

Babcock Critical Services Limited
(formerly VT Critical Services
Limited)

Directors' report and financial
statements

Registered number SC046710

31 March 2011



Babcock Critical Services Limited (*formerly VT Critical Services Ltd*)
Directors' report and financial statements

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Babcock Critical Services Limited (formerly VT Critical Services Limited)

Directors' report and financial statements

The directors' report and the business review

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2011.

Principal activity

The principal activity of the company is the provision of maintenance and fleet management support services.

Business review

Acquisition by Babcock International Group plc

On 23 March 2010 Babcock International Group plc ("Babcock") and the company's ultimate parent undertaking, VT Group plc, announced that they had reached agreement on the terms of a recommended acquisition by Babcock of all the issued and to be issued share capital of VT Group plc.

The acquisition was completed with effect from 8th July 2010 with VT Group plc shares being de-listed from the London Stock Exchange on 9th July 2010.

On 9th July 2010 the Company was renamed Babcock Critical Services Limited.

Results and dividends

The directors do not recommend the payment of a dividend (2010: *£nil*).

Key performance indicators

	2011	2010
	£000	£000
Turnover	60,319	60,192
Operating profit / (loss)	2,242	489

The company had a solid year – revenue was stable in a challenging environment and profitability increased, although this was primarily due to lower contributions in the year to the company's ultimate parent pension scheme.

All major contracts within the company performed in line with expectations. In April 2010, the company started a small but notable contract with the Highways Agency, building upon the company's fleet management skills to manage the Agency's national fleet of patrol vehicles. This was implemented well and performed to expectations throughout the year.

Management continues to use all relevant financial information in operating the company's contracts and in controlling its cost base. Individual contracts have key performance indicators (KPIs) integrated into their terms and conditions. These KPIs are normally based on two basic principles, being response and availability. Response means how quickly the company meets the needs of customers and their assets when those assets become unserviceable. The principle of availability typically measures the amount of time that a customer asset or fleet is unserviceable. These KPIs are at the heart of the company's activities and customer satisfaction and as such they are monitored by management on a regular basis.

In the last year the company has continued to maintain the high levels of service KPIs to its existing customers and deliver a consistently high service to the customer throughout the year. The company's key customers continue to express a high level of satisfaction with this performance.

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

The directors' report and the business review *(continued)*

Future developments

The company continues to pursue and develop opportunities within the various sectors of fleet management support and is confident that further revenue growth will be seen over the course of the coming one to two years.

Principal risks and uncertainties

The principal risk of the company is maintenance risk. The company provides maintenance in consideration for fixed contracted amounts from its customers during the contract life. The company bears the risk that related costs will be different to those initially anticipated. The company monitors projected maintenance activities and related costs through the useful economic life of the assets, enabling any risk to be minimised.

Financial risk management

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 are managed by the group finance department. The Babcock group has a policy and procedures manual that sets out guidelines to allow it to manage financial risks and this is applied by the company.

Credit risk

The company has implemented policies that require appropriate credit checks on potential companies before sales are made. The company also monitors existing company accounts on an ongoing basis and takes appropriate action where necessary to minimise any potential credit risk. Material cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit ratings agencies.

Liquidity risk

The company retains sufficient cash to ensure it has available funds for its 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 in the form of cash balances, interest on which is at a floating rate. The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Foreign currency exchange rate risk

The company has a policy to minimise foreign currency exchange rate risk through the regular monitoring of foreign currency flows and putting in place where appropriate forward currency exchange contracts.

Price risk

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operation, the cost of managing exposure to commodity price risk exceeds any potential benefit. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

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The directors' report and the business review *(continued)*

The company continues to pursue and develop opportunities within the various sectors of fleet management support and is confident that further revenue growth will be seen over the course of the coming one to two years.

