Babcock Support Services Limited

Annual Report
For the year ended 31 March 2016

Company Registration Number:
SC099884

Babcock Support Services Limited

Directors and advisors

Current directors

G Adams
N Borrett
K Butler
R Hardy
S Landrey
N Misell
R Stoate
I Urquhart
K Hayzen-Smith

Company Secretary

Babcock Corporate Secretaries Limited

Registered office

C/O DWF LLP
110 Queen Street
Glasgow
G1 3HD

Independent Auditors

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

Strategic report

The directors present their Strategic report on the Company for the year ended 31 March 2016.

Principal activities

The Company operates across a number of support services contracts; facilities management, equipment support and training services to the armed forces. It further provides a range of logistic and equipment support services for the British Army and Royal Air Force. It helps customers maintain, operate and improve their estates. Typical customers are public sector organisations with complex infrastructure portfolios to service. The Company also sells employee services to other group companies which attracts a margin on the employee costs.

Review of the business

	2016	2015
	£000	£000
Revenue	**92,661**	269,823
Profit for the financial year	**19,303**	10,605

Overall revenue has decreased to £92,661,000 (2015: £269,823,000) with profit before income tax increasing to £21,185,000 (2015: £15,014,000).

Over the course of the year, the Company's core business activities continued to perform in line with expectations. The year on year decrease in turnover was due to the regional Defence Infrastructure Organisation Prime contracts ending on the 31 January 2015 and the sale of the Royal School of Military Engineering (RSME) contract to Babcock Land Limited on the 1 January 2015.

Profit before tax has been maintained year on year despite the Defence Infrastructure Organisation Prime contracts ending and the RSME contracts being sold in 2015. This is primarily due to the investment impairment in Babcock DynCorp Limited along with the associated goodwill write down in 2015. Goodwill in 2015 was in relation to the SGI business, which has been written down upon review of the future cash flows of the business. In 2016, the investment has been impaired in Babcock DynCorp Limited upon review of the future cash flows of the business.

In 2016, the Company commenced a new contract with London Borough of Richmond upon Thames to provide facilities management services for a period of 7 years. The contract started on the 30 April 2015.

The financial position of the Company at year-end is in line with expectations.

During the year, the Company has adopted FRS 101. The impact of this change is set out in note 24.

Strategic report *(continued)*

Future development

With the opportunities Babcock are bidding or tracking the directors are confident the outlook for 2016/17 remains positive.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks and uncertainties. These are managed through the operational review process supplemented at Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee.

The key risks and uncertainties affecting the Company are considered to be related to contractual performance and the political and regulatory environment. The Company's business is susceptible to individual contract performance. All of the Company's contracts are affected by changes in government policy, budget allocations and the changing political environment. The directors manage this risk by maintaining regular discussions with the relevant customers and controlling both direct and indirect expenditure as necessary.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 64 to 74 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

The Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Babcock Defence & Security, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 28 to 35 & 42 to 45 of the Group's 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

Karen Hayzen-Smith

K Hayzen-Smith

Director

02 March 2017

Directors' report

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2016.

Results and dividends

The Company's results for the year are set out in the income statement on page 11 showing a profit for the financial year of £19,303,000 (2015: profit of £10,605,000). At 31 March 2016, the Company had net assets of £383,788,000 (2015: net assets of £374,697,000). A review of the Company's business during the year, 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 or comparative year.

Future developments

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

Financial instruments

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate cashflow risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments. Each department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

Price risk
The Company is exposed to price risk as a result of its operations. This risk is mitigated by specific functions which assess pricing in respect of both selling and procurement activities. The Company has no exposure to equity securities price risks as it holds no listed equity investments.

Credit risk
The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The Company also monitors existing customer accounts on an on-going basis and takes appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk
The Company retains access to pooled cash resources to ensure it has sufficient available funds for operations. The Company also has access to longer term funding from its ultimate parent undertaking if required.

Directors' report *(continued)*

Financial instruments *(continued)*

Interest rate cash flow risk
The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assets earn interest at a floating rate. Interest-bearing liabilities accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Directors

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

G Adams	appointed 9 July 2015
N Borrett	appointed 1 December 2015
K Butler	appointed 7 July 2015
K Cornfield	appointed 14 July 2015 and resigned 1 April 2016
A Dungate	resigned 1 December 2015
R Hardy	appointed 1 December 2015
S Landrey	appointed 6 September 2016
M Lawton	resigned 7 July 2015
N Misell	appointed 1 April 2016
D Plester	resigned 7 July 2015
R Stoate	
F Martinelli	resigned 1 December 2015
R Taylor	resigned 13 July 2016
I Urquhart	appointed 1 December 2015
K Hayzen-Smith	appointed 14 November 2016

Employment of disabled persons

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

Directors' report *(continued)*

Environment

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

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

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of the disclosure exemptions, if any, of FRS 101 used in the preparation of these financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Directors' protection

Babcock International Group PLC provides protections for directors of Companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

Directors' report *(continued)*

Statement of disclosure of information to auditors

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

On behalf of the board

Karen Hayzen Smith

K Hayzen-Smith

Director

02 March 2017

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

Report on the Financial Statements

Our qualified opinion

In our opinion, except for the effects of the matter described in the Basis for our qualified opinion paragraph below, Babcock Support Services Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 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.

Basis for our qualified opinion

As explained in note 2 to the financial statements, the company is not entitled to the exemption from the requirement to produce consolidated financial statements under section 401 of the Companies Act 2006, as it has not met all of the necessary conditions. Consequently, the company should have produced consolidated financial statements for the parent company and its subsidiary undertakings.

