Babcock Integrated Technology Limited

Annual report

For the year ended 31 March 2017

Company registration number:

6717269

Contents

Contents	Pages
Directors and advisors	2
Strategic report	3 - 5
Directors' report	6 - 9
Independent auditors' report	10 - 12
Income statement and Statement of comprehensive income	13
Balance sheet	14
Statement of changes in equity	15
Notes to the financial statements	16 - 39

Directors and advisors

Current Directors
I Urquhart
J Hall
M W Hardy
J Howie (Appointed 19 September 2016)
D Jones (Appointed 19 September 2016)

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

Principal bankers
The Royal Bank of Scotland PLC
5th Floor, Bath Street
Glasgow
G2 4RS

Strategic report for the year ended 31 March 2017

The directors present their Strategic report on Babcock Integrated Technology Limited 'the Company' for the year ended 31 March 2017.

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

	2017	2016
	£000	£000
Turnover	**110,765**	**94,862**
Profit for the financial year	**16,526**	**7,856**
Total shareholders' funds	**45,972**	**43,558**

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

The key projects with which the business was engaged in 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 submarine, design and manufacturing activities for the Dreadnought submarine contract and continued work on various systems for the Queen Elizabeth aircraft carriers made up the majority of the UK based contract revenue. The completion of the design, with manufacture progressing, associated with the weapons handling and discharge system for the Republic of Korea Navy, remained the key driver of the non UK revenue.

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 2016/17, 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 6 progress with boat 5 completion with one deliverable to be made in 2017/18. 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 which had the completed design review agreed in February 2017. The manufacturing phase is now underway with the majority of the Boat 1 hardware deliverables successfully achieved in year. Successful functional acceptance testing took place on the weapons stowages and handling equipment being made by our in country supplier during March 2017.

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

Our service contracts for equipment on in-service submarines continue to be successful with 2 years remaining of their 5 year tenure.

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

Review of the business *(continued)*

The Type 26 air weapons handling system contract is progressing. Further Type 26 design studies have been awarded and completed during 2016/17, with further phases expected to be let over the 2017/18 financial year.

Further orders have also been won from Rolls-Royce for Control Rod Drive motors and Bulkhead Penetrators and from Leonardo for the production of decoy dispenser units.

During the year a number of contracts providing equipment and parts to the UK Ministry of Defence were novated to the Company from Babcock Marine Rosyth Ltd, the revenue generated from this in 2016/17 was £5.9m.

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 68 to 79 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 30 to 37 and 38 to 43 of the annual report of Babcock International Group Plc, which does not form part of this report.

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

Future developments

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities. 2017/18 will be an important year in terms of achieving a 3rd boat for the Korean Navy's Jangbogo submarine, and receiving approval to complete the design and commence manufacture of the first boat set of equipment on the Vanguard replacement submarine, Dreadnought. Also the company has been down selected to be the preferred supplier for the Maritime Systems Support Partner with contract negotiations underway.

On behalf of the board.

M W Hardy

Director

29th June 2017

Directors' report for the year ended 31 March 2017

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

Dividends

Dividends received during the year from LGE Process Ltd and Context IS Ltd were £4,000k and £2,000k respectively (2016: nil). Dividends declared during the year to the Company's immediate parent company Babcock Marine Holdings (UK) Limited were £16,000k (2016: £20,000k).

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.

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:

I Urquhart
J Hall
M W Hardy
J Howie (Appointed 19 September 2016)
D Jones (Appointed 19 September 2016)
A Bethel (Resigned 19 September 2016)
F Martinelli (Resigned 19 September 2016)

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, is 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.

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

Environment

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

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

Statement of directors' responsibilities

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

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.

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.