Qualifying third party indemnity provisions

Under their respective Articles of Association, the directors of the company are, and were during the year to 31 March 2011, entitled to be indemnified by the company against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

Directors

The directors of the company during the year and up to the date of approving this report were as follows:

PJ Harrison	(resigned 9th July 2010)
J Davies	(resigned 2nd September 2010)
G D Leeming	(appointed 2nd September 2010)
F Martinelli	(appointed 9th July 2010)
K R Thomas	(appointed 2nd September 2010)
A S Lewis	(appointed 2nd September 2010)
J McGrath	(appointed 1st June 2011)
R Gillespie	(appointed 1st June 2011)
A Dungate	(appointed 1st June 2011)

Creditor payment policy

The company is responsible for agreeing the terms and conditions under which business transactions with suppliers are conducted. It is company policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all the relevant terms and conditions. It is the company's policy not to formally follow any code or standard on payment practice.

The number of days' purchases outstanding for payment by the company at the year end was 29 days (2010:12 days).

Fixed assets

The company's freehold properties were last valued in July 2010 at open market value on the basis of existing use. This valuation has not been incorporated in the financial statements as the directors consider there is no permanent rise or diminution in the value of the properties.

Charitable and political donations

During the year the company made charitable donations totalling £809 (2010: £nil) and nil political donations (2010: £nil).

Employment policies

The development of employee involvement in the company's business is kept under regular review and the directors are committed to encouraging greater involvement of all employees. Formal and informal briefing of employees takes place as appropriate. The company takes all reasonable steps to ensure that all employment conditions are applied regardless of sex, race, colour, ethnic background, religion or disability.

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

The directors' report and the business review *(continued)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' 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.

Independent auditors

During the year the company changed its auditor to PricewaterhouseCoopers LLP, as a result of the change of ownership of the company's parent. The company has dispensed with the requirement for an Annual General Meeting and the need to appoint auditors annually.

On behalf of the Board



J McGrath
Director

9 November 2011

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Statement of directors' responsibilities in respect of the director's report and financial statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Independent auditors' report to the members of Babcock Critical Services Limited

We have audited the financial statements of Babcock Critical Services Limited for the year ended 31 March 2011 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 5, 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 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 2011 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.

Opinion on other matter prescribed by the Companies Act 2006

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

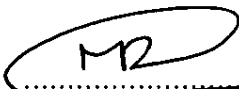
Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Independent auditors' report to the members of Babcock Critical Services Limited (continued)

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

11 November 2011

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Profit and loss account

for the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Turnover	2	60,319	60,192
Staff costs	3	(23,853)	(27,815)
Raw materials and other operating charges		(32,615)	(31,476)
Reorganisation and restructuring costs	5	-	804
Amortisation of intangible fixed assets	7	(204)	(204)
Depreciation of tangible fixed assets	7	(1,405)	(1,012)
Operating profit		2,242	489
Interest receivable and similar income	6	465	516
Profit on ordinary activities before taxation	7	2,707	1,005
Tax on profit on ordinary activities	8	370	979
Profit for the financial year	18	3,077	1,984

The above results all relate to continuing activities.

The company has no recognised gains or losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented. There is material no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above, and their historical cost equivalents.

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Balance sheet

at 31 March 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Intangible assets	9	1,618	1,822
Tangible assets	10	9,566	10,512
Investments	11	-	-
		<u>11,184</u>	<u>12,334</u>
Current assets			
Stocks	12	1,407	696
Debtors	13	23,976	23,917
Cash at bank and in hand		<u>13,522</u>	<u>10,971</u>
		38,905	35,584
Creditors: amounts falling due within one year	14	<u>(20,889)</u>	<u>(23,282)</u>
Net current assets		<u>18,016</u>	<u>12,302</u>
Total assets less current liabilities		29,200	24,636
Creditors: amounts falling due after more than one year	15	(1,313)	-
Provisions for liabilities	16	<u>(1,930)</u>	<u>(1,756)</u>
Net assets		<u>25,957</u>	<u>22,880</u>
Capital and reserves			
Called up share capital	17	19,908	19,908
Capital reserve	18	-	496
Profit and loss account	18	<u>6,049</u>	<u>2,476</u>
Shareholders' funds	18	<u>25,957</u>	<u>22,880</u>

The financial statements on pages 8 to 21 were approved by the board of directors on 9 November 2011 and were signed on its behalf by:



J McGrath
Director

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards.

