

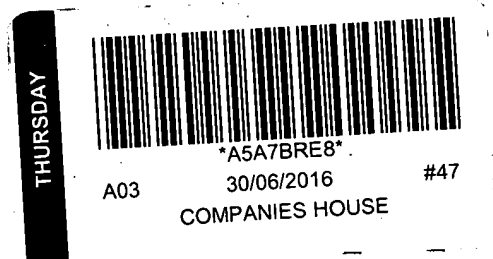
**Babcock Integrated Technology Limited**

**Annual report**

**For the year ended 31 March 2016**

**Company registration number:**

**6717269**



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# **Babcock Integrated Technology Limited**

## **Directors and advisors**

### **Current Directors**

F Martinelli

J Hall

M W Hardy

A Bethel

I Urquhart

### **Company secretary**

Babcock Corporate Secretaries Limited

J Wood

### **Registered office**

33 Wigmore Street

London

W1U 1QX

### **Independent auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

2 Glass Wharf

Bristol

BS2 0FR

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## **Babcock Integrated Technology Limited**

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

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

#### **Principal activities**

The principal activity of the Company is the design, supply, manufacture, installation and management of specialist mechanical handling equipment projects and systems engineering, principally within the defence industry.

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

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Turnover	<b>94,862</b>	78,681
Profit for the financial year	<b>7,856</b>	20,631
Total shareholders' funds	<b>43,558</b>	56,168

Over the course of the year, the Company's core business activities continued to perform in line with expectations.

The key projects on which the business was engaged during the year were in submarine support, both in the UK and the rest of the world, manufacture of a weapons handling system for the Astute class submarines and design work for the future Vanguard replacement project, continued activity of various systems for the Queen Elizabeth aircraft carriers, and the commencement of the design of a weapons handling and discharge system for the Korean Navy.

In Canada the Company provides services from its location in the UK and also has employee's based in the Canadian dockyards offering specialist expertise in areas of engineering and waterfront support. In 2015/16, work also continued on the re-fit of the fourth in class submarine (Cornerbrook).

Work is still progressing on the Astute class submarine programme. Focus in the year was primarily on the Astute Boat 5 completion earlier in the year and the ramp up of manufacturing for Boat 6 equipment. Progress is also being made on the procurement and manufacturing activity for Boat 7.

During the year there was continued activity in the maturity of design for a weapons handling system for the Korean Navy's Jangbogo submarine. The manufacturing phase is now underway with the first hardware deliverables successfully achieved in March 2016.

Progress continues to be achieved on the MoD aircraft carrier contract, primarily based at the Company's Leicester site and with installation and commissioning starting to take place on the ships in Scotland.

Design, development and qualification relating to the Vanguard replacement project have been well underway during the year. The long lead items contract has been received to meet the project critical path with the customer with the orders now placed in order to progress to the manufacturing stages of the project.

Our service contracts for equipment on in-service submarines continue to be successful with 3 years remaining of their 5 year tenure.

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## **Babcock Integrated Technology Limited**

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

#### **Review of the business *(continued)***

Orders have also been won for the Type 26 air weapons handling system design completion and manufacture phase of the first 3 boats and further orders received from Rolls Royce for Control Rod Drive Motors and Bulkhead Penetrators and from Selex (Finmeccanica) for the production of Decoy Dispenser Units.

In 2016 there is a change in presentation of research and development tax credit due to the claim made under the new scheme Research and Development Enhanced Credit (RDEC)

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

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

The Company and its customers operate around the world, utilising relationships within Australia, Canada, Western Europe and Asia. While benefiting from the opportunities in these regions, the Company and its customers are exposed to the political and business risks associated with international operations, such as sudden changes in regulation, expropriation of assets, imposition of trade barriers, limits on the export of currency and volatility of prices, taxes and currencies. The principal risk and uncertainty facing the Company is the availability of government funding to support existing and future defence activities both in the UK and internationally. The Company maintains a policy of building good working relationships with its customer base so as to gain advanced understanding of potential funding constraints.

The directors manage this risk by meeting on a regular basis to discuss these risks.

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

#### **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 Marine Holdings (UK) Limited, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 28 to 35 and 36 to 41 of the annual report of Babcock International Group Plc, which does not form part of this report.

#### **Future developments**

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

By order of the board.



