

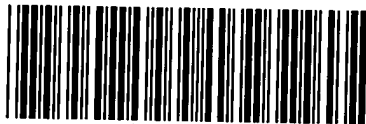
Babcock Integrated Technology Limited

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2015

Company Registration Number 6717269

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Babcock Integrated Technology Limited
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Babcock Integrated Technology Limited Strategic Report

The directors present their strategic report of Babcock Integrated Technology Limited for the year ended 31 March 2015.

Review of Business

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.

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 staff based in the Canadian dockyards offering specialist expertise in areas of engineering and waterfront support. In 2014/15, 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 2014/15 was primarily on completing Astute boat 5. Progress is being made on the procurement and manufacturing activity for boats 6 and 7, with deliveries being made to schedule and budget.

2014/15 saw continued activity on the design of a weapons handling system for the Korean Navy's Jangbogo submarine. A number of contract milestones have been successfully achieved in 2014/15 and the project is on schedule.

Progress continues to be achieved on the MoD aircraft carrier contract, primarily at the Company's Whetstone site. Deliveries continue to be made in support of the required in yard dates.

Significant orders have been received in 2014/15 relating to the Vanguard replacement project and a 5 year replacement contract for equipment support for in-service submarines. Orders have also been won for the Type 26 air weapons handling system design phase.

The Company's orders on hand at 31 March 2015 was £188,600k (2013/14 £184,700k) of which £63,200k is due for delivery in 2015/16.

The Company has made an operating profit of £7,531k (2013/14 £5,853k) and paid net dividends of £10,264k (2013/14 received dividends of £8,653k).

The directors report that the Company has made a profit for the financial year of £19,685k (2013/14: £12,141k).

Principal Risk and Uncertainties

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 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 key business risks and uncertainties affecting the Company are considered to relate to contractual performance, the political and regulatory environment, and exposure to defined benefit pension schemes.

Babcock Integrated Technology Limited Strategic Report

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 60 to 69 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key Performance Indicators

The activities of the group are managed on a divisional basis. We have identified the following financial and non-financial key performance indicators (KPI) that reflect the internal benchmarks we use to measure the success of our business and strategy.

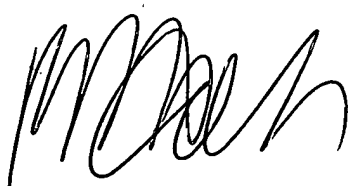
	31 March 2015	31 March 2014
Revenue Growth	1.6%	6.4%
Operating return on turnover *	9.6%	7.6%
Orderbook £k	188,564	184,700
Total injuries rate per 100,000 hours worked **	2.7	2.9
Current Assets as % of current liabilities	84%	86%
Average number of employees	653	611
No of apprentices	32	27
Debtor Days	79	72

The only significant movement was the reduction in revenue from 2013/14 to 2014/15, this was due to the contract award for the Korean Navy in 2013/14.

* The calculation for operating return on turnover is operating profit as a % of turnover.

** The source of total injuries rate per 100,000 hours worked is taken from the Company HSE Report.

On behalf of the Board



M W Hardy
Director
Ashton House
Ashton Vale Road
Bristol
BS3 2HQ

16th June 2015

Babcock Integrated Technology Limited Directors' Report

The Directors present their report and the audited financial statements of Babcock Integrated Technology Limited for the year ended 31 March 2015.

Registered Office

The registered office of the Company is 33 Wigmore Street, London, W1U 1QX.

The registered number for this Company is 6717269.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were Messrs:

F Martinelli
J Hall
M W Hardy
A Bethel
I Urquhart

Results and Dividends

The Directors report that the Company has made a profit for the financial year of £19,685k (2013/14: £12,141k). Dividends were received during the year from Babcock Canada Inc £7,736k (2013/14: £8,653k) and LGE Process Ltd £7,000k (2013/14 £Nil). Dividends declared during the year to the Company's immediate parent company 'Babcock Marine Holdings (UK) Limited were £18,000k and £7,000k on 24 March 2015 and 26 March 2015 respectively (2013/14 £Nil).

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 directors 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.