On behalf of the board

M W Hardy

Director

29th June 2017

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 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the balance sheet as at 31 March 2017;
- the income statement and the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

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

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

Adequacy of accounting records and information and explanations received *(continued)*

- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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 Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

Duncan Stratford

Duncan Stratford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
29 June 2017

Babcock Integrated Technology Limited

Income statement
for the year ended 31 March 2017

	Note	2017 £000	2016 £000
Revenue	4	**110,765**	94,862
Cost of sales		**(85,820)**	(74,887)
Gross profit		**24,945**	19,975
Administrative expenses		**(10,208)**	(8,979)
Operating profit	7	**14,737**	10,996
Income from shares in group undertakings		-	-
Profit on ordinary activities before interest and taxation		**14,737**	10,996
Finance income	6	**2,448**	2,464
Finance costs	6	**(3,955)**	(4,038)
Dividends received		-	-
Other operating income		**6,000**	-
Other finance costs - pensions	25	**(14)**	25
Profit before income tax		**19,216**	9,447
Income tax expense	11	**(2,690)**	(1,591)
Profit for the financial year		**16,526**	7,856

All of the above results derive from continuing operations.

Statement of comprehensive Income
for the year ended 31 March 2017

	2017 £000	2016 £000
Profit for the year	**16,526**	7,856
Other comprehensive (loss) / income:		
Items that may be subsequently reclassified to income statement:		
Fair value adjustment of foreign exchange hedges	**691**	404
Items that will not be subsequently reclassified to income statement:		
Gain / (loss) on remeasurement of net defined benefit obligation	**1,451**	(1,077)
Tax on net defined benefit obligation	**(254)**	207
Total comprehensive income for the year	**18,414**	7,390

Balance sheet
as at 31 March 2017

	Note	2017 £000	2016 £000
Non-current assets			
Intangible assets	12	**14,290**	13,441
Tangible assets	13	**7,137**	6,892
Investments	14	**64,038**	64,038
		85,465	84,371
Current assets			
Inventories	15	**996**	24
Trade and other receivables	16	**122,878**	102,409
Other financial assets	19	**1,084**	393
Pension asset	25	**934**	-
Cash and cash equivalents		**25,856**	22,461
		151,748	125,287
Trade and other payables – amounts falling due within one year	17	**(190,785)**	(161,215)
Other financial liabilities	19	**(6)**	(6)
Net current liabilities		**(39,043)**	(35,934)
Total assets less current liabilities		**46,422**	48,437
Provisions for liabilities	18	**(450)**	(4,470)
Pension liability	25	-	(409)
Net assets		**45,972**	43,558
Capital and reserves			
Called up share capital	21	**40**	40
Share premium account		**31,000**	31,000
Other reserves		**1,078**	387
Retained earnings		**13,854**	12,131
Total shareholders' funds		**45,972**	43,558

The notes on pages 16 to 39 are an integral part of these financial statements.

The financial statements on pages 13 to 39 were approved by the board of directors and signed on its behalf by:

M W Hardy
Director
29th June 2017

Statement of changes in equity

for the year ended 31 March 2017

	Note	Called up share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total shareholders funds £000
Balance at 1 April 2015		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)
Balance at 31 March 2016		40	31,000	387	12,131	43,558
Profit for the year		-	-	-	16,526	16,526
Other comprehensive income / (loss)		-	-	691	1,197	1,888
Dividends paid	22	-	-	-	(16,000)	(16,000)
Balance at 31 March 2017		40	31,000	1,078	13,854	45,972

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.

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'

2 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

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.

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.

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 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.

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Contingent liabilities

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations where the outflow of resources is considered less than probable or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements, but are disclosed in Note 23.

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.

Notes to the financial statements *(continued)*

4 Revenue

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

	2017	2016
	£000	£000
By area of activity:		
Sales of goods	10,411	2,536
Rendering of services	25,603	27,007
Long term contracts	74,751	65,319
	110,765	94,862

	2017	2016
	£000	£000
By geographical area:		
United Kingdom	74,148	62,456
Europe	5,306	2,539
USA & Canada	11,175	13,973
Rest of World	20,136	15,894
	110,765	94,862

5 Contract revenue

	2017	2016
	£000	£000
From ongoing contracts:		
Contract costs incurred	376,270	314,238
Recognised profits less recognised losses	68,134	52,696
	444,404	366,934
Progress billings	460,480	383,177
Due from customers	5,329	8,565
Due to customers	(21,405)	(24,809)

Values based on cumulative figures for long term contracts.