What we have audited

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

- the Balance sheet as at 31 March 2016;
- 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.

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

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- 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, 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.

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

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

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. 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

02 March 2017

Babcock Support Services Limited

Income Statement

for the year ended 31 March 2016

	Note	Continuing operations 2016 £'000	Continuing operations 2015 £'000	Discontinued operations 2015 £'000	Total 2015 £'000
Revenue	4	**92,661**	217,971	51,852	269,823
Cost of sales		**(77,296)**	(191,834)	(42,725)	(234,559)
Gross profit		**15,365**	26,137	9,127	35,264
Administrative expenses		**(6,806)**	(13,083)	(1,155)	(14,238)
Operating profit before exceptional items		**8,559**	13,054	7,972	21,026
Exceptional items-administrative expenses	6	**-**	(11,315)	20	(11,295)
Operating profit	6	**8,559**	1,739	7,992	9,731
Income from shares in group undertakings	11	**12,280**	5,477	-	5,477
Profit on ordinary activities before interest and taxation		**20,839**	7,216	7,992	15,208
Finance income	5	**2,164**	2,133	-	2,133
Finance costs	5	**(1,160)**	(1,044)		(1,044)
Other finance income/(costs) - pension	22	**(658)**	(1,283)	-	(1,283)
Profit on ordinary activities before income tax		**21,185**	7,022	7,992	15,014
Income tax expense	9	**(1,882)**	(4,409)	-	(4,409)
Profit for the year		**19,303**	2,613	7,992	10,605

Statement of Comprehensive Income
for the year ended 31 March 2016

	Note	**2016 £'000**	2015 £'000
Profit for the financial year		**19,303**	10,605
Other comprehensive expense:			
Remeasurement of defined benefit obiligation	22	**(11,820)**	5,510
Tax on defined benefit obiligation		**1,608**	(1,112)
Other comprehensive expense for the year		**(10,212)**	4,398
Total comprehensive income for the year		**9,091**	**15,003**

Balance sheet

as at 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Property, plant and equipment	10	**677**	882
Investments in group undertakings	11	**6,934**	7,046
Long term loan to joint ventures	12	**156**	156
		7,767	8,084
Current assets			
Inventory	13	**72**	60
Trade and other receivables	14	**577,273**	542,572
Cash and cash equivalents		**-**	7,495
		577,345	550,127
Trade and other payables – amounts due within one year	15	**(161,566)**	(133,552)
Net current assets		**415,779**	416,575
Total assets less current liabilities		**423,546**	424,659
Trade and other payables – amounts due after more than one year	16	**(250)**	(21,550)
Provisions	17	**(1,696)**	(3,372)
Gross pension liabilities	22	**(37,812)**	(25,040)
Net assets		**383,788**	374,697
Equity			
Called up share capital	19	**110**	110
Share premium account		**84,990**	84,990
Retained earnings		**298,688**	289,597
Total equity		**383,788**	374,697

The notes on pages 15 to 49 are an integral part of these financial statements.

The financial statements on pages 11 to 49 were approved by the board of directors and signed on its behalf by:

K Hayzen-Smith
Director
Karen Hayzen Smith

02 March 2017

Statement of changes in equity
for the year ended 31 March 2016

	Ordinary share capital	Share premium account	Retained earnings	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 2014	110	84,990	274,594	359,694
Profit for the financial year	-	-	10,605	10,605
Other comprehensive expense for the year	-	-	4,398	4,398
Total comprehensive income for the year	-	-	15,003	15,003
Balance at 31 March 2015	110	84,990	289,597	374,697
Balance at 1 April 2015	110	84,990	289,597	374,697
Profit for the financial year	-	-	19,303	19,303
Other comprehensive expense for the year	-	-	(10,212)	(10,212)
Total comprehensive income for the year	-	-	9,091	9,091
Balance at 31 March 2016	**110**	**84,990**	**298,688**	**383,788**

Notes to the financial statements

1 General information

Babcock Support Services Limited is a private limited company which is incorporated and domiciled in the UK. The address of the registered office is C/O DWP LLP, 110 Queen Street, Glasgow, G1 3HD.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has adopted FRS 101 in these financial statements. Details of the transition to FRS 101 are disclosed in note 24.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The Company has early adopted the following amendments to FRS 101 (effective for periods beginning on or after 1 January 2016) in these financial statements:

- Presentation of IAS format financial statements
- Exemption from the presentation of a third balance sheet (being the opening balance sheet of the Company at the date of application of FRS 101, meaning in this instance 1 April 2014)

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in pounds sterling which is the functional and presentational currency of the Company and rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company is a wholly owned company of Babcock International Group PLC,the consolidated accounts of which are publicly available, see further details in Note 23. The company is not entitled to the exemption to prepare consolidated accounts under section 401 of the Companies Act 2006 as it has not met all of the necessary conditions because it did not file its accounts by 31 December 2016. The Company will therefore file a copy of the Babcock International Group Plc accounts with these accounts.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation (continued)

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) IFRS 7, 'Financial Instruments: Disclosures'.
b) Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosures of valuation techniques and inputs used for fair value measurement of assets and liabilities).
c) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
- paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
- paragraph 73(e) of IAS 16 Property, plant and equipment; and
- paragraph 118(e) of IAS 38 Intangible assets (reconciliation between the carrying amount at the beginning and end of the period)

d) The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), 10(f), 16, 38, 40, 111, and 134-136

e) IAS 7, 'Statement of cash flows'
f) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
g) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
h) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
i) Paragraphs 130(f) (ii), 130(f) (iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets (disclosures when the recoverable amount is fair value less costs of the disposal, assumptions involved in estimating recoverable amounts of cash generating unit containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts)

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.