A summary of the more important Company accounting policies which have been consistently applied is set out below.

The company is exempt by virtue of S400(1) of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (1996 Revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.

In addition, advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with Babcock International Group plc or other group undertakings, as the consolidated financial statements of Babcock International Group plc in which the company is included are publicly available.

Intangible fixed assets and amortisation

Development costs represent the initial investment in bidding contracts (post the point at which the company becomes the preferred bidder on any contract) and bringing them to contract signature and then commencing them.

It is the company's policy to amortise development costs on a straight line basis over the life of the contract to which the costs relate.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on the purchase of contracts in respect of acquisitions since 1 January 1998 is capitalised. This goodwill is amortised to nil by equal annual instalments over its estimated useful life. The useful life of purchased goodwill bears relation to the length of contracts having been purchased and varies between 5 and 20 years.

Tangible fixed assets and depreciation

The cost of tangible fixed assets comprises the purchase price and any directly attributable costs incurred in acquiring the assets.

Freehold land is not depreciated. Depreciation on property and equipment is provided on a straight line basis over the estimated useful lives as follows:

Freehold buildings	- 25 to 50 years
Vehicles	- 3 to 10 years
Computer peripherals, furniture, fittings, plant and equipment	- 3 to 7 years
Development of computer software and contract related assets	- 5 to 10 years

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Notes *(continued)*

1 Accounting policies *(continued)*

Investments

Investments are stated at cost less any provision for impairment.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease. Operating lease income is credited to the profit and loss account on a straight line basis over the period of the lease.

Pension costs

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. 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', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting year.

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profit represents the contributions payable to the scheme in respect of the accounting year.

Stocks

Stock is stated at the lower of cost and net realisable value. Cost includes all expenditure incurred in acquiring the stocks and bringing them to their current location and condition.

Provision is made for obsolete and slow moving items.

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the turnover can be reliably measured. All of the company's contracts are period costed; turnover and costs are recognised in the period and, where appropriate, accruals are made to match turnover and cost to the period in which they relate.

Onerous Contracts

Where any contract is foreseen to be loss making over its life then a provision is made for such loss at that point.

Taxation

The charge for taxation is based on the profit for the year 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 tax 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 taxation assets are recognised only to the extent that in the opinion of the directors, there is a reasonable probability that the asset will crystallise in the foreseeable future.

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Notes (continued)

1 Accounting policies (continued)

Share based payments

During the year VT Critical Services Limited was acquired by Babcock International Group plc and the Share based payment obligation was crystallised in full subject to performance measures. New share based payments arrangements with Babcock will be cash settled and hence there will be no movement on reserves.

Pre acquisition the group share option programme allowed employees to acquire shares of the parent company. The fair value of options granted after 7 November 2002 was recognised as an employee expense with a corresponding increase in equity, in the form of a parent company capital contribution. The fair value of the options granted were measured using an option pricing model, taking into consideration the terms and conditions upon which the options were granted. The amount recognised as an expense was adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Rental income

Property rental income is recognised on a straight-line basis over the period of the lease, even if payments are not received on such a basis.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2 Turnover

Turnover is substantially attributable to the principal activity of the company and arises solely within the United Kingdom. The analysis of turnover is as follows:

	2011	2010
	£000	£000
Property rental income	113	113
Maintenance and fleet management support services	60,206	60,079
	60,319	60,192

Babcock Critical Services Limited (formerly VT Critical Services Limited)
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Notes *(continued)*

3 Staff numbers and costs

The average number of persons (including directors) employed by the company during the year was as follows:

	Number of employees	
	2011	2010
Management and administration	108	111
Operations	472	515
	580	626

The aggregate payroll costs of these persons were as follows:

	2011	2010
	£000	£000
Wages and salaries	19,085	19,676
Share based payments	-	227
Social security costs	1,759	1,836
Other pension costs (note 22)	3,009	6,076
	23,853	27,815

4 Remuneration of directors

All of the directors of the company are subject to service agreements with and remunerated by other group companies. It is not possible to make an accurate apportionment of their emoluments relating to the services provided to the company (2010: £nil).