Notes to the financial statements *(continued)*

6 Finance income and finance costs

	2017 £000	2016 £000
Finance income:		
Bank interest	**1**	13
Capitalised interest	**1**	-
Loan interest receivable from group undertakings	**2,446**	2,451
	2,448	2,464
Finance expenses:		
Bank interest	**(14)**	-
Loan interest payable to group undertakings	**(3,941)**	(4,038)
	(3,955)	(4,038)

7 Operating profit

Operating profit is stated after charging / (crediting):

	2017 £000	2016 £000
Loss on disposal of property, plant and equipment	**-**	4
Research and development recognised as an expense	**1,221**	1,253
Operating lease charges	**495**	186
- land and buildings		
- other	**39**	41
Depreciation	**768**	720
Impairment	**131**	-
Foreign exchange (gain) / loss	**(40)**	6
Audit fees payable to the Company's auditors	**28**	27
Cost of stocks recognised as an expense (included in cost of sales)	**39,887**	24,271

Cost of sales for the year ended 31 March 2017 also includes research and development tax credits of £1,412k (2016: £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.

8 Staff costs

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

	2017 Number	2016 Number
By activity:		
Operations	**614**	601
Management and administration	**100**	107
	714	708

Their aggregate remuneration comprised:

	2017 £000	2016 £000
Wages and salaries	**30,033**	28,518
Social security costs	**3,061**	2,966
Other pension costs (note 25)	**1,615**	1,597
	34,709	33,081

Included in wages and salaries is a total expense of share based payments of £153k (2016: £312k) of which £153k (2016: £312k) arises from transactions accounted for as equity settled share based payment transactions.

Included in other pension costs are £139k (2016: £171k) in respect of the defined benefit schemes and £1,476k (2016: £1,426k) 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.

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:

	2017	2016
The remuneration of the directors which was paid by the Company was as follows:	£000	£000
Emoluments (including benefits in-kind)	501	491
Aggregate payments in respect of long term incentive schemes	130	259
Defined contribution pension scheme	24	24
	655	774

During the year two (2016: two) directors remunerated by Babcock Integrated Technology Limited exercised share options under long term incentive plans and two (2016: two) directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to one director (2016: one) under the Money Purchase pension scheme.

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

	2017	2016
	£000	£000
Emoluments (excluding pension contributions)	284	258
Aggregate payments in respect of long term incentive schemes	25	80

The highest paid director exercised shares under long term incentive plans (2016: the highest paid director exercised shares under long term incentive plans).

10 Share based payments

The charge to the income statement 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.

During the year the total charge relating to employee share based payment plans was £456k (2016: £174k) all of which related to equity-settled share based payment transactions. After tax, the income statement charge was £365k (2016: £139k).

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

Notes to the financial statements *(continued)*

10 Share based payments *(continued)*

DBMP, PSPs, DBP and CSOP[1]

	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
2016 DBMP Matching	479,065	974.5	14.0%	4.0	30%	379.1	974.5	46%	15/6/16
2016 PSP	2,085,427	974.5	14.0%	4.0	30%	389.9	974.5	46%	15/6/16
2016 DBP	14,714	974.5	14.0%	3.0	100%	–	974.5	46%	15/6/16
2016 DBP	62,845	974.5	14.0%	4.0	100%	–	974.5	46%	15/6/16
2016 PSP	27,578	991.0	14.0%	3.75	30%	396.4	991.0	46%	12/10/16
2015 DBMP Matching	936,197	1,121.0	12.0%	4.0	13%	364.0	1,121.0	46%	11/6/15
2015 PSP	1,688,368	1,121.0	12.0%	4.0	20%	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	27%	165.0	1,007.0	46%	29/1/15
2014 DBMP Matching	853,803	1,218.0	15.0%	4.0	18%	536.0	1,218.0	46%	12/6/14
2014 PSP	1,550,135	1,218.0	15.0%	4.0	27%	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

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, other than for executive directors where the vesting period is 3 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 61,292 matching shares (2016: 58,036 matching shares) at a cost of £0.6 million (2016: £0.6 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year the Group bought 1,000 matching shares (2016: nil matching shares) to be used when vesting is due to begin in 2019.