2 Summary of significant accounting policies *(continued)*

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

a) Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable.

b) 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 is accounted for under the principles of construction contracts, and the revenue recognised as set out below. In a limited number of contracts where performance and revenue are measured annually the revenue and costs are similarly recognised over the course of the year.

c) Long-term contracts
Revenue from construction contracts, as well as long-term service provision 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)*

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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.

Property, plant and equipment

Property, plant and equipment (PPE) 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	2 to 15 years
Leasehold property	Lease term

Where PPE is purchased for specific projects and the remaining project life is less than the above periods, the asset is written off over the remainder of the project life.

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Investments in group undertakings

Investments are stated at cost less provision for impairment in value.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Taxation

a) Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that the 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, in which case the tax is also recognised in other comprehensive income or directly in equity respectively.

Pensions costs and other post-retirement benefits

The Company participates in two defined benefit schemes that shares risks between entities under common control. The defined benefit schemes defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension schemes are charged to the operating profit in the entities who participate in the scheme. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income.

The fair value of plan assets, are measured in accordance with FRS 101 fair value hierarchy and includes the use of appropriate valuation techniques.

The extent to which the Company recognises its share of the income statement charge, the assets and liabilities of the scheme, and the actuarial gain or loss is determined by the proportion of active members of the scheme that it employs.

2 Summary of significant accounting policies *(continued)*

Pensions costs and other post-retirement benefits (continued)

The schemes' liability is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

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

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

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.

Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Creditors

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

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

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

A provision for deferred consideration on acquisitions is recognised when the Company has a realistic expectation of the expense based on the Sale and Purchase Agreement.

A provision for employee benefits is recognised when there is a realistic expectation of the liability.

3 Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following estimates and judgements have had the most significant effect on amounts recognised in the financial statements.

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements (continued)

a) *Defined benefit pension schemes*
The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 22 for the disclosures of the defined benefit pension schemess.

b) *Contract accounting*
The Company uses the percentage of completion method of revenue recognition in some of its long term contracts. In these long term contracts 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.

c) *Contract provisions*
The Company recognises provisions based upon the probable outflow or resources that will be required to settle the obligation. Provisions are calculated using the best reliable estimates available to management.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

d) *Deferred tax*

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements, with the following exceptions: Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

4 Revenue

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

5 Finance income and costs

Finance income and costs
for the year ended 31 March 2016

	2016	2015
	£'000	£'000
Finance income		
Other interest	**2**	1
Loan interest receivable from group undertaking	**2,162**	2,132
	2,164	2,133
Finance costs		
Bank interest	**(156)**	(29)
Loan interest payable to group undertakings	**(1,004)**	(1,015)
	(1,160)	(1,044)
Total finance income	**1,004**	1,089

Notes to the financial statements (continued)

6 Operating profit

Operating profit is stated after charging:

Operating profit
for the year ended 31 March 2016

	2016	2015
	£'000	£'000
Depreciation - owned property, plant & equipment (Note 10)	**205**	252
Operating lease charges	**663**	2,501
Inventory charges	**1,117**	862
Staff costs (Note 7)	**26,865**	64,305
Loss on disposal of fixed assets (Note 10)	-	31
Exceptional items:		
- profit on disposal of contract	-	(20)
- write off of goodwill	-	11,315
Services provided by the Company's auditor:		
- fees payable for the audit	**53**	65

Fees paid to the Company's auditor, PricewaterhouseCoopers LLP, and its associates, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. The group financial statements are required to comply with the statutory disclosure requirements.

Notes to the financial statements *(continued)*

7 Staff costs

The Company employs personnel directly. Particulars of these employees (including directors) are as shown below. Also, some of these employees' services are sold to Babcock Marine Rosyth Limited. The average monthly number of persons sold under this arrangement was 337 (2015: 322). The total cost included in the remuneration below was £16,686,000 (2015: £16,666,000).

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

	2016	2015
	Number	Number
Production	**352**	1,250
Administration	**204**	343
	556	1,593

Their aggregate remuneration comprised:

	2016	2015
	£'000	£'000
Wages and salaries	**22,844**	55,587
Social security costs	**1,730**	4,969
Other pension costs - defined contribution	**920**	1,901
Other pension costs - defined benefit	**1,371**	1,908
	26,865	64,365

All of the staff on the RSME contract transferred to Babcock Land Limited as a result of sale on the 1 January 2015.

8 Directors' remuneration

The emoluments of the directors, including pension contributions, paid by any company in respect of services provided to this Company were as follows:

	2016	2015
	£000	£000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits-in-kind)	-	479
	-	479
The above amounts for remuneration include the following in respect of the highest paid director:		
Emoluments (including benefits-in-kind)	-	284
	-	284

All of the directors of the Company are remunerated by other Babcock Group companies (2015: four were paid by the Company). 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.

In the prior year, four directors were awarded shares under the Babcock International Group PLC CSOP & PSP scheme.

In the prior year, retirement benefits were accruing to six directors under defined benefit pension schemes.

In the prior year, retirement benefits were accruing to two directors under defined contribution pension schemes.