Employment Policies

The Company's employment policies and, in particular, those relating to the employment of disabled persons, are set out in detail in the directors' report of Babcock International Group PLC, the ultimate parent company.

Gender Diversity

	31 March 2015		31 March 2014	
	Male	Female	Male	Female
Paid Directors	2	-	2	-
Senior Managers	6	1	6	1
Employees	524	120	499	103
Total average number of employees	532	121	507	104

Health and Safety

The Company operates in a number of demanding environments. Safe working practices are extremely important to protect everyone on the Company's sites. The Company has developed quality and safety processes which are regularly audited by independent professional bodies and customers. The Company operates long established working practices and controls to minimise damage and injury.

Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of bank overdraft facilities, short-term debt, loans, cash and short-term deposits. The main purpose of these financial instruments is to manage the Company's funding and liquidity requirements. The Company has other financial instruments such as trade debtors and trade creditors which arise directly from its operations. The principal financial risks to which the Company is exposed are those relating to foreign currency, commodity price, credit, liquidity and interest rate. These risks are managed in accordance with Board approved policies.

Babcock Integrated Technology Limited

Directors' Report

Research and Development

The research and development activities of the Company continue to be directed principally towards the development of new techniques and processes, and improving the performance and cost effectiveness of existing techniques and processes.

Foreign Currency Risk

The Company buys and sells goods and services in currencies other than its functional currency. As a result, the Company's non sterling turnover, profits, assets, liabilities and cash flows can be affected by movements in exchange rates. The Company seeks to minimise its transaction exposure by maintaining a policy that forward foreign currency contracts are used to eliminate exposures on material committed transactions. It is Company policy not to engage in any speculative transaction of any kind.

Commodity Price Risk

The Company's exposure to raw material price risk is generally diminished by restricting bid validity to periods within those quoted by suppliers and by material price escalation clauses.

Credit Risk

The Company's credit risk is primarily attributable to its trade debtors and amounts due under construction contracts. The Company is exposed to risk over a large number of countries and customers and there is no significant concentration of risk. Where appropriate, the Company endeavours to minimise risk by the use of trade finance instruments such as letters of credit. Credit worthiness checks are also undertaken before entering into contracts with new customers and credit limits are set as appropriate. The amounts presented in the balance sheet are net of allowance for doubtful receivables. An allowance for impairment is made where there is an identifiable loss-making event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

Liquidity Risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through cash at bank held by the Company and further funding from the ultimate parent company, Babcock International Group Plc, as required.

Interest Rate Risk

The Company's borrowings consist of an overdraft balance facility and inter group loans, both at variable rates of interest. Based on current levels of net debt, interest rate risk is not considered to be material.

Customer Relationships and Supply Chain

The Company benefits from close commercial relationships with a number of key customers and suppliers. The loss of any of these key customers or suppliers, or a significant worsening in commercial terms, could impact on the Company's results. The Company devotes significant resources to supporting these relationships to ensure they continue to operate satisfactorily.

The Company subcontracts certain elements of the manufacturing process through supply chains external to the Company. Any failure of the supply chain would represent a risk to the Company's ability to meet customer requirements and achieve its financial goals. The Company has a business continuity programme in place to mitigate such a risk. The Company strategy is to simplify the external supply chain and forge deeper strategic relationships with fewer, but stronger suppliers.

Future Developments

2015/16 will be an important year in terms of delivering detailed design work on the Vanguard replacement project and to the Korean Navy.

Babcock Integrated Technology Limited Directors' Report

Statement of Directors' Responsibilities

The Directors are responsible for preparing the strategic report, Directors Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. 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 have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Information to Auditors

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

On behalf of the Board



**M W Hardy
Director**

Ashton House
Ashton Vale Road
Bristol
BS3 2HQ

16th June 2015

Independent Auditor's 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 2015 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

Babcock Integrated Technology Limited's financial statements comprise:

- the Balance Sheet as at 31 March 2015;
- the Profit & Loss Account 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 applicable law and United Kingdom Accounting Standards (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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, 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.

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.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Independent Auditor's Report To The Members of Babcock Integrated Technology Limited

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.