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.

11 Income tax expense

Tax expense included in income statement

	2017	2016
	£000	£000
Current tax:		
UK Corporation tax on profits for the year	**2,785**	1,827
Adjustment in respect of prior year	**-**	(515)
Double tax relief	**(12)**	-
Overseas tax	**19**	-
Current tax charge for the year	**2,792**	1,312
Deferred tax:		
Origination and reversal of timing differences	**36**	27
Adjustment in respect of prior years	**(130)**	265
Impact of change in UK tax rate	**(8)**	(13)
Total deferred tax (credit) / charge (note 20)	**(102)**	279
Tax on profit	**2,690**	1,591

Total tax expense / (income) included in other comprehensive income

Deferred tax:		
- Origination and reversal of temporary differences	**290**	(215)
- Impact of change in tax rates	**(36)**	8
Tax expense / (income) included in other comprehensive income	**254**	(207)

Tax expense/ (income) included in equity

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

Tax expense for the year is lower (2016: lower) than the standard UK corporation tax in the UK for the year ended 31 March 2017 of 20% (2016: 20%). The differences are explained below:

Notes to the financial statements *(continued)*

11 Income tax expense *(continued)*

	2017 £000	2016 £000
Profit before income tax	**19,216**	9,447
Profit before income tax multiplied by standard UK corporation tax rate of 20% (2016: 20%)	**3,843**	1,889
Effects of:		
Income not taxable for tax purposes	**(1,022)**	(36)
Prior year adjustments – corporation tax	**-**	(515)
Prior year adjustments – deferred tax	**(130)**	265
Impact in change of UK tax rate	**(8)**	(12)
Overseas tax	**19**	-
Double tax relief	**(12)**	-
Total tax charge for the year	**2,690**	1,591

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

12 Intangible assets

	Goodwill £000	Development £000	Total £000
Cost			
At 1 April 2016	**17,921**	-	**17,921**
Additions	-	980	980
At 31 March 2017	**17,921**	**980**	**18,901**
Impairment			
At 1 April 2016	(4,480)	-	(4,480)
Impairment	-	(131)	**(131)**
At 31 March 2017	**(4,480)**	**(131)**	**(4,611)**
Net book value			
At 31 March 2017	**13,441**	**849**	**14,290**
At 31 March 2016	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.

Notes to the financial statements (continued)

13 Tangible assets

Cost	Freehold land and property £000	Assets under construction £000	Plant and equipment £000	Total £000
At 1 April 2016	3,091	-	5,930	**9,021**
Additions	-	162	851	1,013
Transfers	-	-	-	-
Disposals	-	-	(20)	(20)
At 31 March 2017	**3,091**	**162**	**6,761**	**10,014**
Accumulated depreciation				
At 1 April 2016	(509)	-	(1,620)	**(2,129)**
Charge for the year	(83)	-	(685)	(768)
Disposals	-	-	20	20
At 31 March 2017	**(592)**	-	**(2,285)**	**(2,877)**
Net book value				
At 31 March 2017	**2,499**	**162**	**4,476**	**7,137**
At 31 March 2016	2,582	-	4,310	6,892

14 Investments

	2017 Shares in group undertakings £000	2016 Shares in group undertakings £000
Cost		
At 1 April	64,038	64,038
Additions	-	-
Disposals	-	-
Carrying amount at 31 March	64,038	64,038

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

Dividends received during the year from LGE Process Ltd and Context IS Ltd were £4,000k and £2,000k respectively (2016: nil).

