument 2008/410 schedule 7 part 5.12.

Directors' report *(continued)*

Employees

Diversity
Our aim is to ensure that no job applicant, employee or former employee receives less favourable treatment on the grounds of colour, race, nationality, ethnic or national origin, religious belief, sex, sexual orientation, marital status, age or as a consequence of unlawful discrimination relating to disability.

Disabled employees
The Company gives consideration to applications for employment from disabled persons where the disabled person may adequately cover the requirements of the job. Disabled persons are employed under the normal contract terms and conditions. Career development and promotion is provided wherever appropriate.

Employee involvement
It is ALC's policy to communicate with and involve all employees, subject to commercial and practical limitation, in matters affecting their interests at work and to inform them of the performance of their Business. Employees are provided with information about the Business, which is supplemented by regular team briefings. The Company makes full use of its intranet and a quarterly internal communications magazine to provide current information to its employees.

Disclosure of information to auditor

The directors who held office at the date of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic report on page 1.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

Nicolas C Anderson
Director

Registered Office
The Sherard Building
Edmund Halley Road
Oxford
OX4 4DQ

22 March 2018

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

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *'The Financial Reporting Standard applicable in the UK and Republic of Ireland'*.

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 judgments and accounting 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of ALC (FMC) Limited

Opinion

We have audited the financial statements of ALC (FMC) Ltd ("the company") for the year ended 31 December 2017 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- 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.

We have nothing to report in these respects.

Independent auditor's report to the members of ALC (FMC) Limited *(Continued)*

Directors' responsibilities

As explained more fully in their statement 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Hh Br

Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square,
Bristol
BS1 4BE

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Profit and loss account

For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Turnover	*2*	30,414	29,369
Cost of sales		(12,599)	(12,191)
Gross profit		**17,815**	**17,178**
Administrative expenses		(5,815)	(5,573)
Other operating income	*3*	641	258
Operating profit		**12,641**	**11,863**
Other interest receivable and similar income	*7*	11	16
Profit before taxation		**12,652**	**11,879**
Tax on profit	*8*	(2,418)	(2,399)
Profit for the financial year		**10,234**	**9,480**

Notes on pages 13 to 23 form part of these financial statements.

The results above are derived from continuing operations.

There are no items of other comprehensive income and so a Statement of Other Comprehensive Income has not been prepared.

Balance sheet
At 31 December 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible assets	9	1,009	833
Current assets			
Debtors	10	7,132	7,258
Cash at bank and in hand		1,928	3,845
		9,060	**11,103**
Creditors: amounts falling due within one year	11	(6,376)	(6,536)
Net current assets		**2,684**	**4,567**
Total assets less current liabilities		**3,693**	**5,400**
Creditors: amounts falling due after more than one year	12	(182)	(257)
Provision for liabilities	13	(3,048)	(1,614)
Net assets		**463**	**3,529**
Capital and reserves			
Called up share capital	16	-	-
Profit and loss account		463	3,529
Shareholders' funds		**463**	**3,529**

Notes on pages 13 to 23 form part of these financial statements.

These financial statements were approved by the board of directors on 22 March 2018 and were signed on its behalf by:

Nicolas C Anderson
Director

Statement of Changes in Equity

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2016	-	**3,149**	**3,149**
Total comprehensive income for the period			
Profit or loss	-	9,480	9,480
Total comprehensive income for the period	-	9,480	9,480
Dividends	-	(9,100)	(9,100)
Total contributions by and distributions to owners	-	(9,100)	(9,100)
Balance at 31 December 2016	**-**	**3,529**	**3,529**
Balance at 1 January 2017	-	3,529	3,529
Total comprehensive income for the period			
Profit or loss	-	10,234	10,234
Total comprehensive income for the period	-	10,234	10,234
Dividends	-	(13,300)	(13,300)
Total contributions by and distributions to owners	-	(13,300)	(13,300)
Balance at 31 December 2017	**-**	**463**	**463**
Set aside for dividends declared after the reporting period	-	(400)	(400)
Total	**-**	**63**	**63**

Notes to the financial statements

1. Accounting policies

ALC (FMC) Limited (the "Company") is a private company limited by shares and incorporated, domiciled and registered in England in the UK. The registered office is The Sherard Building, Edmund Halley Road, Oxford, OX4 4DQ.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102")* as issued in August 2015. The amendments to FRS 102 issued in July 2016 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's parent undertaking, ALC (SuperHoldCo) Limited includes the Company in its consolidated financial statements. The consolidated financial statements of ALC (SuperHoldCo) Limited are available to the public and may be obtained from the address given in note 19. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of ALC (SuperHoldCo) Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The requirements of Section 33 Related Party Disclosure paragraph 33.7; and
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 20.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The Company has considerable financial resources together with a long term contract to provide C Vehicle Capability to the Ministry of Defence and therefore the Directors believe the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Directors have reviewed cash flow forecasts for a period of at least twelve months from the date of approving these financial statements, including reasonably possible changes in operations. As a result they believe that the Company will be able to settle its liabilities and operate for the foreseeable future, and have continued to adopt the going concern basis in these financial statements.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Tangible Fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

Tools & equipment	-	5 years straight line
Van racking	-	4 years straight line
Office equipment	-	3 years straight line - IT equipment
		5 years straight line - Office furniture

Where equipment has been purchased to meet a specific MOD demand over an agreed period, the life of the asset is taken to be the same as this agreed period.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Expenses

Operating lease:
Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable:
Interest payable and similar charges include interest payable and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Notes to the financial statements *(continued)*

1. Accounting policies (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

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, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Deferred revenue

The spares held for the fleet owned by the MOD were sold to the Company for £1, but are being capitalised in the financial statements at the fair market valuation. The resultant fair value adjustment is amortised over the life of the contract.