MW Hardy  
Director

27<sup>th</sup> June 2016

Registered number 6717269

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## **Babcock Integrated Technology Limited**

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

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

#### **Dividends**

No dividends were received during the year from Babcock Canada Inc or LGE Process Ltd (2015: £7,736k and £7,000k respectively). Dividends declared during the year to the Company's immediate parent company Babcock Marine Holdings (UK) Limited were £20,000k (2015: £25,000k).

#### **Future developments**

Information on the future developments of the Company can be found in the Strategic report.

#### **Financial risk management**

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments. The department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

##### *Price risk*

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

##### *Credit risk*

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

##### *Liquidity risk*

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

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## **Babcock Integrated Technology Limited**

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

#### **Financial risk management (*continued*)**

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

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

#### **Directors**

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

F Martinelli  
J Hall  
M W Hardy  
A Bethel  
I Urquhart

#### **Employment of disabled persons**

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

#### **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.

#### **Research and development**

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

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## **Babcock Integrated Technology Limited**

### **Directors' report for the year ended 31 March 2016 *(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 Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notifies the Company's shareholders in writing about the use of the disclosure exemptions, if any, of FRS 101 used in the preparation of these financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Qualifying third party indemnity provisions**

Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

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**Babcock Integrated Technology Limited**

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

**Statement of disclosure of information to auditors**

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

By order of the board

A handwritten signature in black ink, appearing to be 'M W Hardy', written in a cursive style.

M W Hardy

**Director**

27<sup>th</sup> June 2016



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## **Babcock Integrated Technology Limited**

### **Independent auditors' report to the members of Babcock Integrated Technology Limited**

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

##### **Our opinion**

In our opinion, Babcock Integrated Technology Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

- the Balance sheet as at 31 March 2016;
- the Income statement and the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

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

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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## **Babcock Integrated Technology Limited**

### **Independent auditors' report to the members of Babcock Integrated Technology Limited** *(continued)*

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

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

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

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

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

As explained more fully in the Statement of directors' responsibilities on page 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland)) ("ISAs (UK and Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

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**Babcock Integrated Technology Limited**

**Independent auditors' report to the members of Babcock Integrated Technology Limited** *(continued)*

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

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

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

*Duncan Stratford*

Duncan Stratford (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol

27 June 2016

# Babcock Integrated Technology Limited

## Income statement

for the year ended 31 March 2016

	Note	2016 £000	2015 £000
<b>Revenue</b>	4	<b>94,862</b>	<b>78,681</b>
Cost of sales		<u>(74,887)</u>	<u>(63,768)</u>
<b>Gross profit</b>		<b>19,975</b>	<b>14,913</b>
Administration expenses		<b>(8,979)</b>	<b>(6,393)</b>
<b>Operating profit</b>	7	<u><b>10,996</b></u>	<u><b>8,520</b></u>
Income from shares in group undertakings		-	-
<b>Profit on ordinary activities before interest and taxation</b>		<b>10,996</b>	<b>8,520</b>
Finance income	6	<b>2,464</b>	<b>2,415</b>
Finance costs	6	<b>(4,038)</b>	<b>(4,297)</b>
Dividends received		-	<b>14,736</b>
Other finance costs - pensions	25	<u><b>25</b></u>	<u><b>(30)</b></u>
<b>Profit on ordinary activities before income tax</b>		<b>9,447</b>	<b>21,344</b>
Income tax expense	11	<u><b>(1,591)</b></u>	<u><b>(713)</b></u>
<b>Profit for the year</b>		<u><b>7,856</b></u>	<u><b>20,631</b></u>

All of the above results derive from continuing operations.

## Statement of comprehensive income

for the year ended 31 March 2016

	2016 £000	2015 £000
<b>Profit for the year</b>	<u><b>7,856</b></u>	<u><b>20,631</b></u>
<b>Other comprehensive income:</b>		
<i>Items that may be subsequently reclassified to income statement:</i>		
Fair value adjustment of foreign exchange hedges	<b>404</b>	<b>(42)</b>
<i>Items that will not be subsequently reclassified to income statement:</i>		
Gain / (loss) on remeasurement of net defined benefit obligation	<b>(1,077)</b>	<b>1,311</b>
Tax on net defined benefit obligation	<b>207</b>	<b>(261)</b>
<b>Total comprehensive income for the year</b>	<u><b>7,390</b></u>	<u><b>21,639</b></u>