5 Reorganisation and restructuring costs

	2011	2010
	£000	£000
Reorganisation and restructuring costs	-	(804)

In the prior year the directors reassessed the group reorganisation provision. As a result the reorganisation provision was reduced by £804,000 which was credited to the profit and loss account for the year ended 31 March 2010.

6 Interest receivable and similar income

	2011	2010
	£000	£000
Inter-company interest charged to fellow group undertakings	444	495
On bank deposits	21	21
	465	516

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Notes *(continued)*

7 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging / (crediting):

	2011	2010
	£000	£000
Operating lease rentals		
- plant and machinery	190	222
- other	450	495
Rent receivable from land and buildings	(113)	(113)
Profit on disposal of fixed assets	(39)	(21)
Depreciation of tangible fixed assets	1,405	1,012
Amortisation of intangible fixed assets	204	204
	<hr/>	<hr/>
<i>Auditors' remuneration:</i>		
Audit of these financial statements	39	45
	<hr/>	<hr/>

No other fees are paid to PricewaterhouseCoopers LLP, and its associates, in respect of this company, other than for the statutory audit of the company. Fees for other services are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC.

8 Taxation

	2011	2010
	£000	£000
<i>Current tax</i>		
UK corporation tax on profit for the year	-	(188)
Adjustments in respect of prior years	-	(1,046)
	<hr/>	<hr/>
Total current tax charge / (credit)	-	(1,234)
	<hr/>	<hr/>
<i>Deferred tax</i>		
Origination and reversal of timing differences	6	610
Adjustments in respect of prior years arising on ACA's	(430)	(355)
Impact of change in UK tax rate	54	-
	<hr/>	<hr/>
Total deferred tax (credit) / charge	(370)	255
	<hr/>	<hr/>
Tax (credit) on profit on ordinary activities	(370)	(979)
	<hr/>	<hr/>

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Notes (continued)

8 Taxation (continued)

Factors affecting the tax credit for the current year

The current tax for the year is lower (2010: lower) than the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are explained below:

	2011 £000	2010 £000
Profit on ordinary activities before tax	<u>2,707</u>	<u>1,005</u>
Profit on ordinary activities multiplied by standard rate in UK of 28% (2009: 28%)	758	281
<i>Effects of:</i>		
Expenses not deductible for tax purposes	92	141
Difference between capital allowances and depreciation	-	(304)
Other timing differences	(6)	(306)
Group relief (claimed) / surrendered for nil consideration	(844)	-
Adjustments in respect of prior years	<u>-</u>	<u>(1,046)</u>
Current tax charge / (credit)	<u>-</u>	<u>(1,234)</u>

Factors affecting future tax charge

A number of changes to the UK Corporation tax system were announced in the March 2011 Budget Statement. The rate of Corporation tax was reduced from 28% to 26% with effect from 1 April 2011. Legislation to reduce the main rate of Corporation tax from 26% to 25% from 1 April 2010 was substantively enacted on 5th July 2011 in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

9 Intangible fixed assets

	Development costs £000	Goodwill £000	Total £000
Cost			
At beginning and end of year	<u>598</u>	<u>1,931</u>	<u>2,529</u>
Amortisation			
At beginning of year	281	426	707
Charge for year	<u>62</u>	<u>142</u>	<u>204</u>
At end of year	<u>343</u>	<u>568</u>	<u>911</u>
Net book value			
At 31 March 2011	<u>255</u>	<u>1,363</u>	<u>1,618</u>
At 31 March 2010	<u>317</u>	<u>1,505</u>	<u>1,822</u>

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Notes (continued)