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

16 June 2015

Babcock Integrated Technology Limited
Profit & Loss Account for the Year Ended 31 March 2015

	Notes	2014/15 £000	2013/14 £000
Turnover	1 (f)	78,681	77,425
Cost of sales		<u>(63,768)</u>	<u>(62,987)</u>
Gross profit		14,913	14,438
Distribution Costs		(3,735)	(4,490)
Administrative Expense		<u>(2,751)</u>	<u>(3,199)</u>
Operating profit (before amortisation of goodwill)	2	8,427	6,749
Amortisation of goodwill		<u>(896)</u>	<u>(896)</u>
Operating Profit		7,531	5,853
Interest payable and similar charges	4	(1,882)	(1,713)
Other operating income		<u>14,736</u>	<u>8,653</u>
Profit on ordinary activities before taxation		20,385	12,793
Tax on profit on ordinary activities	5	<u>(700)</u>	<u>(652)</u>
Profit for the financial year		<u>19,685</u>	<u>12,141</u>

All of the above profits arise from continuing operations in both current and prior years.

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents in both current and prior years.

The Company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of recognised gains and losses has been presented in either the current or prior years.

Babcock Integrated Technology Limited
Balance Sheet for the Year Ended 31 March 2015

	Notes	2014/15 £000	2013/14 £000
Fixed assets			
Intangible Assets	8	12,545	13,441
Tangible Assets	9	6,670	6,332
Investments	10	64,038	64,038
		<u>83,253</u>	<u>83,811</u>
Current assets			
Stocks	11	21	35
Debtors	12	118,000	119,308
Cash at bank and in hand		11,672	(2,340)
		<u>129,693</u>	<u>117,003</u>
Creditors – amounts falling due within one year	13	<u>(153,509)</u>	<u>(136,149)</u>
Net Current (Liabilities)		<u>(23,816)</u>	<u>(19,146)</u>
Total assets less current liabilities		59,437	64,665
Provisions for Liabilities	14	<u>(4,602)</u>	<u>(4,515)</u>
Net assets		<u>54,835</u>	<u>60,150</u>
Capital and reserves			
Called up share capital	15	40	40
Share premium account	18	31,000	31,000
Profit and loss account	18	23,795	29,110
Total shareholders' funds		<u>54,835</u>	<u>60,150</u>

The notes on pages 10 to 21 form part of these financial statements.

These financial statements on page 8 to 21 were approved for release by the board of Directors on 16th June 2015 and signed on its behalf by:



M W Hardy

The registered number for this Company is 6717269

1 ACCOUNTING POLICIES

a) Basis of Accounting

The financial statements are prepared on a going concern basis under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom, and have been applied consistently. The directors are satisfied that the Company has adequate resources to meet its operational needs for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the financial statements.

b) Tangible Assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful lives using the straight line basis.

	2014/15	2013/14
Freehold land and buildings	2% to 10%	2% to 10%
Plant and machinery	6.6% to 10%	6.6% to 10%
Fixtures, fittings, tools and equipment.	10% to 33.3%	10% to 33.3%

Land and tangible fixed assets under construction are not depreciated.

c) Intangible Assets

Goodwill arising represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on acquisitions has been capitalised and is being amortised over a period not exceeding 20 years, being the period expected to benefit.

d) Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less anticipated cost of disposal. The cost of work in progress is taken as production cost, which includes an appropriate proportion of attributable overhead. Provision has been made for obsolete and slow moving stock.

e) Long-Term Contracts

A long term contract is defined as the supply of a single substantial entity where the supply extends into different accounting years. Turnover recorded on long term contracts is the value of work done and this is calculated to be cost together with a proportion of profit appropriate to the stage of completion of each contract. Recognition of margins on the contracts requires a careful estimate of the final costs, expected increases, delays and penalties which could reduce the expected margin. In order to manage this uncertainty, the Company uses contract management and risk analysis processes to identify, quantify and manage the risks associated with the contracts. The amounts recorded in the financial statements represent management's best estimate at the reporting date.

Babcock Integrated Technology Limited
Notes to the Financial Statements

f) Turnover

Turnover represents the amount invoiced to third parties in respect of goods sold and services provided, excluding value added tax and trade discounts. In the case of long term work in progress, it represents the value of work done during the year.