# Babcock Integrated Technology Limited

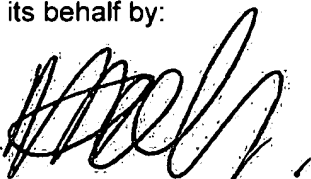
## Balance sheet

as at 31 March 2016

	Note	2016 £000	2015 £000
<b>Non-current assets</b>			
Intangible assets	12	13,441	13,441
Tangible fixed assets	13	6,892	6,670
Investments in subsidiaries	14	64,038	64,038
		<u>84,371</u>	<u>84,149</u>
<b>Current assets</b>			
Inventories	15	24	21
Trade and other receivables	16	102,409	117,887
Other financial assets	19	393	14
Gross pension asset	25	-	567
Cash and cash equivalents		<u>22,461</u>	<u>11,672</u>
		125,287	130,161
Trade and other payables – amounts falling due within one year	17	(161,215)	(153,509)
Other financial liabilities	19	(6)	(31)
<b>Net current liabilities</b>		<u>(35,934)</u>	<u>(23,379)</u>
<b>Total assets less current liabilities</b>		<u>48,437</u>	<u>60,770</u>
Provision for liabilities	18	(4,470)	(4,602)
Gross pension liabilities	25	(409)	-
<b>Net assets</b>		<u>43,558</u>	<u>56,168</u>
<b>Capital and reserves</b>			
Called up share capital	21	40	40
Share premium		31,000	31,000
Other reserves		387	(17)
Retained earnings		<u>12,131</u>	<u>25,145</u>
<b>Total shareholders' funds</b>		<u>43,558</u>	<u>56,168</u>

The notes on pages 14 to 39 are an integral part of these financial statements.

The financial statements on pages 11 to 12 were approved by the board of directors and signed on its behalf by:



M W Hardy  
Director

27 June 2016.

# Babcock Integrated Technology Limited

## Statement of changes in equity for the year ended 31 March 2016

	Note	Called-up share capital £000	Share premium £000	Hedging reserve £000	Retained earnings £000	Total £000
<b>Balance at 1 April 2014</b>		40	31,000	25	28,464	59,529
Profit for the year		-	-	-	20,631	20,631
Other comprehensive income / (loss)		-	-	(42)	1,050	1,008
Dividends paid	22	-	-	-	(25,000)	(25,000)
<b>Balance at 31 March 2015</b>		40	31,000	(17)	25,145	56,168
Profit for the year		-	-	-	7,856	7,856
Other comprehensive income / (loss)		-	-	404	(870)	(466)
Dividends paid	22	-	-	-	(20,000)	(20,000)
<b>Balance at 31 March 2016</b>		40	31,000	387	12,131	43,558

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# **Babcock Integrated Technology Limited**

## **Notes to the financial statements**

### **1 General information**

Babcock Integrated Technology Limited is a limited company which is incorporated and domiciled in the UK. The address of the registered Office is 33 Wigmore Street, London W1U 1QX.

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

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has adopted FRS 101 in these financial statements. Details of the transition to FRS 101 are disclosed in note 28.

#### **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 land and buildings and certain financial assets and liabilities measure at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

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

The Company is a wholly owned subsidiary of Babcock Marine Holdings (UK) Limited 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 requirement 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:

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- b) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
  - paragraph 73(e) of IAS 16 Property, plant and equipment; and
  - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- f) IAS 7, 'Statement of cash flows'
- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

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## **Babcock Integrated Technology Limited**

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

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

- h) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation

#### **Standards, amendments and interpretations to published standards**

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.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 April 2014 or later periods, for which the Company has not early adopted. Interpretations to existing standards that are not yet effective and the impact on the Company's operations is currently being assessed but is not expected to be significant:

- a) IFRS 9, 'Financial instruments' effective 1 January 2018;
- b) IFRS 15, 'Revenue from contracts with Customers' effective 1 January 2017;
- c) IFRS 16, 'Leases' effective 1 January 2019

There are no other standards or interpretations that are not yet effective that are expected to have a material effect on the Company's results.

#### **Revenue**

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

##### **(a) Sale of goods**

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable.

##### **(b) Rendering of services**

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. The provision of services over a long-term period are accounted for under the principles of construction contracts, and the revenue recognised as set out below. In a limited number of contracts where performance and revenue are measured annually the revenue and costs are similarly recognised over the course of the year.

##### **(c) 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



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## **Babcock Integrated Technology Limited**

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

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

used to assess the stage of completion include incurred costs as a proportion of total costs; labour hours incurred or earned value of work performed.

