Babcock DSG Ltd

Annual Report
For the year ended 31 March 2017

Company Registered Number: 09329025

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Directors and advisors

Current Directors

Nicolas Anderson
Nicholas Borrett
Jonathan Cohen
John Davies
Mark Lawton
Robert Pemberton
Richard Taylor
Iain Urquhart

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
Ocean Villiage
Southampton
SO14 3TJ

Strategic Report for the year ended 31 March 2017

The directors present their strategic report on the Company for the year ended 31 March 2017. The comparative period was from 26 November 2014 to 31 March 2016.

Principal activities

The Company is engaged in the maintenance of military vehicles. The principal contract is with the Ministry of Defence for the maintenance, repair, overhaul and storage of military vehicles and light weapons for the British Armed Forces.

Review of the business

	Year ended 31 March 2017 £000	Period ended 31 March 2016 £000
Revenue	365,902	226,189
Loss for the financial year	(7,623)	(1,640)

Following the acquisition of the DSG Trading Fund on 31 March 2015, the company achieved a number of successes in the past two years and progressed well with the process of transformation. Customer confidence has grown as a result of contract performance.

The market position enabled by Babcock DSG Ltd has led to a growing strategic relationship with the Army which will form the basis of developing new business as the Army implements its refined operating model under the Strategic Defence and Security Review.

Revenue has increased year on year reflecting the increase in the procurement of materials and spares as part of the service provided to the British Armed Forces representing a full year of service (prior year represented 6 months). Profit has decreased year on year representing the investments made as part of the transformation programme.

Future developments

The directors are confident about the future trading prospects of the Company in light of its current strong order book position and other market opportunities.

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 the political and regulatory environment. The directors manage this risk by meeting on a regular basis to discuss these risks.

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

Principal risks and uncertainties *(continued)*

The Company has largely one major contract. The Company, Division and Group conduct formal and rigorous reviews on a continual basis to monitor the operational performance and risks of this contract and the other smaller contracts.

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 2017 annual report of Babcock International Group Plc, which does not form part of this report.

Key performance indicators

Babcock DSG Ltd is a part of the Defence and Security Division within Babcock International Group. 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 30 to 37and 44 to 47of the Group's 2017 report, which does not form part of this report.

Financial risk management

Information on the Financial Risk Management of the Company can be found in the Directors' report.

On behalf of the board

Mark Lawton

Director

27 July 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. The comparative period was from 26 November 2014 to 31 March 2016.

Future developments

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

Results and dividends

The Company's results for the period are set out in the income statement on page 11 showing a loss for the reporting period after tax of £7,623,000 (2016: £1,640,000). At 31 March 2017, the Company had net assets of £138,356,000 (2016: £145,979,000). A review of the business during the period, together with information on the Company's risks and uncertainties are provided in the strategic report.

No dividends were paid or proposed during the current period.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in contract risk, credit risk, price 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 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 department. 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.

Contract risk

The Company has largely one major contract. The Company, Division and Group conduct formal and rigorous reviews on a continual basis to monitor the operational performance and risks of this contract and the other smaller contracts.

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.

Directors' report *(continued)*

Financial risk management *(continued)*

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.

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.

Directors

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

Nicolas Anderson		
Jonathan Cohen		
Mark Lawton		
Iain Urquhart		
John Davies	Appointed	01 April 2017
Nicholas Borrett		
Roger Hardy	Resigned	01 April 2017
Robert Pemberton	Appointed	08 June 2016
Richard Taylor	Resigned	13 July 2016 and Appointed 01 April 2017
Karen Hayzen-Smith	Appointed	14 November 2016 and Resigned 01 April 2017

Directors' report *(continued)*

Employment of disabled persons

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

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

Safety policy

The Company recognises the promotion of health and safety at work as an important objective. It is Company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the Company.

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.

Directors' report *(continued)*

Statement of directors' responsibilities *(continued)*

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.

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 the 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.

Disclosure of information to auditors

In the case of each director in office at the date the Directors' Report is approved:

- 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

Mark Lawton

Director

27 July 2017

Registered number 09329025

Independent auditors' report to the members of Babcock DSG Ltd

Report on the financial statements

Our opinion

In our opinion, Babcock DSG Ltd'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 loss 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 Statement of Financial Position as at 31 March 2017;
- the Income Statement and 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.

Independent auditors' report to the members of Babcock DSG Ltd *(continued)*

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 6 and 7, 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.