Notes to the financial statements *(continued)*

9 Income tax expense

Income tax
for the year ended 31 March 2016

Tax expense included in income statement	**2016**	2015
	£'000	£'000
Current tax:		
UK Corporation tax on profits for the year	**1,804**	4,631
Current tax charge for the year	**1,804**	4,631
Deferred tax:		
Deferred tax charge	**38**	333
Adjustment in respect of prior years	**(68)**	(530)
Impact of change in tax rate	**108**	(25)
Total deferred tax charge/(credit) (Note 18)	**78**	(222)
Tax on profit on ordinary activities	**1,882**	4,409

Tax (income)/expense included in other comprehensive income

Deferred tax:		
Tax impact of actuarial losses on pension liability	**(2,364)**	1,157
Impact of change in tax rate	**756**	(45)
Tax (income)/expense included in other comprehensive income	**(1,608)**	1,112

The tax assessed for the year is lower (*2015: higher*) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2016 of 20% (*2015: 21%*). The differences are explained below:

	2016	2015
	£'000	£'000
Profit on ordinary activities before taxation	**21,185**	15,014
Tax on ordinary activities at standard UK corporation tax rate of 20% (2015: 21%)	**4,237**	3,153
Effects of:		
Income not taxable	**(2,456)**	(1,077)
Expenses not deductible for tax purposes	**61**	2,888
Adjustments in respect of deferred tax for prior years	**(68)**	(530)
Impact for change in tax rate	**108**	(25)
Tax charge for the year	**1,882**	4,409

9 Income tax expense *(continued)*

In the 2015 Budget, it was announced that the UK corporation tax will reduce from 20% to 19% from April 2017. It was further announced in the 2016 Budget that it will be further reduced to 18% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 18% as this is the tax rate expected to apply on reversal.

10 Property, plant and equipment

	Leasehold property	Plant & machinery	Total
	£'000	£'000	£'000
Cost			
At 1 April 2015	1,390	773	2,163
At 31 March 2016	**1,390**	**773**	**2,163**
Accumulated depreciation			
At 1 April 2015	532	749	1,281
Charge for the year	189	16	205
At 31 March 2016	**721**	**765**	**1,486**
Net book amount			
At 31 March 2016	**669**	**8**	**677**
At 31 March 2015	858	24	882

On the 1 January 2015, the tangible assets under the RSME contract were acquired by Babcock Land Limited for nil consideration.

Notes to the financial statements *(continued)*

11 Investments in group undertakings

	Total £'000
Cost	
At 1 April 2015	11,304
At 31 March 2016	**11,304**
Provision for impairment	
At 1 April 2015	4,258
Charge for the year	112
At 31 March 2016	**4,370**
Net book amount	
At 31 March 2016	**6,934**
At 31 March 2015	7,046

The directors consider that the carrying value of all investments in group undertakings is supported by their underlying net assets. The investment in Babcock DynCorp Limited was written down at the end of the year.

Notes to the financial statements (continued)

11 Investments in group undertakings *(continued)*

The Company received dividends during the year of £12,280,000 (2015: £5,477,000) from group undertakings.

The Company's subsidiary undertakings, joint ventures and other group investments are:

Company	% of equity shares owned	Country of Registration	Principal Activities
Active Management Limited [1]	100%	England and Wales	Dormant
Air Power International Limited [2]	100%	Scotland	Dormant
Babcock DynCorp Limited [1]	56%	England and Wales	Defence Services
Babcock HSPS Trustees Limited [1]	100%	England and Wales	Pension Trust
Babcock Money Purchase Trustees Limited [1]	100%	England and Wales	Dormant
Babcock Partners No 2010 Limited [1]	100%	England and Wales	Dormant
Babcock Support Services s.r.l. [3]	100%	Italy	Defence Services
Debut Services (Contracts) Limited [4]	9%	England and Wales	Dormant
Debut Services (South West) Limited [4]	50%	England and Wales	Activities of construction holding companies
Debut Services Limited [4]	15%	England and Wales	Activities of construction holding companies
Devonport Management Limited [1]	100%	England and Wales	Dormant
Hiberna FM Limited [1]	100%	England and Wales	Dormant
Mouchel Babcock Education Investments Limited [5]	50%	England and Wales	Non-trading Joint Venture holding company
Mouchel Babcock Education Services Limited [5]	50%	England and Wales	Joint Venture company delivering the BSF Programme contract to the London Borough of Hackney
Peterhouse GmbH [6]	100%	Germany	Defence Services
Babcock Support Services GmbH [7]	100%	Germany	Defence services

Registered address

1 33 Wigmore Street, London, W1U 1QX
2 C/O DWP LLP, 110 Queen Street, Glasgow, G1 3HD
3 Milano (MI) Foro, CAP 20121, Buonaparte 70, Italy
4 C/O Bovis Lend Lease Limited, 20 Triton Street, Regent's Place London, NW1 3BF
5 Tempsford Hall, Sandy, Bedfordshire, SG19 2BD
6 Maximiliansplatz 5, 80333, Munich, Germany
7 Berliner Platz 12, 41061, Monchengladbach, Germany

8 Notes to the financial statements (continued)

12 Long term loan to Joint Venture

	Total £'000
Cost	
At 1 April 2015	156
At 31 March 2016	**156**
Impairment	
At 1 April 2015	-
Charge for the year	-
At 31 March 2016	**-**
Net book amount	
At 31 March 2016	**156**
At 31 March 2015	156

At 31 March 2012 the Company had provided funding of £328,000 to the Building Schools for the Future Joint Venture. £172,000 of this balance was repaid during the year-ended 31 March 2013 and the balance at 31 March 2016 was £156,000 (2015: £156,000).