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

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

#### **Contract accounting balances**

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

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

Pre-contract costs are recognised as expenses 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.

#### **Intangible assets**

Intangible assets are stated at cost less accumulated amortisation. The intangible assets are amortised on a straight line basis as follows:

##### *a) Goodwill*

Goodwill relating to acquisitions prior to transition date is maintained at its net book value on the date of transition to FRS 101.

Annual impairment reviews are performed as outlined in note 12.

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# **Babcock Integrated Technology Limited**

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

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

#### *b) Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

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

Property, plant and equipment are 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 PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold property	2% to 8%
Plant and equipment	6.6% to 33.3%

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

#### **Investments**

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

#### **Inventory and work in progress**

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

#### **Trade receivables**

Trade receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

#### **Share based payments**

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

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## **Babcock Integrated Technology Limited**

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

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

##### **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<sup>9</sup> or substantially enacted by the balance sheet date.

###### **(b) Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

##### **Pensions costs and other post-retirement 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 benefit contribution scheme. Obligations for contributions to the defined benefit pension plan are recognised as an expense in the income statement.

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## **Babcock Integrated Technology Limited**

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

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

##### **Foreign currencies**

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

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

##### **Operating leases**

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

##### **Finance leases**

Assets under finance leases are capitalised and the outstanding capital element of instalments is included in borrowings. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

##### **Provisions for liabilities**

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

A provision for 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.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly. A provision is made where the operating leases are deemed to be onerous.

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

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

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## **Babcock Integrated Technology Limited**

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

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

##### **Derivative financial instruments**

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

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

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

##### **3 Critical accounting estimates and judgements**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

##### **Defined benefit pension scheme**

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 25 for the disclosures of the defined benefit pension scheme. Where necessary, provisions are established for any probable future losses.

##### **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.

# Babcock Integrated Technology Limited

## Notes to the financial statements (continued)

### 4 Revenue

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

	2016 £000	2015 £000
By area of activity:		
Sales of goods	2,536	-
Rendering of services	27,007	16,587
Long term contracts	65,319	62,094
	<u>94,862</u>	<u>78,681</u>

	2016 £000	2015 £000
By geographical area:		
United Kingdom	62,456	55,568
Europe	2,539	1,612
USA & Canada	13,973	7,041
Rest of World	15,894	14,460
	<u>94,862</u>	<u>78,681</u>

### 5 Contract revenue

	2016 £000	2015 £000
From ongoing contracts:		
Contract costs incurred	314,238	262,504
Recognised profits less recognised losses	52,696	41,752
	<u>366,934</u>	<u>304,256</u>
Progress billings	<u>383,177</u>	<u>317,685</u>
Due from customers	<u>8,565</u>	<u>8,349</u>
Due to customers	<u>(24,809)</u>	<u>(21,778)</u>

Values based on cumulative figures for long term contracts

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## Babcock Integrated Technology Limited

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

#### 6 Finance income and costs

	2016 £000	2015 £000
<b>Finance income:</b>		
Bank interest	13	-
Loan interest receivable from group undertakings	2,451	2,415
	<u>2,464</u>	<u>2,415</u>

#### Finance expenses:

Loan interest payable to group undertakings	<u>(4,038)</u>	<u>(4,297)</u>
	<u>(4,038)</u>	<u>(4,297)</u>

#### 7 Operating profit

Operating profit is stated after charging / (crediting):

	2016 £000	2015 £000
Loss on disposal of property, plant and equipment	4	20
Research and development recognised as an expense	1,253	709
Operating lease charges		
- land and buildings	186	144
- other	41	47
Depreciation	720	668
Foreign exchange (gain) / loss	6	(159)
Audit fees payable to the Company's auditor	27	26

Cost of sales for the year ended 31 March 2016 also includes research and development tax credits of £1,363k.

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.

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## Babcock Integrated Technology Limited

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

#### 8 Staff costs

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

	2016 Number	2015 Number
<b>By activity:</b>		
Operations	601	553
Management and administration	107	100
	<u>708</u>	<u>653</u>

Their aggregate remuneration comprised:

	2016 £000	2015 £000
Wages and salaries	28,518	25,836
Social security costs	2,966	2,765
Other pension costs (note 25)	1,597	1,593
	<u>33,081</u>	<u>30,194</u>

Included in wages and salaries is a total expense of share-based payments of £312k (2015: £587k) of which £312k (2015: £587k) arises from transactions accounted for as equity settled share-based payment transactions.

