Babcock Support Services Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2015

Company Registered Number:

SC099884

Directors

A N Dungate
F Martinelli
G M Adams
K E Butler
K Cornfield
R Stoate
R Taylor

Company secretary

Babcock Corporate Secretaries Limited

Registered office

c/o DWF LLP
Dalmore House
310 St Vincent Street
Glasgow
Scotland
G2 5QR

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

The directors present their strategic report on the Company for the year ended 31 March 2015.

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 RAF. 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.

Future developments

The Company secured 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.

With the opportunities Babcock are bidding or tracking the directors are confident the outlook for 2015/16 remains positive.

Review of the business

Overall turnover has decreased to £269,823,000 (2014: £315,653,000) with operating profit (before goodwill amortisation) decreasing to £14,289,000 (2014: £17,903,000).

Other specific KPI's (including safety data) are reviewed on a contract-by-contract basis and, therefore, aggregated data is not reviewed in this format.

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 DIO 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. The year on year decrease in profit before tax was due to the regional DIO Prime East contract coming to an end and as a result, the investment in Babcock DynCorp Limited has been written down along with the associated goodwill. Goodwill in relation to the SGI business has also been written down upon review of the future cash flows of the business.

The financial position of the Company at year-end is in line with expectations. Please see future developments above for more information.

On the 1 January 2015, the Company sold the Royal School of Military Engineering contract to Babcock Land Limited for nil consideration. There were no adjustments required to the book values of the assets and liabilities of the contract sold in order to present the net assets of those contracts at fair values in accordance with Group accounting principles (see note 23).

On the 24 October 2014, the Company acquired 100% of the equity share capital in Babcock Support Services s.r.l. for £7,839 (see note 11).

Principal Risks and Uncertainties

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

The key risks and uncertainties affecting the Company are considered to be related to the political and regulatory environment, including bidding. The directors manage this risk by meeting on a regular basis to discuss these risks.

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

Key performance indicators

The 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 18 to 23 & 40 to 47 of the Group's report, which does not form part of this report.

On behalf of the board

K E Butler
Director
2nd October 2015

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2015.

Results and dividends

The Company's results for the year are set out in the profit and loss account on page 9 showing a profit for the financial year of £11,387,000 (2014: £17,139,000). At 31 March 2015, the Company had net assets of £394,978,000 (2014: £383,591,000). A review of the Company's business during the year, together with information on the Company's risks and uncertainties and future developments are provided in the strategic report.

During the year no dividend was paid on preference shares (2014: £nil). Dividends of £nil were paid on ordinary shares during the year (2014: £nil). The directors do not currently recommend a dividend this year.

Political donations

The Company made no political donations during the year (2014: £nil).

Financial risk management

All treasury transactions are carried out only with prime rated counter-parties. Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 44 to 46 in Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

Directors

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

A N Dungate
F Martinelli
G M Adams (appointed 9 July 2015)
K E Butler (appointed 7 July 2015)
K Cornfield (appointed 14 July 2015)
M Lawton (resigned 7 July 2015)
D Plester (resigned 7 July 2015)
R Stoate
R Taylor

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.

Employee share scheme

Information on Employee Share Schemes can be found in the Babcock International Group PLC financial statements.

Safety Policy

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

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. We aim 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, directors' report and the financial statements in accordance with applicable law and regulations.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Statement of directors' responsibilities (continued)

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

Directors' protection

Babcock International Group PLC also provides protections for Directors of Company 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.

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.

Independent auditors

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

On behalf of the Board

K E Butler
Director
3rd October 2015

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

Report on the financial statements

Our opinion

In our opinion, 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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Babcock Support Services Limited's financial statements comprise:

- the Balance Sheet as at 31 March 2015;
- the Profit and Loss Account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

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

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 pages 5 and 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.

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

Duncan Stratford

Duncan Stratford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
23 October 2015

	Notes	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Turnover:					
Continuing operations	3	**217,971**		237,743	
Discontinued operations	3	**51,852**		77,910	
Turnover	2,3		**269,823**		315,653
Cost of sales	3		**(234,559)**		(284,435)
Gross profit	**3**		**35,264**		31,218
Administrative expenses					
- Excluding exceptional items	3	**(10,987)**		(13,607)	
- Exceptional items	3,5,9,23	**(9,988)**		292	
			(20,975)		(13,315)
Operating profit (before goodwill amortisation)			**14,289**		17,903
Amortisation of goodwill	3,9		**(1,307)**		(1,307)
Operating profit:					
Continuing operations	3	**4,990**		1,943	
Discontinued operations	3	**7,992**		14,653	
Operating profit			**12,982**		16,596
Income from other fixed asset investments			**5,477**		3,633
Amounts written off investments	11		**(3,542)**		-
Profit on ordinary activities before interest and taxation			**14,917**		20,229
Interest receivable and similar income	4		**2,133**		2,096
Interest payable and similar charges	4		**(1,044)**		(987)
Profit on ordinary activities before taxation	5		**16,006**		21,338
Tax on profit on ordinary activities	8		**(4,619)**		(4,199)
Profit for the financial year	20		**11,387**		17,139

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

There were no other recognised gains or losses aside from those shown in the Profit and Loss account. The notes on pages 11-27 form part of these financial statements.