15 Inventories

	2017 £000	2016 £000
Raw materials	-	24
Work-in-progress	-	-
Finished goods and goods for resale	996	-
	996	24

16 Trade and other receivables

	2017 £000	2016 £000
Amounts falling due within one year:		
Trade receivables	9,050	8,845
Amounts owed by group undertakings	103,376	82,844
Amounts recoverable on contracts	8,651	10,274
Other receivables	536	141
Prepayments and accrued income	1,265	305
	122,878	102,409

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

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

- A loan of £25,220k (2016: £25,220k) is repayable on demand, the interest rate is 4.492%.
- A loan of £25,000k (2016: £25,000k) is repayable on demand, the interest rate is 4.492%.
- Five (2016: three) loans totalling £32,721k (2016: £16,679k) are repayable on demand, with no interest charge.

Trade receivables are stated after provisions for impairment of £100k (2016: £nil).

17 Trade and other payables

	2017 £000	2016 £000
Amounts falling due within one year:		
Trade creditors	7,661	4,029
Amounts owed to parent and group undertakings	131,088	115,381
Payments received on account	25,281	27,921
Taxation and social security	694	705
Corporation tax	2,772	1,359
Deferred tax liability (Note 20)	200	48
Other payables	6,889	2,679
Accruals and deferred income	16,200	9,093
	190,785	161,215

17 Trade and other payables *(continued)*

- A loan of £45,039k (2016: £45,039k) is repayable on demand, the interest rate is 4.492%.
- A loan of £2,662k (2016: £2,662k) is repayable on demand, the interest rate is 4.492%.
- A loan of £8,606k (2016: £8,606k) is repayable on demand, the interest rate is 4.492%.
- A loan of £29,175k (2016: £29,175k) is repayable on demand, the interest rate is 4.492%.
- Two (2016: two) loans totalling £15,651k (2016: £5,685k) 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	Contract Provision £000	Total £000
At 1 April 2016	**4,000**	**470**	**-**	**4,470**
Charged to the income statement	-	22	167	189
Released to the income statement	-	(209)	-	(209)
Utilised in the year	(4,000)	-	-	(4,000)
At 31 March 2017	**-**	**283**	**167**	**450**

Purchase Consideration
A deferred consideration of £4,000k was paid in February 2017 for the purchase of Context IS on 16 December 2013.

19 Other financial assets and other financial liabilities

Included in Derivative financial instruments at fair value:

	31 March 2017		31 March 2016	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
Forward FX contracts – cash flow hedges	**1,084**	**6**	393	6
Total	**1,084**	**6**	393	6

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.

20 Deferred taxation

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

Deferred tax asset /(liabilities)	**Accelerated capital allowances**	**Other**	**Total**
	£000	**£000**	**£000**
At 1 April 2016:	**(121)**	**73**	**(48)**
- Charged / (credited) to the income statement	(31)	133	102
- Charged / (credited) to other comprehensive income	-	(254)	(254)
At 31 March 2017	**(152)**	**(48)**	**(200)**

21 Share capital

	2017	2016
	£000	£000
Authorised and fully paid		
40,000 (2016: 40,000) ordinary shares of £1 each	40	40

22 Dividends paid

Dividends declared and paid were £16,000k (2016: £20,000k), this is equivalent to £400 per share (2016: £500). There are no plans for a final dividend.

Notes to the financial statements *(continued)*

23 Guarantees and financial commitments

a) Contingent liabilities

At the year-end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2016: £nil) provided to certain Group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2016: £nil)

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 2017, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2017 Land and buildings £000	**2017 Other £000**	2016 Land and buildings £000	2016 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	**840**	**45**	378	43
- between two and five years	**3,568**	**61**	1,414	55
- after five years	**2,683**	**-**	977	-
	7,091	**106**	2,769	98

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 2017 the Company had capital commitments of £1,338k (2016: £330k) for the refurbishment of a leased property (£954k) and the purchase of small value capital commitments (£384k).

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.

