
**Babcock Defence and Security
Investments Limited**

**Directors' report and financial
statements**

For the period from 5 July 2012 to 31 March 2013

**Company Registered Number:
08132272**

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COMPANIES HOUSE

Babcock Defence and Security Investments Limited

Directors and advisors

Directors

F Martinelli
W Tame

Company Secretary

Babcock Corporate Secretaries Limited

Registered office

33 Wigmore Street
London
W1U 1QX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Savannah House
3 Ocean Way
Southampton
SO14 3TJ

Babcock Defence and Security Investments Limited
Directors' report

The directors present their report and the audited financial statements of the Company for the period from 5 July 2012 to 31 March 2013.

Principal activities

The principal activity of the Company is that of an investment holding company

Business review

The Company was incorporated in England and commenced to trade on 5 July 2012

On the 5 July 2012, the Company issued 2 ordinary shares of £1 each for a cash consideration to Vosper Thornycroft (UK) Limited

On the 4 December 2012, the Company issued 100 ordinary shares of £1 each to Babcock Defence & Security Holdings LLP at a premium of £7,911,900 for a cash consideration. On the same date, the Company issued a further 100 ordinary shares of £1 to Babcock Defence & Security Holdings LLP at a premium of £46,147,900

On the 4 December 2012, the Company acquired 50% of the issued share capital and loan note receivable in Ascent Flight Training (Holdings) Limited for a cash consideration of £7,912,000 from Babcock International Support Services Limited

On the same date, the Company acquired 50% of the issued share capital and loan receivable in ALC (Superholdco) Limited for a cash consideration of £17,821,000 from Babcock Land Limited

On the same date, the Company acquired 74% of the issued share capital and loan receivable in Holdfast Training Services Limited for a cash consideration of £28,327,000 from Babcock Support Services Limited

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 key risks and uncertainties affecting the Company are considered to be related to contractual performance and the political and regulatory environment. The directors manage this risk by maintaining regular discussions with the relevant customers and controlling both direct and indirect expenditure as necessary

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 50 to 55 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 Defence & Security, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 20 to 25 of the Group's report, which does not form part of this report

Babcock Defence and Security Investments Limited
Directors' report (cont)

Future developments

The directors are confident about the future trading prospects of the Company and it continues to operate as a going concern

Financial risk management

The Company's operations expose it to a variety of financial risks that include credit risk, liquidity risk and interest rate cash flow risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company.

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and company finance departments. Each department has a policy and procedures manual that sets out 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.

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.

Interest rate cash flow risk

The Company has interest bearing assets. The interest bearing are assets in the form of loans with associated undertakings.

Charitable and political donations

The Company made no political contributions or charitable donations during the period.

Results and dividends

The Company's profit for the financial period is £4,453,000. The directors do not recommend the payment of a dividend.

Directors

The directors who served during the period and up to the date of signing were as follows:

W Tame (appointed 05/07/12)

F Martinelli (appointed 05/07/12)

Babcock Defence and Security Investments Limited
Directors' report (cont)

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 Directors' report and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Directors' protection

Babcock International Group PLC also 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.

Babcock Defence and Security Investments Limited
Directors' report (cont)

Disclosure of information to auditors

Each director, as at the date of this report, has confirmed that insofar 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



F Martinelli
Director

19 December 2013

Babcock Defence and Security Investments Limited
Independent auditors' report

Independent auditors' report to the members of Babcock Defence and Security Investments Limited

We have audited the financial statements of Babcock Defence and Security Investments Limited for the period ended 31 March 2013 which comprise the Profit and loss Account, the Balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Babcock Defence and Security Investments Limited
Independent auditors' report (cont)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



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

20 December 2013

Babcock Defence and Security Investments Limited
Profit and loss account
For the period from 5 July 2012 to 31 March 2013

	Notes	Period from 5 July to 31 March 2013 £000
Other operating income		3
Operating profit	2	<u>3</u>
Interest receivable and similar income	3	550
Income from shares in associated undertakings		3,900
Profit on ordinary activities before taxation		<u>4,453</u>
Tax on profit on ordinary activities	6	-
Profit for the financial period		<u><u>4,453</u></u>