<u>Geographical Split</u>	2014/15 £000	2013/14 £000
UK	55,568	50,111
Europe	1,612	4,128
USA & Canada	7,041	11,758
Rest of World	14,460	11,428
	78,681	77,425

g) Research and Development Expenditure

Research and development expenditure is written off in the year in which it is incurred.

h) Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, joint ventures and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

i) Foreign Currencies

Monetary assets and liabilities in foreign currencies are translated to sterling at the exchange rates ruling at the balance sheet date except where amounts are covered by forward foreign exchange contracts. Differences on exchange are dealt with through the Profit and Loss Account as they arise.

j) Related Party Transactions

The Company has taken advantage of the exemption that is effective due to being a wholly owned subsidiary of Babcock International Group Plc.

k) Cash Flow Statement

The Company has taken advantage of the exemption that is available due to the Company's cashflows being included in the consolidated financial statements of Babcock International Group Plc which are publicly available.

Babcock Integrated Technology Limited
Notes to the Financial Statements

l) Consolidations

In accordance with S.400 of the Companies Act 2006 the Company is exempt from the obligation to prepare and deliver group financial statements as it is a wholly owned subsidiary of Babcock International Group PLC, registered in England, which produce group financial statements. Accordingly the financial statements present information about the Company and not the group.

m) Maintenance Warranties

A provision is recognised for expected warranty claims upon the completion of our contracts. The provision is substituted by actual expenditure in the event of a warranty claim. The remaining provision is then released in accordance with the contractual warranty expiry date.

n) Investments in Subsidiary Undertakings

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

o) Pension Costs

The Company operates a defined contribution scheme for employees. The pension costs charged against profits represent the amount of the contributions payable to employees' personal pension plans in respect of the accounting year.

p) Operating Leases

Operating lease rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

q) Dividends Income

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

r) Dividends paid

Dividends are recognised as a liability in the Group's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

2 OPERATING PROFIT

	2014/15	2013/14
	£000	£000
Operating Profit is stated after charging:		
Depreciation	668	605
Amortisation	896	896
Research and Development	709	1,083
Operating lease rentals		
- plant & machinery	-	-
- other	191	100

3 AUDITOR'S REMUNERATION

During the year £26k was paid to the Company's auditors in respect of audit fees (2013/14 £25k). During the year, no fees were paid to the Company's auditors in respect of non-audit services (2013/14: £nil)

4 INTEREST PAYABLE AND OTHER INCOME

	2014/15	2013/14
	£000	£000
Interest due to group undertakings	<u>(1,882)</u>	<u>(1,713)</u>

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2014/15	2013/14
	£000	£000
a) Tax on profit on ordinary activities		
The tax charge is comprised of the following:		
Current tax		
UK Corporation tax	872	652
Adjustment in respect of prior years	-	-
Total Current tax charge (note 5(b))	872	652
Deferred tax:		
Deferred tax charge	(48)	(37)
Adjustments in respect of deferred tax for prior year	(126)	42
Impact of change in UK tax rate	2	(5)
Tax on profit on ordinary activities	<u>700</u>	<u>652</u>

b) Factors affecting current tax charge

The tax assessed on profit on ordinary activities for the year is lower (2013/14: lower) than the standard rate of Corporation Tax in the UK of 21% (2013/14: 23%).

	2014/15	2013/14
	£000	£000
The differences are reconciled below:-		
Profit on ordinary activities before taxation	20,385	12,793
Standard rate	21%	23%
Profit at standard rate	4,281	2,942
Timing differences	48	37
Expenses (deductible) / not deductible for tax purposes	<u>(3,457)</u>	<u>(2,328)</u>
Total Current tax (note 5(a))	<u>872</u>	<u>652</u>

c) Balance Sheet - Deferred taxation

	2014/15	2013/14
	£000	£000
Advanced capital allowances	107	(100)
Other short term timing differences	<u>(244)</u>	<u>65</u>
	<u>(137)</u>	<u>(35)</u>
Balance as at 31 March 2014	(35)	(35)
Current year (charge)	48	37
Adjustment in respect of prior years	126	(42)
Effect of change in UK tax rate	<u>(2)</u>	<u>5</u>
Closing balance at 31 March 2015	<u>137</u>	<u>(35)</u>