10 Tangible fixed assets

	Freehold land £000	Freehold buildings £000	Motor vehicles £000	Assets under course of construction £000	Equipment, fixtures & fittings £000	Total £000
Cost						
At beginning of year	3,249	4,093	1,995	135	5,885	15,357
Additions	-	102	5	8	345	460
Transfers between items	-	-	-	(57)	57	-
Disposals	-	-	(162)	-	(78)	(240)
At end of year	<u>3,249</u>	<u>4,195</u>	<u>1,838</u>	<u>86</u>	<u>6,209</u>	<u>15,577</u>
Depreciation						
At beginning of year	-	910	1,124	-	2,811	4,845
Charge for year	-	155	189	-	1,061	1,405
Disposals	-	-	(162)	-	(77)	(239)
At end of year	<u>-</u>	<u>1,065</u>	<u>1,151</u>	<u>-</u>	<u>3,795</u>	<u>6,011</u>
Net book value						
At 31 March 2011	<u>3,249</u>	<u>3,130</u>	<u>687</u>	<u>86</u>	<u>2,414</u>	<u>9,566</u>
At 31 March 2010	<u>3,249</u>	<u>3,183</u>	<u>871</u>	<u>135</u>	<u>3,074</u>	<u>10,512</u>

11 Investments

	Shares in group undertakings £000
Cost	
At beginning and end of year	<u>31,103</u>
Provisions	
At beginning and end of year	<u>31,103</u>
Net book value	
At 31 March 2011 and 31 March 2010	<u>-</u>

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Notes (continued)

11 Investments (continued)

The principal subsidiary undertakings are shown below:

Company	Principal activity	Class of share	Country of incorporation	% held
B.V.S. Rentals Limited	Non-trading	Ordinary	Great Britain	100
B.V.S. Watford Limited	Non-trading	Ordinary	Great Britain	100
Chadmore Assets Plc	Non-trading	Ordinary	Great Britain	100
Chart Services Limited	Non-trading	Ordinary	Great Britain	100
Transfleet Distribution Limited	Non-trading	Ordinary	Great Britain	100
Transfleet Truck Rentals Limited	Non-trading	Ordinary	Great Britain	100

12 Stock

	2011 £000	2010 £000
Vehicle spare parts, fuel and consumables	1,407	696

There is no material difference between the replacement value of stock and its book value.

13 Debtors

	2011 £000	2010 £000
Amounts falling due within one year		
Trade debtors	4,167	6,681
Amounts owed by group undertakings	15,355	15,358
Amounts owed by joint ventures and associate undertakings	48	27
Other debtors	427	1,023
Prepayments and accrued income	3,277	496
Deferred tax	702	332
	23,976	23,917

The movement on the deferred tax account in the year was as follows:

	Deferred tax £000
At beginning of year	332
Credited to the profit and loss account	370
At the end of the year	702

The amounts owed by group undertakings are unsecured, interest bearing and repayable on demand.

Babcock Critical Services Limited (formerly VT Critical Services Limited)
Directors' report and financial statements

Notes (continued)

13 Debtors (continued)

Deferred taxation is analysed as follows:

	2011 £000	2010 £000
Accelerated capital allowances	648	246
Other timing differences	54	86
	<u>702</u>	<u>332</u>

There was no unprovided deferred tax during the year (2010: £nil).

14 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	1,942	789
Amounts owed to group undertakings	1,386	4,214
Amounts owed by joint ventures and associate undertakings	4	-
Other creditors	501	299
Other taxes and social security	1,863	2,215
Accruals and deferred income	15,193	15,765
	<u>20,889</u>	<u>23,282</u>

The amounts owed to group undertakings are unsecured, interest free and repayable on demand.

15 Creditors: amounts falling due after one year

	2011 £000	2010 £000
Accruals and deferred income	1,313	-
	<u>1,313</u>	<u>-</u>

16 Provisions for liabilities and charges

	Contract provisions £000	Dilapidation provisions £000	Total £000
At beginning of year	1,756	-	1,756
Reclassified from accruals	-	145	145
Charged to profit and loss account	-	172	172
Utilised during the year	(143)	-	(143)
At end of year	<u>1,613</u>	<u>317</u>	<u>1,930</u>

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The contract provisions arise as a result of providing for the expected future losses of two contracts within the company. These contracts expire in 2022 and 2028 and the relevant provisions will unwind over the intervening period.