Cash

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Turnover

Turnover represents the amounts derived from the provision of goods and services to customers and excludes VAT.

Turnover from services is recognised when the service provided to the customer has been completed. This largely represents the monthly service fee, together with other services provided such as repair work.

Turnover from the provision of goods is recognised when the risks and rewards of ownership of goods have been transferred to the customer. The risks and rewards of ownership of goods are deemed to have been transferred when the goods are shipped to or picked up by the customer. This largely represents the sale of spare parts.

Notes to the financial statements (continued)

2. Analysis of turnover

	2017 £000	2016 £000
By activity		
Service revenue	27,873	25,563
Sale of goods	2,541	3,806
	30,414	**29,369**

All turnover originates in the United Kingdom.

3. Other operating income

	2017 £000	2016 £000
Release of unused provisions	641	258
	641	**258**

4. Audit remuneration

	2017 £000	2016 £000
Amounts receivable by the auditor and their associates in respect of:		
Audit of these financial statements	18	20
Other assurance services	2	-
	20	**20**

5. Remuneration of directors

Directors' emoluments for the year amounted to £nil *(2016: £nil)* as all Directors' are paid by one or other of the Shareholder companies. As part of a management charge from the Shareholder companies, £189K *(2016: £184K)* was charged in the year in respect of the provision of Board Directors.

Notes to the financial statements *(continued)*

6. Staff numbers and costs

All staff are seconded in from the parent companies and not employed directly by ALC. ALC does reimburse the parent companies for the payroll costs of all secondees. The analysis of ALC's total staff numbers is shown in the table below:

	2017 (No.)	**2016 (No.)**
Technical	49	53
Administration	47	53
	96	106

The aggregate payroll costs of these persons were as follows:

	2017 £000	**2016 £000**
Wages and salaries	3,642	3,732
Social security costs	363	383
Other pension costs (see Note 15)	328	350
	4,333	**4,465**

The above payroll cost includes the cost of employees in Germany of 2017: £Nil *(2016: £167K)*. ALC has had no employees working in Germany since 2015.

The pension costs of £328K (2016: £350K) are recharged by companies related to the Shareholders.

7. Other interest receivable and similar income

	2017 £000	**2016 £000**
Bank interest	11	16

Notes to the financial statements *(continued)*

8. Taxation

	2017 £000	£000	2016 £000	£000
Current tax				
Current tax on income for the period		2,353		2,335
Overseas tax on income for the period		-		16
Adjustments in respect of prior periods		(5)		12
Total current tax		2,348		2,363
Deferred tax (see note 14)				
Origination and reversal of timing differences	70		30	
Change in tax rate	-		6	
Total deferred tax		70		36
Total tax		2,418		2,399

Reconciliation of effective tax rate

	2017 £000	2016 £000
Profit for the year	10,234	9,480
Total tax expense	2,418	2,399
Profit excluding taxation	12,652	11,879
Tax using the UK corporation tax rate of 19.25% *(2016: 20%)*	2,435	2,376
Effect of tax rates in foreign jurisdictions	-	9
Tax rate change	(12)	-
Re-measurement of deferred tax – change in UK rate (*2016: 17% from 18%)*	-	2
Under provided in prior years	(5)	12
Total tax expense included in profit or loss	**2,418**	**2,399**

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2017 have been calculated based on these rates.

Notes to the financial statements *(continued)*

9. Tangible fixed assets

	Tools & Equipment £000	Van Racking £000	Office Equipment £000	Total £000
Cost or valuation				
Balance at beginning of year	1,281	144	199	1,624
Additions	249	-	95	344
Disposals	(77)	-		(77)
Balance at the end of year	**1,453**	**144**	**294**	**1,891**
Depreciation				
Balance at beginning of year	448	144	199	791
Charge for the year	104	-	9	113
Disposals	(22)	-	-	(22)
Balance at the end of year	**530**	**144**	**208**	**882**
Net book value				
As at 31 December 2016	**833**	**-**	**-**	**833**
As at 31 December 2017	**923**	**-**	**86**	**1,009**

10. Debtors

	2017 £000	2016 £000
Trade Debtors	29	133
Amount due from group undertakings	5,818	5,780
Deferred Taxation (*note 14*)	2	72
Other Debtors	1,028	896
Prepayments	255	377
	7,132	**7,258**