Independent auditors' report to the members of Babcock DSG Ltd *(continued)*

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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Michael Coffin (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
27 July 2017

Income Statement
for the Year Ended 31 March 2017

	Note	Year Ended 31 March 2017	Period ended 31 March 2016
		£000	£000
Revenue	4	**365,902**	**226,189**
Cost of sales - excluding amortisation of contract intangible		(346,121)	(207,417)
Cost of sales - amortisation of contract intangible		(14,262)	(14,263)
Total cost of sales		(360,383)	(221,680)
Gross profit		5,519	4,509
Administrative expenses		(16,365)	(11,505)
Operating loss	5	**(10,846)**	**(6,996)**
Finance income	6	-	12
Finance costs	6	(55)	-
Loss on ordinary activities before taxation		**(10,901)**	**(6,984)**
Income tax credit on ordinary activities	9	3,278	5,344
Loss for the financial year		**(7,623)**	**(1,640)**

All results derive from continuing operations.

The notes on pages 15 to 35 form an integral part of these financial statements.

Statement of Comprehensive Income

for the Year Ended 31 March 2017

	Year Ended 31 March 2017 £000	Period ended 31 March 2016 £000
Loss for the financial year	(7,623)	(1,640)
Other comprehensive (expense) / income: (net of tax)	-	-
Total comprehensive expense for the financial year	**(7,623)**	**(1,640)**

The notes on pages 15 to 35 form an integral part of these financial statements.

Statement of Financial Position
as at 31 March 2017

	Note	**2017**	**2016**
		£000	**£000**
Fixed assets			
Intangible assets	*10*	112,927	127,189
Property, plant & equipment	*11*	8,456	3,687
		121,383	**130,876**
Current assets			
Inventories	*12*	20,023	15,564
Trade and other receivables - amounts falling due within one year	*13*	102,793	77,834
Trade and other receivables - amounts falling due after more than one year	*13*	2,099	2,480
Cash and cash equivalents		5,963	1,446
		130,878	**97,324**
Trade and other payables - amounts falling due within one year	*14*	**(90,051)**	**(51,970)**
Net current assets		**40,827**	**45,354**
Total assets less current liabilities		**162,210**	**176,230**
Provisions	*15*	(23,854)	(30,251)
Net assets		**138,356**	**145,979**
Equity			
Called up share capital	*17*	-	-
Share premium	*17*	147,619	147,619
Retained earnings		(9,263)	(1,640)
Total shareholder's funds		**138,356**	**145,979**

The notes on pages 15 to 35 are an integral part of these financial statements.

The financial statements on pages 11 to 35 were authorised for issue by the board of directors on 27 July 2017 and were signed on its behalf.

Mark Lawton
Director
Babcock DSG Ltd

Registered number 09329025

Statement of Changes in Equity

for the Year Ended 31 March 2017

	Share premium £000	Retained earnings £000	Total £000
At 26 November 2014	-	-	-
Share premium subscribed	147,619	-	147,619
Loss for the financial year	-	(1,640)	(1,640)
Other comprehensive (expense) / income: (net of tax)	-	-	-
Balance as at 31 March 2016	**147,619**	**(1,640)**	**145,979**
At 1 April 2016	**147,619**	**(1,640)**	**145,979**
Loss for the financial year	-	(7,623)	(7,623)
Other comprehensive (expense) / income: (net of tax)	-	-	-
Balance as at 31 March 2017	**147,619**	**(9,263)**	**138,356**

The notes on pages 15 to 35 form an integral part of these financial statements.

Notes to the financial statements

(forming part of the financial statements)

1 General Information

Babcock DSG Ltd is a private 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 in the period presented.

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, and 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, unless stated otherwise (note 17).

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 Land Limited and of its ultimate parent, Babcock International Group PLC. The results are included in the consolidated financial statements of Babcock International Group PLC which are publicly available.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101 and the shareholders of the Company have been notified accordingly:

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) The following paragraphs of IAS 1, 'Presentation of financial statements': 10(d), 16, 40, 38 (a-d), 111 and 134-136
e) IAS 7, 'Statement of cash flows'
f) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
g) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
h) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Going concern

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.

Revenue recognition

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) Sale 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.

(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 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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) *Acquired intangibles*

Acquired intangibles are the estimated fair value of customer relationships and brands which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships. The Company currently only recognises a contract intangible.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation period of 10 years represents the length of the contract in this case.

b) *Computer software*

Computer software includes software licences acquired plus the costs incurred in bringing the software into use, and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of three years.

Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the computer software 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Property, plant and equipment (PPE)

Property, plant and equipment is shown at cost less subsequent depreciation and 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:

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.

Inventories 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.

Loans and receivables

Loans and receivables are non-derivative financial assets. They are included in current assets and comprise of cash in the statement of financial position.

Trade and other receivables

Trade and other 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.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, less any bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Financial assets

Basic financial assets, including debtors and cash and bank balances, are initially recognised at transaction price.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including creditors, bank loans and loans from fellow group companies, are initially recognised at transaction price.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Pensions costs and other post-retirement benefits

The Company participates in the MyCSP scheme of the Principal Civil Service Pension Scheme (PCSPS) (a government pension scheme providing benefits based upon final pensionable pay). The scheme is an unfunded statutory public service pension scheme with the benefits underwritten by the Government. The Company's only obligation is to pay the contributions as they fall due and if the Company ceases to employ members of the scheme, it will have no obligation to pay any further contributions to cover any shortfall against the cost of the benefits earned by its own employees in respect of previous years. Therefore the scheme is a defined contribution scheme for the purpose of FRS 101 and is accounted for as such by the Company.

The Company also participates in a defined contribution scheme. Obligations for contributions to the defined contribution pension plan are recognised as an expense in the income statement.

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 substantively enacted by the statement of financial position 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 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 substantively 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.

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 period 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Provisions

A provision is recognised in the Statement of Financial Position 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.

3 Critical accounting judgements

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.

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.

Revenue – sale of goods

Sale of goods revenue is recognised as 'principal' for the period of the contract from the point of transition of direct supplier payment from the MoD to Babcock DSG Ltd.

Notes to the financial statements *(continued)*

3 Critical accounting judgements *(continued)*

Acquired intangibles

Acquired intangibles are the estimated fair value of customer relationships which are contractual, represented by the value of the acquired order book.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process which is ten years.

4 Revenue

Revenue is wholly attributable to the principal activities of the Company and is of United Kingdom origin and destination.

Revenue includes £209,680,000 (2016: £46,807,000) relating to the purchase of materials and spares on behalf of the customers. Revenues related to these items have been period costed.

	Year Ended 31 March 2017 £000	Period ended 31 March 2016 £000
Services under Long Term Contracts	156,222	179,382
Sale of goods	209,680	46,807
	365,902	226,189

Notes to the financial statements *(continued)*

5 Operating loss

Operating loss is stated after charging:

	Year Ended 31 March 2017 £000	Period ended 31 March 2016 £000
Staff costs (Note 7)	65,300	81,128
Depreciation - owned property, plant & equipment (Note 11)	1,077	265
Amortisation (Note 10)	14,262	14,263
Stock expensed charged to cost of sales - sale of goods	209,680	46,756
Stock expensed charged to cost of sales - fair value provision	-	5,497
Stock expensed charged to cost of sales - other	4,678	2,425
Write back of stock provision charged to income statement	-	(396)
Operating lease charges - plant & equipment (Note 18)	661	593
Operating lease charges - other (Note 18)	2,927	2,928
Services provided by the Company's auditors:		
- fees payable for the audit	29	40
- fees payable for the non-audit work - transaction support	-	155

6 Finance income and cost

	Year Ended 31 March 2017 £000	Period ended 31 March 2016 £000
Finance income:		
Bank interest received	-	12
	-	**12**
Finance cost:		
Bank interest paid	(55)	-
	(55)	**-**
Total	**(55)**	**12**

Notes to the financial statements *(continued)*

7 Staff costs

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

	Year Ended 31 March 2017 Number	Period ended 31 March 2016 Number
By Activity:		
Operational and technical	1,706	1,660
Management and administration	11	10
	1,717	1,670

Their aggregate remuneration comprised:

	Year Ended 31 March 2017 £000	Period ended 31 March 2016 £000
Wages and salaries	52,942	67,361
Social security costs	4,728	4,152
Other pension costs	7,630	9,615
	65,300	81,128

Following the acquisition of the Company by Babcock Land Limited, a review was carried out to identify the synergies and savings across the enlarged Group. Redundancy of £6,960,000 (2016: £14,791,000) was charged to the income statement during the year.