The Company received a dividend of £nil (2015: £350,000) during the year from the Building Schools for the Future Joint Venture.

13 Inventories

	2016 **£'000**	2015 £'000
Finished goods and goods for resale	**72**	60
	72	60

There is no material difference between the balance sheet value of stocks and their replacement cost.

14 Trade and other receivables

	2016	2015
	£'000	£'000
Amounts recoverable on contracts	**42**	7,412
Trade receivables	**5,423**	4,475
Amounts owed by Group undertakings	**505,813**	484,238
UK Corporation tax recoverable	**54,693**	39,214
Deferred tax (Note 18)	**7,778**	6,248
Other receivables	**1,005**	976
Prepayments & accrued income	**2,519**	9
	577,273	542,572

Amounts owed by Group undertakings includes short term loans of £100,000,000 (2015: £100,000,000); bearing an interest rate of UK LIBOR six monthly rate, plus one hundred basis points. The remaining balance of £405,813,000 (2015: £384,238,000) is non-interest bearing. Corporation tax recoverable represents the aggregate of tax payments made on behalf of other group companies, less the company's own tax charge, the balance of which is owed by other group undertakings.

Amounts owed by Group undertakings (unless stated above) are unsecured and repayable within one year. They accrue nil interest.

15 Trade and other payables – amounts falling due within one year

	2016	2015
	£'000	£'000
Payments received on account of long term contracts	**30**	19
Trade payables	**131**	1,929
Amounts owed to Group undertakings	**127,840**	112,050
Other taxation and social security	**1,121**	195
Bank overdraft	**13,433**	-
Other payables	**911**	1,460
Accruals and deferred income	**18,100**	17,899
	161,566	133,552

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 20a).

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

Notes to the financial statements *(continued)*

16 Trade and other payables – amounts falling due over one year

	2016 £'000	2015 £'000
Amounts owed to Group undertakings	-	21,300
Cumulative preference shares of £1 each - 250,000	250	250
	250	21,550

The amounts owed to group undertakings bears an interest rate of UK LIBOR six monthly rate, plus one hundred basis points.

Cumulative preference shares of £250,000 were issued on 4th June 2010 at an issue price of £1.00 per share. 50,000 A preference shares, 50,000 B preference shares, 50,000 C preference shares, 50,000 D preference shares and 50,000 E preference shares all of £1.00 each. The preference shares and the ordinary shares shall not rank pari passu in relation to receiving any dividends or other similar distributions.

The A preference shares shall be entitled to be paid a dividend equal in amount to the amount of the loan principle (if any) repaid by Babcock (UK) Holdings Limited to the Company (infrastructure division) under the loan agreement between the Company (infrastructure division) and Babcock (UK) Holdings Limited entered into in March 2008 (the A Loan Agreement).

The B preference shares shall be entitled to be paid a dividend equal in amount to the amount of the loan principle (if any) repaid by Babcock (UK) Holdings Limited to the Company (defence division) under the loan agreement between the Company (defence division) and Babcock (UK) Holdings Limited entered into in March 2008 (the B Loan Agreement).

The C preference shares shall be entitled to be paid a dividend equal in amount to the amount of the loan principle (if any) repaid by Babcock (UK) Holdings Limited to the Company (infrastructure division) under the loan agreement between the Company (infrastructure division) and Babcock (UK) Holdings Limited entered into on 26 March 2009 (the C Loan Agreement).

The D preference shares shall be entitled to be paid a dividend equal in amount to the amount of the loan principle (if any) repaid by Babcock (UK) Holdings Limited to the Company (defence division) under the loan agreement between the Company (defence division) and Babcock (UK) Holdings Limited entered into on 24 February 2010 (the D Loan Agreement).

The E preference shares shall be entitled to be paid a dividend equal in amount to the amount of the loan principle (if any) repaid by Babcock (UK) Holdings Limited to the Company (infrastructure division) under the loan agreement between the Company (infrastructure division) and Babcock (UK) Holdings Limited entered into on 24 February 2010 (the E Loan Agreement).

For as long as any amount of loan principle remains to be repaid under any of the five Loan Agreements , no dividend or other distribution shall be paid or made to holders of the ordinary shares and during this period the Company shall not initiate any other action that will deplete the distributable reserves of the Company below £32,000,000.

Notes to the financial statements *(continued)*

17 Provisions

	Contract provisions	Property and other provisions	Total
	£'000	£'000	£'000
At 1 April 2015	3,091	281	3,372
Released during the year	(1,676)	-	(1,676)
At 31 March 2016	**1,415**	**281**	**1,696**

Contract provisions

The contract provision relates to the regional Defence Infrastructure Organisation Prime contracts and the potential exit costs that could arise on exit. The Company is liable for these exit costs up to 12 years after exit. The contract provision will be reviewed on annual basis and adjusted in line with discussions with the Defence Infrastructure Organisation.

Property and other provisions

The property and other provisions relate to the closure of the East Midland office and are expected to be utilised within the next financial year.

Notes to the financial statements (continued)

18 Deferred taxation

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

	2016	2015
	£'000	£'000
Accelerated capital allowances	**972**	1,098
Pension asset	**6,806**	5,008
Other short term timing differences	-	142
At 31 March 2016	**7,778**	6,248

The movement on the deferred tax asset is as follows:

	£'000
At 1 April 2014	7,138
Current year movement	(333)
Prior year adjustments	530
Movement through statement of comprehensive income	(1,112)
Impact of change in tax rate	25
At 31 March 2015	6,248
At 1 April 2015	**6,248**
Current year movement	**(38)**
Prior year adjustments	**68**
Movement through statement of comprehensive income	**1,608**
Impact of change in tax rate	**(108)**
At 31 March 2016	**7,778**

Deferred tax assets have not been discounted.