Included in other pension costs are £171k (2015: £230k) in respect of the defined benefit schemes and £1,426k (2015: £1,363k) 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.



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## Babcock Integrated Technology Limited

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

#### 9 Directors' remuneration

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

	2016 £000	2015 £000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	491	510
Aggregate payments in respect of long term incentive schemes	259	535
Defined contribution pension scheme	24	22
	<b>774</b>	<b>1,067</b>

During the year two (2015: two) directors remunerated by Babcock Integrated Technology Limited exercised share options under long term incentive plans and two (2015: two) directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to one director (2015: one) under the Money Purchase pension scheme.

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

	2016 £000	2015 £000
Emoluments (excluding pension contributions)	258	289
Aggregate payments in respect of long term incentive schemes	80	134

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

#### 10 Share based payments

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

During the year the total charge relating to employee share-based payment plans was £174k (2015: £644k) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £139k (2015: £509k).

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

# Babcock Integrated Technology Limited

## Notes to the financial statements (continued)

### 10 Share based payments (continued)

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

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS ROCE Pence	Correlation %	Grant or modification date
2015 DBMP Matching	936,197	1,121.0	12.0%	4.0	40%	364.0	1,121.0	46%	11/6/15
2015 PSP	1,688,368	1,121.0	12.0%	4.0	30%	374.0	1,121.0	46%	11/6/15
2015 DBP	3,863	1,121.0	12.0%	4.0	100%	–	1,121.0	46%	11/6/15
2014 PSP	14,196	1,007.0	12.0%	3.5	40%	165.0	1,007.0	46%	29/1/15
2014 DBMP Matching	853,803	1,218.0	15.0%	4.0	40%	536.0	1,218.0	46%	12/6/14
2014 PSP	1,550,135	1,218.0	15.0%	4.0	40%	547.0	1,218.0	46%	12/6/14
2014 DBP	8,736	1,218.0	15.0%	4.0	100%	–	1,218.0	46%	12/6/14
2013 DBMP Matching <sup>2</sup>	1,014,364	1,155.0	16.0%	4.0	59%	549.9	1,018.4	46%	15/8/13
2013 PSP <sup>2</sup>	1,310,577	1,155.0	16.0%	4.0	39%	559.1	1,018.4	46%	15/8/13
2013 PSP Funding <sup>2</sup>	122,015	1,155.0	16.0%	4.0	39%	496.0	933.8	46%	15/8/13
2013 CSOP <sup>2</sup>	122,015	1,155.0	16.0%	4.0	39%	84.6	63.1	46%	15/8/13

Both the vesting period and the expected life of all DBMP, PSP and CSOP awards is three years, but for the DBP it is two years. The holders of all awards receive dividends, except for CSOP awards.

The DBMP Matching awards are split evenly between the performance criteria of TSR, EPS and ROCE, whilst the PSP and CSOP awards are split evenly between TSR and EPS. There are no performance conditions attached to the DBP.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 58,036 matching shares (2015: 45,104 matching shares) at a cost of £0.6 million (2015: £0.6 million).

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

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

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**Babcock Integrated Technology Limited****Notes to the financial statements (continued)****11 Income tax****Tax expense included in income statement**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>Current tax:</b>		
UK Corporation tax on profits for the year	<b>1,827</b>	<b>872</b>
Adjustment in respect of prior year	<b>(515)</b>	<b>-</b>
<b>Current tax charge for the year</b>	<b>1,312</b>	<b>872</b>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	<b>27</b>	<b>(35)</b>
Adjustment in respect of prior years	<b>265</b>	<b>(126)</b>
Impact of change in UK tax rate	<b>(13)</b>	<b>2</b>
<b>Total deferred tax charge / (credit) (note 20)</b>	<b>279</b>	<b>(159)</b>
<b>Tax on profit on ordinary activities</b>	<b>1,591</b>	<b>713</b>

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

## Current tax

## Deferred tax:

- Origination and reversal of temporary differences	<b>(215)</b>	<b>275</b>
- Impact of change in tax rates	<b>8</b>	<b>(14)</b>
<b>Tax expense / (income) included in other comprehensive income</b>	<b>(207)</b>	<b>261</b>