Notes to the financial statements *(continued)*

8 Directors' remuneration

The remuneration of the directors which was paid by the Company was as follows:

	Year Ended 31 March 2017 £000	Period ended 31 March 2016 £000
Emoluments (including benefits-in-kind)	556	654
Defined contribution pension scheme	10	29
	566	683

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

	Year Ended 31 March 2017 £000	Period ended 31 March 2016 £000
Emoluments (excluding pension contributions)	207	270
Company pension contributions	5	18
	212	288

Except for four (2016: three) directors, all of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements.

No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

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

Notes to the financial statements *(continued)*

9 Income tax

Tax credit included in the income statement

	Year Ended 31 March 2017 £000	Period ended 31 March 2016 £000
Current tax		
UK Corporation tax credit on losses for the year	-	-
Deferred tax (Note 16)		
Origination and reversal of timing differences	(2,167)	(2,805)
Impact of change in UK tax rate	(935)	(2,539)
Adjustments in respect of prior year	(176)	-
Tax on loss on ordinary activities	**(3,278)**	**(5,344)**

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

	Year Ended 31 March 2017 £000	Period ended 31 March 2016 £000
Loss on ordinary activities before tax	(10,901)	(6,984)
Tax on loss on ordinary activities multiplied by standard UK Corporation tax rate of 20%	(2,180)	(1,397)
Effects of:		
Impact of change in the UK tax rate	(935)	(2,539)
Expenses not deductible for tax purposes	16	6
Group relief for nil consideration	(3)	(1,414)
Adjustments in respect of deferred tax for prior years	(176)	-
Total tax credit for the year	**(3,278)**	**(5,344)**

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 remeasured at 17% as this is the tax rate that will apply on reversal.

Notes to the financial statements *(continued)*

10 Intangible assets

	Software £000	Acquired contract intangible £000	Total £000
Cost			
1 April 2016 and 31 March 2017	501	140,951	141,452
Accumulated amortisation			
At 1 April 2016	168	14,095	14,263
Charge for the year	167	14,095	14,262
1 April 2016 and 31 March 2017	335	28,190	28,525
Net book value			
At 31 March 2017	**166**	**112,761**	**112,927**
At 31 March 2016	333	126,856	127,189

The acquired contract intangible is the estimated fair value of customer relationships which are contractual, represented by the value of the acquired order book.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process which is ten years. At 31 March 2017, eight years remain.

Notes to the financial statements *(continued)*

11 Property, plant and equipment

	Plant & machinery £000
Cost	
At 1 April 2016	3,952
Additions in year	5,846
At 31 March 2017	9,798
Accumulated depreciation	
At 1 April 2016	265
Charge for the year	1,077
At 31 March 2017	1,342
Net book value	
At 31 March 2017	8,456
At 31 March 2016	3,687

Notes to the financial statements *(continued)*

12 Inventories

	2017	2016
	£000	£000
Raw materials and consumables	20,023	15,564
	20,023	**15,564**

13 Trade and other receivables

	2017	2016
	£000	£000
Amounts falling due within one year:		
Amounts recoverable on contracts	21,602	34,597
Trade receivables	28,740	29,138
Amounts owed by Group undertakings	51,162	13,000
Other receivables	74	190
Corporation tax	275	-
Prepayments and accrued income	940	909
	102,793	**77,834**
Amounts falling due after more than one year:		
Prepayments and accrued income	2,099	2,480
	2,099	**2,480**

Amounts owed by Group undertakings includes a short term loan of £51,000,000 (2016: £13,000,000), this is non-interest bearing, unsecured and repayable within one year.

Notes to the financial statements *(continued)*

14 Trade and other payables

	2017 £000	2016 £000
Amounts falling due within one year:		
Trade payables	29,063	17,071
Amounts owed to group undertakings	11,601	5,031
Other taxation and social security	10,242	4,862
Other payables	35,007	21,483
Accruals and deferred income	4,138	3,523
	90,051	**51,970**

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 18a).

Amounts owed to Group undertakings are unsecured and repayable on demand. They accrue nil interest.

15 Provisions

	Deferred tax £000	Contract provisions £000	Redundancy provisions £000	Total £000
At 26 November 2014	-	-	-	-
Additions on acquisition	28,190	-	-	28,190
(Credit)/charged to the income statement	(5,344)	1,467	5,938	2,061
At 31 March 2016	**22,846**	**1,467**	**5,938**	**30,251**

	Deferred tax £000	Contract provisions £000	Redundancy provisions £000	Total £000
1 April 2016	22,846	1,467	5,938	30,251
Amounts utlised	-	(45)	(5,587)	(5,632)
Credited to the income statement	(3,278)	(255)	(351)	(3,884)
Charged to the income statement	-	-	3,119	3,119
At 31 March 2017	**19,568**	**1,167**	**3,119**	**23,854**

Notes to the financial statements *(continued)*

15 Provisions *(continued)*

Redundancy provisions

Following the acquisition of the Company by Babcock Land Limited, a review was carried out to identify the synergies and savings across the enlarged Group. During the year, £5,587,000 was utilised and £351,000 was released to the income statement. A further provision was made of £3,119,000 for the next stage of the programme. The remainder of this provision is expected to be utilised during the next year.