19 Share capital

	Ordinary shares of £1 each £'000
Allotted, called up and fully paid	
110,045 ordinary shares of £1 each (2015: 110,045)	110
At 31 March 2016	**110**

20 Guarantees and financial commitments

a) Contingent liabilities

At the year end the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2015: £nil) provided to certain Group companies. In addition, the Company at the year end had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2015: £15.0 million).

b) Operating lease commitments

At 31 March 2016, the Company had future minimum rentals payable under non-cancellable operating leases as follows:

	2016 Land & buildings £'000	**2016 Other £'000**	2015 Land & buildings £'000	2015 Other £'000
- within one year	**800**	**179**	800	106
- between two and five years	**1,733**	**202**	2,733	205
- after five years	**-**	**-**	-	-
	2,533	**381**	3,533	311

Notes to the financial statements *(continued)*

21 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.

Transactions entered into with parties who are not wholly owned subsidiaries of Babcock International Group PLC and trading balances outstanding at 31 March 2016 are as follows:

Related party	Sales to related party £'000	Purchases from related party £'000	Dividends received £'000	Amounts owed by related party £'000
Debut Services (South West) Limited				
2016	**11,428**	**-**		**239**
2015	126,237	-	-	4,238
Babcock DynCorp Limited				
2016	**-**	**-**	**3,138**	**-**
2015	-	-	5,127	-
Mouchel Babcock Education Investments Limited				
2016	**-**	**-**	**-**	**-**
2015	-	-	350	-

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

22 Pension commitments

The Company accounts for pension costs in accordance with IAS 19.

The Company contributes to a defined contribution scheme in the UK in respect of a number of its employees. The pension charge for the year includes contributions payable by the Company to these funds amounting to £920,000 (2015: £1,901,000). As at 31 March 2016, no contributions were payable to the funds (2015: £nil).

The Company is also a contributing employer to two defined benefit schemes, the Babcock International Group Pension Scheme (BIG) and the Rosyth Royal Dockyard Limited pension scheme (Rosyth). The Company is severally liable, along with the other participating employers for the assets and liabilities of the schemes. The allocation of the assets and liabilities of the schemes and which have been recognised in these financial statements are detailed in this note.

The nature of the schemes is that the employees contribute to the schemes with the employers paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the participating employer companies with the trustees who are advised by an independent, qualified actuary.

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps for approximately 54% of the obligations in respect of pensioners and their spouses, through a common investment committee have significantly hedged the interest rate and inflation risk though derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

The schemes are funded by payments to legally separate trustee-administered funds. The trustees of the schemes are required by law to act in the best interests of the schemes' members. In addition to determining future contribution requirements (with the agreement of the participating employers), the trustees are responsible for setting the schemes' investment strategy (subject to consultation). The schemes have an independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

BIG Pension Scheme

The IAS 19 valuation has been updated at 31 March 2016 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 1 April 2013. The major assumptions used for the IAS 19 valuation were:

Notes to the financial statements *(continued)*

22 Pension commitments *(continued)*

Major assumptions	**2016** %	2015 %	2014 %
Rate of increase in salaries	2.2	2.2	2.4
Rate of increase in pension payment	2.8	2.9	3.0
Discount rate	3.5	3.4	4.5
Inflation	1.9	1.9	2.1

The expected total employer contributions to be made by participating employers to the scheme in 2016/17 are £18.7m. The future service rate is 21.9%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £18.7m is £6.6m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2016 Years	2015 Years	2014 Years
Life expectancy from age 65 (male age 65)	**22.9**	23.0	22.8
Life expectancy from age 65 (male age 45)	**24.5**	24.7	24.3

The changes to the Babcock International Group PLC balance sheet at March 2016 and the changes to the Babcock International Group PLC income statement for the year to March 2017, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2016 £000	**Income statement 2017 £000**
Initial assumptions	**1,205,800**	12,900
Discount rate assumptions increased by 0.5%	**(87,800)**	(4,400)
Discount rate assumptions decreased by 0.5%	**87,800**	3,500
Inflation rate assumptions increased by 0.5%	**49,900**	2,500
Inflation rate assumptions decreased by 0.5%	**(46,300)**	(2,200)
Total life expectancy increased by half a year	**19,100**	800
Total life expectancy decreased by half a year	**(19,100)**	(700)
Salary increase assumptions increased by 0.5%	**9,400**	700
Salary increase assumptions decreased by 0.5%	**(9,400)**	(600)

The weighted average duration of cashflows (years) was 16.

Notes to the financial statements *(continued)*

22 Pension commitments *(continued)*

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2016 were:

Fair value of plan of assets	**2016**	2015
	£'000	£'000
Equities	**285,320**	264,900
Property	**95,937**	33,567
Absolute return and multi strategy funds	**1,588**	7,374
Bonds	**426,204**	402,307
Matching assets	**423,129**	584,784
Active position on longevity swaps	**(50,692)**	(39,947)
Total assets	**1,181,486**	1,252,985
Present market value of liabilities - funded	**(1,205,869)**	(1,219,048)
Gross pension (deficit)/surplus	**(24,383)**	33,937

All the assets of the scheme are quoted except for the longevity swaps.

The scheme does not invest directly in assets or shares of Babcock International Group PLC.