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

## Current tax

**Total tax expense / (income) included in equity**

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

# Babcock Integrated Technology Limited

## Notes to the financial statements (continued)

### 11 Income tax (continued)

	2016 £000	2015 £000
<b>Profit on ordinary activities before taxation</b>	<b>9,447</b>	<b>21,344</b>
Profit on ordinary activities multiplied by standard UK corporation tax rate of 20% (2015: 21%)	1,889	4,482
Effects of:		
Income not subject to tax	-	-
Expenses not deductible for tax purposes	(36)	(3,645)
Prior year adjustments – corporation tax	(515)	-
Prior year adjustments – deferred tax	265	(126)
Impact in change of UK tax rate	(12)	2
<b>Tax charge for the year</b>	<b>1,591</b>	<b>713</b>

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

### 12 Intangible assets

	Goodwill £000	Total £000
<b>Cost</b>		
At 1 April 2015	17,921	17,921
Additions	-	-
At 31 March 2016	17,921	17,921
<b>Impairment</b>		
At 1 April 2015	(4,480)	(4,480)
Impairment	-	-
At 31 March 2016	(4,480)	(4,480)
<b>Net book value</b>		
At 31 March 2016	13,441	13,441
At 31 March 2015	13,441	13,441

Goodwill above arose on the acquisition of the trade and assets of Strachan and Henshaw Limited, and the Defence business of BNS Nuclear Services Limited on 1 April 2009.

# Babcock Integrated Technology Limited

## Notes to the financial statements (continued)

### 13 Tangible fixed assets

	Freehold property £000	Construction in progress £000	Plant and equipment £000	Total £000
<b>Cost</b>				
At 1 April 2015	3,091	86	4,984	8,161
Additions	-	-	945	945
Transfers	-	(86)	86	-
Disposals	-	-	(85)	(85)
<b>At 31 March 2016</b>	<b>3,091</b>	<b>-</b>	<b>5,930</b>	<b>9,021</b>
<b>Accumulated depreciation</b>				
At 1 April 2015	(426)	-	(1,065)	(1,491)
Charge for the year	(83)	-	(637)	(720)
Disposals	-	-	82	82
<b>At 31 March 2016</b>	<b>(509)</b>	<b>-</b>	<b>(1,620)</b>	<b>(2,129)</b>
<b>Net book value</b>				
<b>At 31 March 2016</b>	<b>2,582</b>	<b>-</b>	<b>4,310</b>	<b>6,892</b>
At 31 March 2015	2,665	86	3,919	6,670

### 14 Investments

	2016 Shares in group undertakings £000	2015 Shares in group undertakings £000
<b>Cost</b>		
At 1 April 2015	64,038	64,038
Additions	-	-
Disposals	-	-
<b>Carrying amount at 31 March 2016</b>	<b>64,038</b>	<b>64,038</b>

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

No dividends were received during the year from Babcock Canada Inc or LGE Process Ltd (2014/15: £7,736k and £7,000k respectively).

# Babcock Integrated Technology Limited

## Notes to the financial statements (continued)

### 15 Inventories

	2016 £000	2015 £000
Raw materials	24	21
Work-in-progress	-	-
Finished goods and goods for resale	-	-
	<u>24</u>	<u>21</u>

### 16 Trade and other receivables

	2016 £000	2015 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	8,845	7,941
Amounts owed by group undertakings	82,844	100,207
Amounts recoverable on contracts	10,274	9,438
Deferred tax asset (note 20)	-	24
Other receivables	141	69
Prepayments and accrued income	305	208
	<u>102,409</u>	<u>117,887</u>

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

There are five major loans (2015: five) to group companies:

- A loan of £25,220k (2015: £25,220k) is repayable on demand, the interest rate is 4.739%.
- A loan of £25,000k (2015: £25,000k) is repayable on demand, the interest rate is 4.739%.
- Three (2015: three) loans totalling £16,679k (2015: £36,679k) are repayable on demand, with no interest charge.

Trade receivables are stated after provisions for impairment of £nil (2015: £nil).