There is no difference between the profit on ordinary activities before taxation and the profit for the financial period stated above and their historical cost equivalents

There are no recognised gains or losses other than the profit for the financial period reported above and therefore no separate statement of total recognised gains and losses has been presented

All results derive from continuing operations

Babcock Defence and Security Investments Limited**Balance sheet****As at 31 March 2013**

	Notes	2013 £000
Fixed Assets		
Investments	7	<u>53,770</u>
Current assets		
Debtors amounts falling due within one year	8	934
Cash at bank and in hand		4,067
		<u>5,001</u>
Creditors amounts falling due within one year	9	(14)
Net current assets		<u>4,987</u>
Total assets less current liabilities		58,757
Creditors amounts falling due after more than one year	10	(244)
Net assets		<u>58,513</u>
Capital and reserves		
Called up share capital	11	-
Share premium account	12	54,060
Profit and loss account	12	4,453
Total shareholders' funds		<u>58,513</u>

The financial statements on pages 8 to 16 were approved by the board of directors on 19 December 2013 and signed on its behalf by


F Martinelli
Director

Babcock Defence and Security Investments Limited
Notes to the financial statements

1. Accounting policies

The following accounting policies have been applied consistently throughout the period

Basis of preparation

These financial statements have been prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and UK generally accepted accounting principles. The principal accounting policies are summarised below.

The Company is exempt by virtue of s400(1) of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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.

The Company is a wholly-owned subsidiary of Babcock International Group PLC. Consequently, the Company has taken advantage of the exemption available under FRS 8 not to disclose details of transactions with Babcock International Group PLC or other Group undertakings, and is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. In addition the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996).

Investments

Fixed asset investments 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.

Taxation

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

Babcock Defence and Security Investments Limited
Notes to the financial statements (cont)

2. Operating profit

Fees payable for the statutory audit of the financial statements have been borne by the Company's immediate parent undertaking, Babcock Defence & Security Holdings LLP

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

3 Interest receivable

	Period from 5 July to 31 March 2013
	£000
Loan interest from joint venture undertakings	550
	550

4. Staff costs

No staff were employed by the Company during the current period

5. Directors' remuneration

The emoluments of the directors, including pension contributions, are incurred by another group company. No part of their emoluments could be attributed to their services in respect of Babcock Defence and Security Investments Limited

Babcock Defence and Security Investments Limited
Notes to the financial statements (cont)

6. Tax on profit on ordinary activities

	Period from 5 July to 31 March 2013 £000
Current tax	
- UK corporation tax on profits of the year	-
Total current tax	-
Tax on profit on ordinary activities	-

The difference between the total current period tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	Period from 5 July to 31 March 2013 £000
Profit on ordinary activities before tax	4,453
Profit on ordinary activities multiplied by standard rate in the UK 24%	1,069
Effects of	
- Income not taxable for tax purposes	(936)
- Group relief claimed for nil consideration	(133)
Current tax charge for the period	-

Factors affecting current and future tax charges

A number of changes to the UK Corporation tax system were announced in the March 2012 Budget Statement. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is included in the Finance Act 2012. Further changes to the UK Corporation tax system were announced in the March 2013 Budget Statement. Further reductions to the main rate are proposed to reduce the rate to 20% by 1 April 2015. These further changes were substantively enacted on 17 July 2013 as part of the Finance Act 2013, however as these changes had not been substantively enacted at the balance sheet date the impact is not included in these financial statements.

Babcock Defence and Security Investments Limited
Notes to the financial statements (cont)

7 Investments

	Shares in associated undertakings £000	Loans to associated undertakings £000	Total £000
At 5 July 2012	-	-	-
Acquisitions	35,229	18,831	54,060
Interest receivable from JVs when acquired	-	(234)	(234)
Repayment of principle	-	(56)	(56)
At 31 March 2013	35,229	18,541	53,770

Investments comprise equity shares in joint venture companies which were acquired on the 4 December 2012. A list of joint ventures can be found on page 16

On the 4 December 2012, the Company acquired Ascent Flight Training (Holdings) Limited from Babcock International Support Services Limited for a cash consideration of £7,912,000 for the shareholding and the loan notes receivable (£3,258,723)

On the same date, the Company acquired ALC (Superholdco) Limited from Babcock Land Limited for the shareholding for a cash consideration of £17,821,000 for the shareholding and the loan notes receivable (£4,397,270)

On the same date, the Company acquired Holdfast Training Services Limited from Babcock Support Services Limited for a cash consideration of £28,327,000 for the shareholding and the loan notes (£10,941,414)

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

8. Debtors

	31 March 2013 £000
Amounts owed by Group undertakings	425
Interest receivable on loans to associated undertakings	509
	934

Amounts owed by Group undertakings are unsecured and repayable within one year. They accrue nil interest.