6 EMPLOYEES

The monthly average number of employees during the year was as follows:

	2014/15 Number	2013/14 Number
Direct Employees	553	531
Indirect Employees	100	80
	<u>653</u>	<u>611</u>

Staff costs:

	2014/15 £000	2013/14 £000
Wages and salaries	25,836	23,107
Social security costs	2,765	2,343
Other Pension costs:		
Defined contribution costs	1,363	1,309
UK staff multi employer defined benefit costs	230	206
Total Pension costs	<u>1,593</u>	<u>1,515</u>
Total staff costs including pension	<u>30,194</u>	<u>26,965</u>

7 DIRECTORS

Directors Emoluments:

	2014/15 £000	2013/14 £000
Aggregate emoluments	510	405
Aggregate Company contributions to:		
(i) Money Purchase Pension Schemes	22	50
	<u>535</u>	<u>67</u>

Aggregate payments in respect of long term incentive schemes

	Number	Number
Number of directors to whom retirement benefits are accruing under:		
(i) Money Purchase Pension Schemes	1	2

	2014/15 £000	2013/14 £000
Highest paid director:		
Emoluments	289	224
Company contributions to Money Purchase Pensions Scheme	-	30
Aggregate payments in respect of long term incentive scheme	134	67

8 INTANGIBLE ASSETS

	Goodwill £000
Cost / Valuation	
At 31 March 2014	17,921
At 31 March 2015	17,921
Amortisation of Goodwill	
At 31 March 2014	4,480
Charge for the year	896
At 31 March 2015	5,376
Net book value	
At 31 March 2014	13,441
At 31 March 2015	12,545

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.

9 TANGIBLE ASSETS

	Freehold land and buildings £000	Construction in progress £000	Plant and Machinery £000	Fixtures, Fittings, Tools and Equipment £000	Total £000
Cost					
At 31 March 2014	3,105	-	2,894	1,237	7,236
Additions	-	86	632	307	1,025
Disposals	(14)	-	(24)	(62)	(100)
At 31 March 2015	3,091	86	3,502	1,482	8,161
Aggregate Depreciation					
At 31 March 2014	355	-	256	293	904
Charge for the year	82	-	467	119	668
Disposals	(11)	-	(22)	(48)	(81)
At 31 March 2015	426	-	701	364	1,491
Net book value					
At 31 March 2014	2,750	-	2,638	944	6,332
At 31 March 2015	2,665	86	2,801	1,118	6,670

There are not considered to be any material differences between the book value and market value of the tangible fixed assets

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10 FIXED ASSET INVESTMENTS

Cost	£000
Balance as at 1 April 2014	64,038
Additions	-
Balance as at 31 March 2015	<u>64,038</u>

Group financial statements are not submitted as Babcock Integrated Technology Limited is a wholly owned subsidiary of Babcock International Group PLC, which is registered in England.

Particulars of subsidiary companies at 31 March 2015 are as follows:

<u>Name of Company</u>	<u>Country of incorporation</u>	<u>Area of operation</u>	<u>Nature of Company</u>	<u>Holdings</u>	<u>Value £000</u>
Strachan & Henshaw					
Canada	Canada	Canada	Trading	£1 Ordinary Shares	£1
LGE Process Ltd	UK	UK	Trading	£1 Ordinary Shares	£0
Babcock Canada Inc.	Canada	Canada	Trading	£1 Ordinary Shares	£31,000
Context IS Ltd	UK	UK	Trading	£1 Ordinary Shares	£33,037

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

On 15 September 2010, proprietary know-how not capitalised in the accounts of the Company in accordance with FRS 10 'Goodwill and Intangible Assets', was transferred to Babcock Integration LLP in exchange for an interest in that partnership. This was in order to facilitate the integration of the Babcock and VT groups. The partnership interest has been recognised at a cost of £nil given that the know-how transferred was not recognised in the accounts of the Company prior to the transfer.