### 17 Trade and other payables

	2016 £000	2015 £000
<b>Amounts falling due within one year:</b>		
Trade creditors	4,029	3,349
Amounts owed to parent and group undertakings	115,381	112,067
Payments received on account	27,921	27,633
Taxation and social security	705	576
Income taxation payable	1,359	1,596
Deferred tax liability (Note 20)	48	-
Other payables	2,679	6,376
Accruals and deferred income	9,093	1,912
	<u>161,215</u>	<u>153,509</u>

## Babcock Integrated Technology Limited

### Notes to the financial statements (continued)

#### 17 Trade and other payables (continued)

- A loan of £45,039k (2015: £45,039k) is repayable on demand, the interest rate is 4.739%.
- A loan of £2,662k (2015: £2,662k) is repayable on demand, the interest rate is 4.739%.
- A loan of £8,606k (2015: £8,606k) is repayable on demand, the interest rate is 4.739%.
- A loan of £29,175k (2015: £29,175k) is repayable on demand, the interest rate is 4.739%.
- Two (2015: two) loans totalling £5,685k (2015: £8,569k) are repayable on demand, with no interest charge.

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 23(a)).

#### 18 Provisions for liabilities

	Purchase Consideration £000	Maintenance Warranties £000	Total £000
At 1 April 2015	4,000	602	4,602
Charged to the income statement	-	145	145
Released to the income statement	-	(245)	(245)
Utilised in the year	-	(32)	(32)
At 31 March 2016	4,000	470	4,470

##### Purchase Consideration

A deferred consideration of £4,000k is payable in cash from September 2016.

#### 19 Other financial assets and liabilities

Included in Derivative financial instruments at fair value:

	31 March 2016		31 March 2015	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward FX contracts – cash flow hedges	393	6	14	31
Total	393	6	14	31

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group Plc, for which the consolidated financial statements are publicly available with compliance to IFRS.

## Babcock Integrated Technology Limited

### Notes to the financial statements (continued)

#### 20 Deferred taxation

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

Deferred tax asset /(liabilities)	Accelerated capital allowances £000	Other £000	Total £000
At 1 April 2014:	(100)	226	126
- Charged / (credited) to the income statement	(7)	166	159
- Charged / (credited) directly to other comprehensive income	-	(261)	(261)
At 31 March 2015:	(107)	131	24
- Charged / (credited) to the income statement	(14)	(265)	(279)
- Charged / (credited) to other comprehensive income	-	207	207
At 31 March 2016:	(121)	73	(48)

#### 21 Share capital

	2016 £000	2015 £000
<b>Authorised and fully paid</b>		
40,000 (2015: 40,000) ordinary shares of £1 each	40	40

#### 22 Dividends

Dividends declared and paid were £20,000k (2015: £25,000k), this is equivalent to £500 per share (2015: £625). There are no plans for a final dividend.



## Babcock Integrated Technology Limited

### Notes to the financial statements (continued)

#### 23 Guarantees and financial commitments

##### a) Contingent liabilities

At the year end the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2015: £nil) provided to certain group companies. In addition, the Company at the year-end had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2015: £15,000,000).

No securities have been provided by the Company in relation to these contingent liabilities. There is no current expectation that these contingent liabilities will crystallise.

##### b) Operating lease commitments

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

	2016 Land and buildings £000	2016 Other £000	2015 Land and buildings £000	2015 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	378	43	144	41
- between two and five years	1,414	55	578	37
- after five years	977	-	469	-
	<b>2,769</b>	<b>98</b>	<b>1,191</b>	<b>78</b>

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

##### c) Capital Commitments

At 31 March 2016 the Company had capital commitments of £330k (2015: £496k) for the purchase of mainly small value capital commitments.

#### 24 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group Plc and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group Plc, for which the consolidated financial statements are publicly available.

## Babcock Integrated Technology Limited

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

#### 25 Pension commitments

The Company accounts for pension costs in accordance with IAS 19. 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's 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 and which has been recognised in these financial statements are detailed in this note.

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

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

The scheme is funded by payments to legally separate trustee-administered funds. The trustees of the scheme are required by law to act in the best interests of the scheme's members. In addition to determining future contribution requirements (with the agreement of the participating employers), the trustees are responsible for setting the schemes' 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 19 valuation has been updated at 31 March 2016 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 1 April 2013. The major assumptions used for the IAS 19 valuation were:

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

## Babcock Integrated Technology Limited

### Notes to the financial statements (continued)

#### 25 Pension commitments (continued)

The expected total employer contributions to be made by participating employers to the scheme in 2016/17 are £18.7m. The future service rate is 21.9%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £18.7m is £6.6m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

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

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

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

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

## Babcock Integrated Technology Limited

### Notes to the financial statements (continued)

#### 25 Pension commitments (continued)

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

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

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

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

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

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

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group Plc charge, included £271k for service cost (2015: £221k) and net interest income of £25k (2015: net interest cost £30k).