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 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 though derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

The scheme is funded by payments to 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 2017 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 31 March 2013. The major assumptions used for the IAS 19 valuation were:

Major assumptions	**2017** %	**2016** %	**2015** %
Rate of increase in salaries	**2.3**	2.2	2.2
Rate of increase in pension payment	**3.0**	2.1	2.8
Discount rate	**2.6**	3.5	3.4
Inflation	**2.1**	1.9	1.9

25 Pension commitments *(continued)*

The expected total employer contributions to be made by participating employers to the scheme in 2017/18 are £18.5m. The future service rate is 32.0%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £18.5m is £3.0m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

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

The changes to the Babcock International Group Plc balance sheet at 31 March 2017 and the changes to the Babcock International Group Plc income statement for the year to 31 March 2017, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2017 £000	Income statement 2017 £000
Initial assumptions	1,371,686	11,776
Discount rate assumptions increased by 0.5%	(104,900)	(4,800)
Discount rate assumptions decreased by 0.5%	104,900	3,700
Inflation rate assumptions increased by 0.5%	62,400	2,600
Inflation rate assumptions decreased by 0.5%	(57,800)	(2,300)
Total life expectancy increased by half a year	28,200	1,000
Total life expectancy decreased by half a year	(28,200)	(900)
Salary increase assumptions increased by 0.5%	10,400	700
Salary increase assumptions decreased by 0.5%	(10,400)	(600)

The weighted average duration of cash flows (years) was 15.

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 2017 were:

Fair value of plan of assets	**2017**	2016
	£000	£000
Equities	**321,942**	285,320
Property	**96,346**	95,937
Absolute return and multi strategy funds	**4,768**	1,588
Bonds	**445,079**	426,204
Matching assets	**596,325**	423,129
Active position on longevity swaps	**(48,450)**	(50,692)
Total assets	**1,416,010**	1,181,486
Present market value of liabilities - funded	**(1,371,687)**	(1,205,869)
Gross pension surplus / (deficit)	**44,323**	(24,383)

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 2017, in line with assumptions that are consistent with the requirements of IFRS 13.

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

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group Plc charge, included £234k for service cost (2016: £271k) and net interest cost of £14k (2016: net interest income £25k).

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCI")	2017 £000	2016 £000
Actuarial (loss) / gain recognised in the SOCI	**(182,961)**	21,071
Experience gains/(losses)	**240,677**	(80,237)
Other gains/(losses)	**4,01**	(9,387)
	61,732	(68,553)

The actuarial loss recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £(1,451)k (2016: £1,077k.)

The equity investments and bonds are valued at bid price.

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

Reconciliation of present value of scheme liabilities	2017 £000	2016 £000
At 1 April	**1,205,869**	1,219,048
Service cost	**8,910**	11,712
Incurred expenses	**2,203**	2,258
Interest on liabilities	**41,445**	40,870
Employee contributions	**304**	411
Actuarial (gain) – demographics	**(29,948)**	(15,784)
Actuarial loss / (gain) – financial	**212,909**	(5,287)
Experience losses	**205**	14,787
Benefits paid	**(70,210)**	(62,146)
At 31 March	**1,371,687**	1,205,869

The surplus recognised in these financial statements, based on the Company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was £934k (2016: £(409)k).

Notes to the financial statements *(continued)*

26 Related undertakings

All related undertakings for the Company are as listed below:

Company Name & Address	Country	Interest	Direct %	Ultimate%
Strachan & Henshaw Canada 45 O'Connor Street, Suite 1500, Ottawa, ON, K1P 1A4, Canada	Canada	£1 Ordinary shares	100%	100%
LGE Process Ltd Young House, 42 Discovery Terrace, Heriot-Watt University Research Park, Edinburgh, EH14 4AP, Scotland	United Kingdom	£1 Ordinary shares	100%	100%
Babcock Canada Inc. 45 O'Connor Street, Suite 1500, Ottawa ON K1P 1A4, Canada	Canada	£1 Ordinary shares	100%	100%
Babcock Integrated Technology (Korea) Limited 33 Wigmore Street, London, W1U 1QX	United Kingdom	£1 Ordinary shares	100%	100%
Context IS Ltd 11 Westferry Circus, London, E14 4HD	United Kingdom	£1 Ordinary shares	100%	100%
Babcock IP Management (Number one) Ltd 33 Wigmore Street, London, W1U 1QX	United Kingdom	£0.01 Ordinary shares	0.01%	1%

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's Financial Statements are available from the following address:

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