On 15 February 2012 Babcock Integrated Technology Ltd acquired a 100% shareholding of Canadian Submarine Group Inc. based in Ottawa, Canada. The consideration was £31,000k.

On 28 December 2012 the Company acquired a 100% shareholding in LGE Process Ltd for a consideration of £1.

On 16 December 2013 the Company acquired a 100% shareholding in Context IS Ltd for cash consideration of £29,037k. A deferred consideration of £4,000k is payable in cash in May 2016.

11 STOCKS

	2014/15 £000	2013/14 £000
Raw materials:		
Gross	178	192
Provision	<u>(157)</u>	<u>(157)</u>
Net	<u>21</u>	<u>35</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

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12 DEBTORS

	2014/15	2013/14
	£000	£000
Trade debtors	7,941	2,488
Amounts recoverable on contracts	9,438	10,723
Amounts owed by Group undertakings	100,207	105,719
Prepayments and accrued income	208	144
Deferred tax asset (note 5)	137	-
Other debtors	69	234
	118,000	119,308

Included within Amounts owed by Group undertakings are the following Group Loans

	2014/15	2013/14	Interest Terms	Repayment Terms
	£000	£000		
Babcock Support Services Investments Limited	25,000	25,000	LIBOR +4%	Short Term
Babcock Support Services Investments Limited	15,000	15,000	Non interest bearing	Short Term
Babcock UK Holdings Limited	15,529	15,000	Non interest bearing	Short Term
Babcock Holdings Limited	6,150	6,150	Non interest bearing	Short Term
Babcock Canada Inc	-	11,141	LIBOR +5%	Short Term
LGE Process Ltd	25,220	25,220	LIBOR +4%	Short Term

13 CREDITORS – Amounts falling due within one year

	2014/15	2013/14
	£000	£000
Trade creditors	3,349	932
Payments received on account	27,633	22,746
Amounts owed to Group undertakings	112,067	104,723
Deferred tax liability (note 5)	-	35
Other creditors	6,376	4,179
Accruals and deferred income	1,912	1,778
Other taxation and social security	576	585
Corporation Tax	1,596	1,171
	153,509	136,149

Included within Amounts owed to Group undertakings are the following Group Loans:

	2014/15	2013/14	Interest Terms	Repayment Terms
	£000	£000		
Babcock Holdings Ltd	1,920	1,920	Non interest bearing	Short Term
Babcock Support Services Investments Limited	45,039	45,039	LIBOR +4%	Short Term
Babcock Support Services Investments Limited	2,662	2,662	LIBOR +4%	Short Term
Babcock Holdings Ltd	8,606	8,606	LIBOR +4%	Short Term
Babcock Canada Inc	6,649	-	Non interest bearing	Short Term
Babcock International Group PLC	29,175	29,175	LIBOR +4%	Short Term

14 PROVISIONS FOR LIABILITIES

	Purchase Consideration £000	Maintenance Warranties £000	Total £000
At 31 March 2014	4,000	515	4,515
Charged to the profit and loss account	-	252	252
Utilised	-	(2)	(2)
Released / Unutilised	-	(163)	(163)
At 31 March 2015	<u>4,000</u>	<u>602</u>	<u>4,602</u>

Descriptions of these provisions for maintenance warranties are included in note 1 (m) of the accounting policies. The majority of warranty costs are expected to be incurred within one year of the balance sheet date. A deferred consideration of £4,000k is payable in cash in May 2016.

15 FINANCIAL COMMITMENTS

As at 31 March 2015 the Company had annual commitments under non-cancellable operating leases as set out below.