Contract provision

Included within contract provisions are £1,155,000 (2016: £1,155,000) relating to the dilapidations arising on Company leased buildings (expected to be utilised within 3 years).

16 Deferred Tax

The major components of the deferred tax liability are as follows:

Deferred tax (assets)/liabilities:

	Accelerated capital allowances	Other	Total
	£000	£000	£000
At 1 April 2016	66	22,780	22,846
- Charged/(credited) to the Income statement	125	(3,403)	(3,278)
Balance carried forward at 31 March 2017	**191**	**19,377**	**19,568**

Notes to the financial statements *(continued)*

17 Share Capital

	2017 Share capital £	2017 Share premium £	2016 Share capital £	2016 Share premium £
Allotted, called-up and fully paid				
100 ordinary shares of £1 each	100	-	100	-
100 shares of £1,476,189 each	-	147,619,000	-	147,619,000
At 31 March 2017	**100**	**147,619,000**	**100**	**147,619,000**

On the 26 November 2014, DSG Land Equipment and Support Ltd was incorporated and share capital of 1 ordinary share at £1 was issued.

On the 31 March 2015, the Company was acquired by Babcock Land Limited. A further 99 ordinary shares at £1 were issued. Babcock Land Limited acquired the entire shareholding of Babcock DSG Ltd for an initial cash consideration of £140,000,000. Babcock Land Limited finalised its negotiations and the final settlement of £7,619,000 was agreed on the 23 March 2016 and paid in April 2016.

Notes to the financial statements *(continued)*

18 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 crystalise.

b) Operating lease commitments

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

	2017 Land and buildings £000	2017 Vehicles, plant & equipment £000	2016 Land and buildings £000	2016 Vehicles, plant & equipment £000
Total commitments under non-cancellable operating leases expiring:				
within one year	2,927	661	2,928	593
between two and five years	11,712	1,544	11,712	2,309
after five years	8,800	-	11,728	-
	23,439	**2,205**	**26,368**	**2,902**

19 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 consolidated financial statements are publicly available.

Notes to the financial statements *(continued)*

20 Pension commitments

Defined Contribution Scheme

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 also operated several defined contribution schemes. The pension charge for the year includes contributions payable by the Company to these funds:

	2017	2016
	£000	£000
Defined Contribution Scheme	334	145

Defined Benefit Scheme

Employees transferred from the DSG Trading Fund after the acquisition of Babcock DSG Ltd are entitled to continuing membership of the My Civil Service Pension Scheme (MyCSP) part of the Government of Great Britain Principal Civil Service Pension Scheme (PCSPS) (a government pension scheme providing benefits based upon final pensionable pay).

The scheme is an unfunded statutory public service pension scheme with the benefits underwritten by the Government. The Company's only obligation is to pay the contributions as they fall due and if the Company ceases to employ members of the scheme, it will have no obligation to pay any further contributions to cover any shortfall against the cost of the benefits earned by its own employees in respect of previous years. Therefore the scheme is a defined contribution scheme for the purpose of FRS 101 and is accounted for as such by the Company.

The latest actuarial valuation of the PCSPS was as at 31 March 2012 which identified that the scheme had a notional past service deficit of £5.5bn.

The pension contributions paid by the Company to the MyCSP scheme are paid at an average rate 19.3% (2016: 19.3%) of pensionable pay.

Pension costs for defined benefit schemes are as follows:

	2017	2016
	£000	£000
Defined Benefit Civil Service Pension Scheme	7,391	9,470

At 31 March 2017, there was a creditor of £nil (2016: £883,000) relating to unpaid MyCSP pension contributions included within accruals in the statement of financial position.

The Company expects to continue to pay contributions of an average rate of 19.3% of pensionable pay in the next financial year.

Notes to the financial statements *(continued)*

21 Ultimate parent undertaking

The immediate parent undertaking is Babcock Land Limited.

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:

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Babcock International Group Plc
33 Wigmore Street
London W1U 1QX