Notes to the financial statements *(continued)*

11. Creditors: amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	2,130	616
Corporation Tax payable	1,187	1,059
Accruals	2,425	2,583
Deferred income	634	2,278
	6,376	**6,536**

12. Creditors: amounts falling due after more than one year

	2017 £000	2016 £000
Deferred Fair Value of Spares	182	257

	2017 £000	2016 £000
Deferred Fair Value of Spares at 1 January 2017	332	407
Net amount released to Profit and Loss in the period	(75)	(75)
Deferred Fair Value of Spares at 31 December 2017	257	332
Less amounts shown as less than 1 year (in accruals and deferred income)	(75)	(75)
	182	**257**

Notes to the financial statements *(continued)*

13. Provision for liabilities

	Gain Share	Other Provisions	Total
	£'000	£'000	£'000
At beginning of year	**13**	**1,601**	**1,614**
Provisions Reclassified during year	-	1,719	1,719
Provisions made during the year	3	633	636
Provisions used during year	-	(280)	(280)
Provisions reversed during the year	-	(641)	(641)
	16	**3,032**	**3,048**

The Gain Share provision relates to the disposal of legacy equipment. The gain share is accounted for in the Profit and Loss account on an overall projected percentage gain basis.

Other provisions largely relate to risks surrounding the maintenance and sustainability of ALC's equipment. These liabilities are expected to fall due before the end of the contract.

14. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	**2017**	2016	**2017**	2016
	£000	£000	**£000**	£000	**£000**	£000
Accelerated capital allowances	-	-	(66)	(81)	(66)	(81)
Other	68	153	-	-	68	153
Tax (assets) / liabilities	**68**	**153**	**(66)**	**(81)**	**2**	**72**

15. Pension schemes

The Company does not operate a pension scheme. All UK staff are seconded in from the parent companies and as such are eligible to participate in the relevant Company's pension scheme.

Notes to the financial statements *(continued)*

16. Called up share capital

	2017 £	2016 £
Allotted, called up and fully paid		
Equity: 1 Ordinary share of £1.00 each	1	1

Dividends

During the year total dividends of £13,300K equivalent to £13,300K per qualifying ordinary share *(2016: £9,100K; £9,100K)* were proposed and paid.

After the balance sheet date total dividends of £2,100K equivalent to £2,100K per qualifying ordinary share *(2016: £3,400K; £3,400K)* were proposed by the directors. Of this total, £400K relates to profit arising in the year to 31 December 2017 and whilst this has not been provided for, it is presented as a segregated component of retained earnings at the end of the period.

17. Commitments

	2017 £000	2016 £000
Operating leases (other than land and buildings) which expire:		
Within one year	223	317
Between 2 – 5 years	56	194
	279	**511**

18. Related parties

The Company has taken advantage of the exemption under FRS 102 that transactions with wholly owned subsidiaries, do not need to be disclosed. During the period, the group had transactions with its shareholders which are summarised below:

	2017 £000	2016 £000
IT, Staff and other group services		
– Babcock Group companies	2,004	2,120
– Amey Group companies	4,648	4,660
The balances due to them at the period end is below:		
– Babcock Group companies	1,173	-
– Amey Group companies	347	11
The balances due from them at the period end is below:		
– Babcock Group companies	25	-
– Amey Group companies	6	-

All staff are seconded from either Babcock or Amey Group companies. The total aggregate remuneration for Key Management Personnel was £668K in the year (*2016: £671K*).

Notes to the financial statements *(continued)*

19. Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of ALC (SuperHoldCo) Limited in the United Kingdom. ALC (SuperHoldCo) Limited has no single ultimate parent undertaking or controlling party by virtue of the Company's joint ownership and joint control by Amey Ventures Investments Limited and Babcock Defence and Security Investments Limited.

Amey Ventures Investments Limited is itself a joint venture company held jointly between Amey Investments Limited and DIF Infra JV UK Limited since 14 December 2009. Amey Investments Limited is a wholly owned subsidiary undertaking of Amey plc group whose ultimate parent is Ferrovial S.A., a company incorporated in Spain. DIF Infra JV UK Limited is a wholly owned subsidiary of DIF Infrastructure UK Partnership, whose ultimate parent is DIF Infrastructure II B.V. (NL), a company incorporated in The Netherlands.

Babcock Defence and Security Investments Limited is a wholly owned subsidiary undertaking of Babcock International Group Plc.

The largest and smallest group in which the results of the Company are consolidated is that headed by ALC (SuperHoldCo) Limited. The consolidated accounts of this group are available to the public and may be obtained from The Sherard Building, Edmund Halley Road, Oxford, OX4 4DQ.

20. Accounting estimates and judgements

Key sources of estimation uncertainty

As detailed in note 13, ALC's management have made £3,048K *(2016: £1,614K)* of provisions in relation to identified risks and as these relate to future outcomes, inevitably they include an element of judgement and estimation. The levels of these provisions are kept under regular review and adjusted as information becomes available to refine any estimates made.

Beyond this, the Directors do not believe that there are any other accounting estimates that would have a significant effect on the financial statements, or any critical judgements.