Dilapidation provisions are in relation to various properties leased by the company. These provisions are expected to be utilised over the next 3 years.

17 Called up share capital

	2011 £000	2010 £000
Allotted, called up and fully paid		
19,908,300 ordinary shares of £1 each	<u>19,908</u>	<u>19,908</u>

18 Reserves

	Capital Reserve £000	Profit and loss account £000	Total £000
At beginning of year	496	2,476	2,972
Profit for the year	-	3,077	3,077
Reserves transfer	<u>(496)</u>	<u>496</u>	<u>-</u>
At end of year	<u>-</u>	<u>6,049</u>	<u>6,049</u>

The capital reserve arose on contributions to the VT share based payment schemes. During the year VT Critical Services Limited was acquired by Babcock International Group plc and the share based payment obligation was crystallised in full subject to performance measures. Following the closure of the schemes, the accumulated capital reserve has been transferred to the profit and loss account.

New share based payments arrangements with Babcock will be cash settled and hence there will be no movement on reserves.

19 Reconciliation of movements in shareholders' funds

	2011 £000	2010 £000
Profit on ordinary activities after taxation	<u>3,077</u>	<u>1,984</u>
	3,077	1,984
Capital contribution relating to share based payments	<u>-</u>	<u>227</u>
Net increase to shareholders' funds	3,077	2,211
Opening shareholders' funds	<u>22,880</u>	<u>20,669</u>
Closing shareholders' funds	<u>25,957</u>	<u>22,880</u>

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20 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	138	40	364	10
Within two to five years	11	103	11	187
	<u>149</u>	<u>143</u>	<u>375</u>	<u>197</u>

21 Contingent liabilities

Performance bonds amounting to £3,500,000 (2009: £3,500,000) have been given by the company in the normal course of business.

In the opinion of the directors no further provision is required in respect of these obligations.

The company at the period end had joint and several liability for drawn bank overdraft facilities of other group companies for the value of £4.5million.

22 Pension arrangements

The company is a member of a larger group wide pension scheme providing benefits based on final pensionable pay. The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for, in these financial statements as if the scheme was a defined contribution scheme. The pension charge in the financial statements (note 3) represents contributions paid to the scheme.

The latest full actuarial valuation was carried out as at 31 March 2010 by a qualified independent actuary. This valuation showed a funding shortfall of £87.9million. This represents the liability to Babcock International Group plc as a whole and does not represent a liability to the company. At 31 March 2011, contributions amounting to £129,000 (2010: £290,000) were payable to the funds and are included in creditors. The pension charge for the year was £2,880,000 (2010: £5,977,000).

The company also operated several defined contribution pension schemes. The pension cost charge for the year includes contributions payable by the company to these funds amounting to £129,000 (2010: £99,000). At 31 March 2011, contributions amounting to £10,000 (2010: £7,000) were payable to the funds and are included in creditors.

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23 Related party transactions

Related party transactions are with Whitefleet Limited, which is a joint venture undertaking in which the company's ultimate parent has a subsidiary company with a 50% share holding. Transactions during the year and the balance outstanding at 31 March 2011 with these related parties are as follows:

	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Whitefleet Limited				
2011	81	3	48	4
2010	81	-	5	-

In the prior year the company made sales of £635,000 to VT Ocean Sciences Limited and had a balance owing to the company of £22,000 at 31 March 2010. VT Ocean Sciences Limited was sold in the current financial year and is therefore no longer a related party.

All dealings with related parties are conducted on an arm's length basis.

24 Ultimate parent company

The company is a subsidiary undertaking of Babcock International Support Services Limited, a company incorporated in Great Britain and registered in England and Wales.

The ultimate parent undertaking of the company is Babcock International Group plc, a company incorporated in Great Britain and registered in England and Wales.

The largest and smallest group in which the results of the company are reported is that headed by Babcock International Group plc. The consolidated financial statements are available to the public at that company's registered office of 33 Wigmore Street, London W1U 1QX. No other financial statements include the results of the company.