	2014/15 Land & Buildings £000	Other £000	2013/14 Land & Buildings £000	Other £000
Operating leases which expire:				
Within one year	-	15	-	17
Within one to two years	-	17	-	15
Within three to five years	-	7	-	9
Five years and above	<u>144</u>	<u>2</u>	<u>144</u>	<u>-</u>
	<u>144</u>	<u>41</u>	<u>144</u>	<u>41</u>

16 CALLED UP SHARE CAPITAL

	2014/15 £000	2013/14 £000
Authorised share capital: 40,000 (2013/14: 40,000) ordinary shares of £1 each	<u>40</u>	<u>40</u>

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	2014/15 £000	2013/14 £000
Opening Shareholders' funds	60,150	48,009
Profit for the financial year	19,685	12,141
Dividends paid	(25,000)	-
Net movements in shareholders' funds	<u>(5,315)</u>	<u>12,141</u>
Closing shareholders' funds	<u>54,835</u>	<u>60,150</u>

18 RESERVES

	Share Premium Account £000	Profit & Loss Account £000
At 31 March 2014	31,000	29,110
Profit for the financial year	-	19,685
Dividends paid		(25,000)
	<u>31,000</u>	<u>23,795</u>

19 DIVIDENDS PAID

	2014/15 £000	2013/14 £000
Ordinary Shares £625 (2013/14: nil) per £1 share	<u>25,000</u>	-

20 CONTINGENT LIABILITIES

At the year end the Company had guaranteed or had joint several liability for drawn Babcock International Group PLC bank facilities of £nil (2013/14: £620,800k) 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 £15,000k (2013/14: £nil).

The Company had other contingent liabilities in the normal course of business, including counter indemnities for performance bonds

21 ULTIMATE PARENT COMPANY

The Company's immediate parent company is Babcock Marine Holdings (UK) Limited. The ultimate parent undertaking and controlling party is Babcock International Group PLC. This is the only parent undertaking for which group financial statements are drawn up and of which the Company is a member. The address from which copies of these financial statements are available to the public is

Babcock International Group PLC, 33 Wigmore Street, London, W1U 1QX

22 PENSION ARRANGEMENT

The Company participates in the Babcock International Group Pension Scheme. For the former members of the Alstec pension scheme, the scheme comprises:

- a defined benefit scheme for eligible members of the former Alstec group, which commenced in April 2001;

An independent actuary prepares the valuations of the Scheme at least every three years and, in accordance with his recommendations, the Group makes contributions to the Scheme. The cost of the defined benefit scheme, including the amortisation of any experience surplus or deficit, is charged to the profit and loss account on a systematic basis over the expected remaining working lives of the employees. The amounts charged to the profit and loss account in respect of the money purchase scheme represent contributions payable in respect of the accounting year.

The pension cost for the Scheme was £310k (2013/14: £292k). At the year end contributions amounting to £Nil (2013/14 £Nil) were payable to the Scheme.

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The Company is unable to identify its share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", will account for the Scheme under this accounting standard as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account under FRS 17 will represent the contributions payable to the scheme in respect of the accounting year.

23 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 in the Babcock International Group PLC Annual Report and Accounts.

During the year the total charge relating to employee share-based payment plans was £644k (2013/14: £618k) all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £509k (2013/14: £476k).

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

DBMP, PSPs, DBP and CSOP1

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

DBMP, PSPs, DBP and CSOP¹

	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
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 ²	1,014,364	1,155.0	16.0%	4.0	40%	549.9	1,018.4	46%	15/8/13
2013 PSP ²	1,310,577	1,155.0	16.0%	4.0	40%	559.1	1,018.4	46%	15/8/13
2013 PSP Funding ²	122,015	1,155.0	16.0%	4.0	40%	496.0	933.8	46%	15/8/13
2013 CSOP ²	122,015	1,155.0	16.0%	4.0	40%	84.6	63.1	46%	15/8/13
2012 DBMP Matching ²	370,583	874.5	18.0%	4.0	65%	549.7	771.0	46%	16/7/12
2012 PSP ²	36,808	874.5	18.0%	4.0	65%	554.4	771.0	46%	16/7/12
2012 PSP Main ²	1,575,789	879.5	18.0%	4.0	65%	576.2	775.5	46%	14/6/12
2012 PSP Funding ²	79,663	879.5	18.0%	4.0	65%	507.2	698.7	46%	14/6/12
2012 CSOP ²	79,663	879.5	18.0%	4.0	65%	69.0	76.8	46%	14/6/12

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

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the employee. During the year the Group bought 45,104 matching shares (2014: 6,909 matching shares) at a cost of £0.5 million (2014: £0.1 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.