Babcock Defence and Security Investments Limited
Notes to the financial statements (cont)

9 Creditors – amounts falling due within one year

	31 March 2013
	£000
Deferred operating income	<u>14</u>
	<u>14</u>

Deferred operating income is receivable representing commitment and arrangement fees in assisting Ascent Flight (Training) Holdings Limited in gaining their loan notes and is being amortised over the life of the loan notes

10. Creditors – amounts falling due after more than one year

	31 March 2013
	£000
Deferred operating income	<u>244</u>
	<u>244</u>

Deferred operating income is receivable representing commitment and arrangement fees in assisting Ascent Flight (Training) Holdings Limited in gaining their loan notes and is being amortised over the life of the loan notes

11 Called up share capital

	31 March 2013
	£
Allotted and fully paid	
202 ordinary shares of £1 each	<u>202</u>
	<u>202</u>

On the 5 July 2012, 2 shares of £1 each were issued to Vosper Thornycroft (UK) Limited for a cash consideration of £2

On 4 December 2012, 100 ordinary shares of £1 were issued at a premium of £7,911,900 to the Company's parent Babcock Defence & Security Holdings LLP for cash consideration. The cash raised from this share issue was used to acquire the shareholding and loan notes in Ascent Flight Training (Holdings) Limited

On the same date, 100 ordinary shares of £1 were issued at a premium of £46,147,900 to the Company's parent Babcock Defence & Security Holdings LLP for cash consideration. The cash raised from this share issue was used to acquire the shareholding and loan notes in ALC (Superholdco) Limited and Holdfast Training Services Limited

Babcock Defence and Security Investments Limited
Notes to the financial statements (cont)

12. Reserves

	Called up share capital	Share premium account	Profit and loss account	Total
	£000	£000	£000	£000
Balance at 5 July 2012	-	-	-	-
Capital introduced by issue of shares by group companies	-	54,060	-	54,060
Retained profit for the financial period	-	-	4,453	4,453
Balance at 31 March 2013	-	54,060	4,453	58,513

13. Reconciliation of movement in shareholders' funds

	31 March 2013 £000
Issue of share capital and Share Premium	54,060
Profit for the financial period	4,453
Closing shareholders' funds	58,513

14. Contingent liabilities

At the year end the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £658.6 million (2012 £731.8 million) provided to certain Group companies. In addition, the Company at the year-end had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2012 £nil).

15. Related party disclosures

As a wholly owned undertaking of Babcock International Group PLC, the Company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" from disclosing transactions with other members of the group headed by Babcock International Group PLC, whose financial statements are publicly available.

Babcock Defence and Security Investments Limited
Notes to the financial statements (cont)

16. Subsidiary undertakings

The Company has taken advantage of the exemption under Section 410(2) of the Companies Act 2006 by providing information only in relation to related undertakings whose results or financial position, in the opinion of the Members, principally affected the financial statements. A full list of associated undertakings as at 31 March 2013 will be annexed to the Company's next annual return filed with the Registrar of Companies.

The associated undertakings of the Company at 31 March 2013 are shown below. The Company and its associated undertakings are all incorporated and domiciled in England and Wales. All holdings are in relation to ordinary shares.

Name	Principal activity	Percentage held
ALC (Superholdco) Limited	Provision of vehicles	50%
Ascent Flight Training (Holdings) Limited	Provision of flight training services	50%
Holdfast Training Services Limited	Provision of training services	74%

17. Ultimate parent undertaking

The Company's immediate parent company is Babcock Defence & Security Holdings LLP, a limited liability partnership registered in England and Wales.

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

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

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