The longevity swaps have been valued, in 2016, in line with assumptions that are consistent with the requirements of IFRS 13. The increasing maturity of the longevity swaps allows the estimate of value in line with IFRS 13 rather than the reimbursement rights approach to valuation adopted in 2015.

Notes to the financial statements *(continued)*

22 Pension commitments *(continued)*

Analysis of amount charged to the income statement in Babcock International Group PLC	**2016 £000**	2015 £000
Current service cost	**11,712**	11,301
Incurred expenses	**2,258**	1,922
Total included within operating profit	**13,970**	13,223
Net interest cost	**(1,311)**	1,783
Total charged to the income statement	**12,659**	15,006

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group PLC charge, included £313,000 for service cost and incurred expenses (2015: £301,000) and net finance income of £29,000 (2015: cost £41,000).

Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCI")	**2016 £000**	2015 £000
Actuarial gain / (loss) recognised in the SOCI	**21,071**	(156,484)
Experience (losses)/gains	**(80,237)**	247,122
Other (losses)	**(9,387)**	(22,707)
	(68,553)	67,931

The actuarial loss recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £2,358,000 (2015: £4,472,000).

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets in Babcock International Group PLC	**2016 £000**	**2015 £000**
At 1 April	**1,292,931**	1,050,052
Interest cost	**43,539**	46,825
Employee contributions	**411**	515
Employer contributions	**22,892**	29,296
Benefits paid	**(62,146)**	(57,067)
Actuarial loss / (gain)	**(65,450)**	223,310
At 31 March	**1,232,177**	1,292,931

22 Pension commitments *(continued)*

Reconciliation of present value of scheme liabilities	**2016 £000**	2015 £000
At 1 April	**1,219,048**	1,081,839
Service cost	**11,712**	11,301
Incurred expenses	**2,258**	1,922
Interest on liabilities	**40,870**	47,866
Employee contributions	**411**	515
Actuarial (gain) / loss – demographics	**(15,784)**	162,558
Actuarial gain – financial	**(5,287)**	(6,074)
Experience losses /(gain)	**14,787**	(23,812)
Benefits paid	**(62,146)**	(57,067)
At 31 March	**1,205,869**	1,219,048

The deficit recognised in these financial statements, based on the Company's allocation of the total Babcock International Group PLC assets and liabilities for this scheme, was £5,164,000 (2015: deficit of £3,834,000).

Rosyth Pension scheme

The IAS 19 valuation has been updated at 31 March 2016 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2012. The major assumptions used for the IAS 19 valuation were:

Major assumptions	**2016 %**	2015 %	2014 %
Rate of increase in salaries	**2.2**	2.2	2.4
Rate of increase in pension payment	**3.0**	3.0	3.4
Discount rate	**3.5**	3.4	4.5
Inflation	**1.9**	1.9	2.1

22 Pension commitments *(continued)*

The expected total employer contributions to be made by participating employers to the scheme in 2016/17 are £15.9m. The future service rate is 12.0%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £15.9m is £8.7m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2016 Years	2015 Years	2014 Years
Life expectancy from age 65 (male age 65)	**19.2**	19.3	19.3
Life expectancy from age 65 (male age 45)	**23.2**	20.8	20.7

The changes to the Babcock International Group PLC balance sheet at March 2016 and the changes to the Babcock International Group PLC income statement for the year to March 2017, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2016 £000	Income statement 2017 £000
Initial assumptions	**836,300**	11,900
Discount rate assumptions increased by 0.5%	**(66,500)**	(2,300)
Discount rate assumptions decreased by 0.5%	**66,500**	1,700
Inflation rate assumptions increased by 0.5%	**59,600**	2,400
Inflation rate assumptions decreased by 0.5%	**(54.400)**	(2,200)
Total life expectancy increased by half a year	**13,500**	600
Total life expectancy decreased by half a year	**(13.500)**	(500)
Salary increase assumptions increased by 0.5%	**3,900**	300
Salary increase assumptions decreased by 0.5%	**(3,900)**	(300)

The weighted average duration of cashflows (years) is 16.

Notes to the financial statements

22 Pension commitments *(continued)*

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2016 were:

Fair value of plan of assets	**2016**	2015
	£'000	£'000
Equities	**231,436**	195,979
Property	**54,468**	33,658
Absolute return and multi strategy funds	**3,153**	14,644
Bonds	**128,934**	138,975
Matching assets	**282,697**	381,314
Active position on longevity swaps	**(37,909)**	(59,613)
Total assets	**662,779**	704,957
Present market value of liabilities - funded	**(836,271)**	(817,643)
Gross pension surplus / (deficit)	**(173,492)**	(112,686)

All the assets of the scheme are quoted except for the longevity swaps.

The scheme does not invest directly in assets or shares of Babcock International Group PLC.

The longevity swaps have been valued, in 2016, in line with assumptions that are consistent with the requirements of IFRS 13. The increasing maturity of the longevity swaps allows the estimate of value in line with IFRS 13 rather than the reimbursement rights approach to valuation adopted in 2015.

Analysis of amount charged to the income statement in Babcock International Group PLC	**2016**	2015
	£000	£000
Current service cost	**6,121**	7,375
Incurred expenses	**748**	529
Total included within operating profit	**6,869**	7,904
Net interest cost / (income)	**3,651**	6,597
Total charged to the income statement	**10,520**	14,501

Notes to the financial statements

22 Pension commitments *(continued)*

The amounts charged to the income statement included in these financial statements, based on the Company's allocation of the total Babcock International Group PLC charge, included £1,293,000 for service costs and incurred expenses (2015: £1,487,000) and net interest cost of £687,000 (2015: cost £1,241,000).

Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCI")	**2016 £000**	2015 £000
Actuarial gain / (loss) recognised in the SOCI	**15,733**	(104,751)
Experience gains/(losses)	**(105,640)**	150,263
Other gains/(losses)	**23,732**	(10,186)
	(66,175)	35,326

The actuarial loss recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £9,463,000 (2015: gain £9,982,000).

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets in Babcock International Group PLC	**2016 £000**	**2015 £000**
At 1 April	**764,570**	591,577
Interest cost	**25,875**	26,507
Employee contributions	**15,889**	37
Employer contributions	**31**	17,717
Benefits paid	**(29,001)**	(25,623)
Actuarial loss / (gain)	**(76,676)**	154,355
At 31 March	**700,688**	764,570

Notes to the financial statements

22 Pension commitments *(continued)*

Reconciliation of present value of scheme liabilities	2016 £000	2015 £000
At 1 April	**817,643**	695,506
Service cost	**6,121**	7,375
Incurred expenses	**748**	529
Interest on liabilities	**27,498**	30,976
Employee contributions	**31**	37
Actuarial (gain) / loss – demographics	**(12,947)**	104,751
Actuarial (gain) / loss – financial	**(2,786)**	-
Experience (gain) / losses	**28,964**	4,092
Benefits paid	**(29,001)**	(25,623)
At 31 March	**836,271**	817,643

The deficit recognised in these financial statements, based on the Company's allocation of the total Babcock International Group PLC assets and liabilities for this scheme, was £32,647,000 (2015: deficit of £21,205,000).

23 Ultimate parent undertaking

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

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

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

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

Notes to the financial statements *(continued)*

24 Transition to FRS 101

This is the first year in respect of which the Company has prepared its financial statements under FRS 101. The previous financial statements for the year ended 31 March 2015 were prepared under 'old UK GAAP'. The date of transition to FRS 101 for the Company is 1 April 2014. Set out below are descriptions of the various implementation options applied by the Company in preparing the financial statements for the year ended 31 March 2016, as well as reconciliations from 'old UK GAAP' to FRS 101 for both total comprehensive income for the year ended 31 March 2015 and total equity as at 1 April 2014 and 31 March 2015.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1 "First time adoption of International Financial Reporting Standards."

Profit for the financial year			**2015** **£000**
UK GAAP - as previously reported			11,387
Defined benefit pension schemes	*a*	(990)	
Total adjustment to profit before tax for the year		(990)	
Deferred tax impact of adjustments: Defined benefit pension schemes	*b*	208	
Total adjustment to tax expense		208	
Total adjustment to profit for the year			(782)
FRS 101			10,605

Other comprehensive income		**2015** **£000**
Profit for the financial year (restated for FRS 101 above)		10,605
Defined benefit pension schemes	*a*	5,510
Deferred tax impact of adjustments - Defined benefit pension schemes	*b*	(1,112)
FRS 101		15,003

Notes to the financial statements *(continued)*

24 Transition to FRS 101 *(continued)*

a Defined benefit pension schemes

The Company is a member of group defined benefit pension plans that shares risks between entities under common control. Under previous UK GAAP these schemes were accounted for as defined contribution schemes. Under FRS 101 the Company recognises its share of the schemes' net surplus/deficit together with its share of the service costs and interest charge in the income statement. The Company's share is calculated based on the proportion of active members of the scheme that it employs.

The difference between the contributions paid and the defined benefit accounting recorded in profit and loss was £990,000, which includes a write off of an accrual previously held uner the defined benefit scheme.

BIG pension scheme

At 1 April 2014 and 31 March 2015, the net deficit of the plan was £1,101,000 and £3,834,000 respectively. The charge recognised in the income statement for the year ended 31 March 2015 was £342,000. The amount recognised in other comprehensive income as an expense for the year ended 31 March 2015 was £4,472,000 and relates to the actuarial movement during the year.

Rosyth pension scheme

At 1 April 2014 and 31 March 2015, the net deficit of the plan was £28,458,000 and £21,205,000 respectively. The charge recognised in the income statement for the year ended 31 March 2015 was £2,729,000. The amount recognised in other comprehensive income for the year ended 31 March 2015 was £9,982,000 and relates to the actuarial movement during the year.

b Deferred tax

FRS 101 defines deferred tax in relation to temporary differences between carrying values and their related tax bases, rather than timing differences in the income statement and therefore adjustments are required to recognise items for which no deferred tax was recognised under UK GAAP. Deferred tax has been provided on the actuarial gain on the defined benefit pension schemes at 31 March 2015.

c Other adjustments arising

In addition to the transition adjustments identified above which affect profit for the financial year, the following adjustment has arisen which has had no effect on income but which have affected the classification on the balance sheet.

- Preference shares with a value of £250,000 at 1 April 2014 have been reclassified from share capital to creditors.

Notes to the financial statements *(continued)*

24 Transition to FRS 101 (continued)

Total equity		**31 March 2015**	**31 March 2014**
		£'000	**£'000**
UK GAAP - as previously reported		**394,978**	383,591
Defined benefit pension schemes	*a*	**(25,039)**	(29,559)
Preference share reclassification		**(250)**	(250)
Deferred tax impact of adjustments			
- Defined benefit pension schemes	*b*	**5,008**	5,912
FRS 101		**374,697**	**359,694**