# Babcock Integrated Technology Limited

## Notes to the financial statements (continued)

### 25 Pension commitments (continued)

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

The actuarial gain recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £1,077k (2015: £(1,311)k).

The equity investments and bonds are valued at bid price.

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

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

The deficit recognised in these financial statements, based on the Company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was £(409)k (2015: £567k).

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## Babcock Integrated Technology Limited

### Notes to the financial statements (continued)

#### 26 Related undertakings

All related undertakings for the Company are as listed below:

Company Name	Country	Interest	Direct %	Ultimate%
Strachan & Henshaw Canada	Canada	£1 Ordinary shares	100.0%	100.0%
LGE Process Ltd	United Kingdom	£1 Ordinary shares	100.0%	100.0%
Babcock Canada Inc.	Canada	£1 Ordinary shares	100.0%	100.0%
Babcock Integrated Technology (Korea) Limited	United Kingdom	£1 Ordinary shares	100.0%	100.0%
Context IS Ltd	United Kingdom	£1 Ordinary shares	100.0%	100.0%

On 29 April 2015 the Company acquired a 100% shareholding in Babcock Integrated Technology (Korea) Limited for a consideration of £1. The principal activity of the company is to supply engineering services.

#### 27 Ultimate parent undertaking

The Company's immediate parent company is Babcock Marine Holdings (UK) Limited, a limited company registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC Financial Statements are available from the following address:

The Company Secretary  
Babcock International Group PLC  
33 Wigmore Street  
London W1U 1QX

#### 28 Transition to FRS 101

This is the first year that the Company has presented its results under FRS 101. The last financial statements under the UK GAAP were for the year ended 31<sup>st</sup> March 2015. The date of transition to FRS 101 was 1 April 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31<sup>st</sup> March 2014 and the total equity as at 1<sup>st</sup> April 2014 and 31<sup>st</sup> March 2015 between UK GAAP as previously reported and FRS 101.

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

## Babcock Integrated Technology Limited

### Notes to the financial statements (continued)

#### 28 Transition to FRS 101 (continued)

<b>Profit for the financial year</b>		<b>2015</b>
		<b>£000</b>
<b>UK GAAP - As previously reported</b>		<b>19,685</b>
Defined benefit pension scheme	A	63
Amortisation of goodwill	B	896
<b>Total adjustment to profit before tax for the financial year</b>		<b>959</b>
Deferred tax impact of adjustments:		
- Defined benefit pension scheme	A	(13)
<b>Total adjustment to tax expense</b>		<b>(13)</b>
<b>Total adjustment to profit for the financial year</b>		<b>946</b>
<b>FRS 101</b>		<b>20,631</b>
<b>Other comprehensive income</b>		<b>2015</b>
		<b>£000</b>
<b>FRS 101 as above</b>		<b>20,631</b>
Defined benefit pension scheme	A	1,311
Foreign exchange hedges	B	(42)
Deferred tax impact of adjustments		
- Defined benefit pension scheme	A	(261)
<b>FRS 101</b>		<b>21,639</b>

#### A Defined Benefit Pension schemes

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

At 1 April 2014 and 31 March 2015, the net deficit of the plan was (£807k) and £567k respectively. This is the difference between the contributions paid and the defined benefit accounting recorded in profit and loss. The amount recognised in other comprehensive income during the year ended 31 March 2015 was £1,311k and relates to the actuarial movement during the year. The additional expense recognised in the income statement under FRS 101 is £63k

## Babcock Integrated Technology Limited

### Notes to the financial statements (continued)

#### 28 Transition to FRS 101 (continued)

##### B Goodwill

Under FRS 101 no further amortisation of goodwill has been taken through the financial statements and all retrospective amortisation since the date of transition has been reversed.

##### C Hedge accounting

Under FRS 101 foreign exchange hedges have been recognised on the balance sheet at fair value. At 1 April 2014 and 31 March 2015 the hedging reserve was £25k and (£17k) respectively:

Total equity		31 March 2015 £000	1 April 2014 £000
UK GAAP – As previously reported		54,835	60,150
Defined benefit pension scheme	A	567	(807)
Amortisation of Goodwill	B	896	-
Hedging Reserve	C	(17)	25
Deferred tax impact of adjustments			
- Defined benefit pension scheme	A	(274)	161
FRS 101		56,168	59,529