Balance Sheet as at 31 March 2015

Company Registered Number:SC099884

	Notes	2015 £'000	2014 £'000
Fixed assets			
Intangible assets	9	**-**	11,315
Tangible assets	10	**882**	1,139
Investments in group undertakings	11	**7,046**	10,580
Long term loan to joint ventures	12	**156**	156
		8,084	23,190
Current assets			
Stock	13	**60**	107
Debtors	14	**537,564**	568,163
Cash at bank and in hand		**7,495**	13,286
		545,119	581,556
Creditors – amounts due within one year	15	**(133,553)**	(199,302)
Net current assets		**411,566**	382,254
Total assets less current liabilities		**419,650**	405,444
Creditors – amounts due after more than one year	16	**(21,300)**	(21,300)
Provisions for liabilities	17	**(3,372)**	(553)
Net assets		**394,978**	383,591
Capital and reserves			
Called-up share capital	19	**360**	360
Share premium account	20	**84,990**	84,990
Profit and loss account	20	**309,628**	298,241
Total shareholders' funds	20	**394,978**	383,591

The notes on pages 11-27 form part of these financial statements.

The financial statements on pages 9-27 were approved by the board of directors and signed on its behalf by:

K E Butler
Director
2nd October 2015

1 Accounting policies

a) Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies are summarised below. They have all been applied consistently throughout the year.

b) Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation and any provision for impairment in value. Cost includes the original purchase price of the asset and the costs attributable to bring the asset to its working condition for its intended use.
Depreciation is provided on a straight line basis to write off the cost of all tangible fixed assets over their estimated useful lives or contract period if shorter, to their estimated residual value as follows:

Plant and machinery	2 to 15 years
Leasehold property	Lease term

c) Intangible assets

Intangible fixed assets are stated at cost after amortisation. The intangible fixed assets are amortised on a straight line basis as follows:

(i) Intellectual property rights and know how

The premium paid on the intellectual property rights licence from Babcock International Limited is being amortised over the life of the agreement of 7 years.

Purchased know how is amortised over twenty years.

(ii) Purchased Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets the difference is treated as purchased goodwill and is capitalised and amortised through the profit and loss account over its estimated economic life. Provision is made for any impairment.

d) Investments in joint ventures and subsidiaries

Fixed assets investments are stated at cost less provision for impairment in value.

e) Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value. In the case of raw materials and consumables, cost comprises the purchase cost. In the case of work in progress, cost comprises direct materials and labour and a reasonable proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

1 Accounting policies (continued)

f) Long-term contracts

Long term contract balances, which are included in debtors as amounts recoverable on long-term contracts, are valued at the net sales value of the work done less amounts received as progress payments on account.

Any progress payments received in excess of the net sales value of work done are included in creditors as payments received on account of long term contracts.

g) Turnover

In respect of long-term contracts, turnover represents amounts transferred to cost of sales during the year plus attributed profit. Other turnover comprises the invoiced value of goods and services supplied by the Company. Turnover excludes VAT and other sales related taxes.

h) Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted as at the balance sheet date. The taxation liabilities of certain group companies may be reduced, wholly or in part, by surrender of losses by fellow group companies. The decision to charge group relief is made on a case by case basis.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

i) Pensions costs and other post retirement benefits

The Company has both defined benefit and defined contribution plans. A defined benefit plan is a pension that defines an 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. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity.

1 Accounting policies (continued)

i) Pensions costs and other post retirement benefits (continued)

The Company is a member of a multi-employer defined benefit pension scheme. The scheme is accounted for on a defined contribution basis as the Company is unable to identify its share of the underlying assets and liabilities. There is no material difference between the FRS17: "Retirement Benefits" and IAS 19: "Employee Benefits" valuation. Refer to the group financial statements note 27 for further details.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the year in which they are incurred.

j) Leases

Assets acquired under finance leases are capitalised and the outstanding capital element of instalments is included in creditors. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write off the assets over their expected useful lives or over the lease terms where these are shorter.

Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

k) 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 readily estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

l) Group financial statements

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Babcock International Group PLC which prepares consolidated financial statements which are publicly available.

m) Cash flow statement

The Company has taken advantage of the exemption in Financial Reporting Standard 1 (revised 1996) to dispense with the requirement to prepare a cash flow statement in its financial statements, as a consolidated cash flow statement is included in the financial statements of the ultimate parent Company.

2 Turnover

Turnover is entirely attributable to the United Kingdom market and entirely attributable to the activities described in the Directors' report.

The directors have decided not to disclose the turnover attributable to each class of business as, in their opinion' such disclosure would be seriously prejudicial to the interests of the Company. Due to the nature of the Company's operations, it is reliant upon the Ministry of Defence for the majority of its turnover.

3 Cost of sales, gross profit and administrative expenses

	2015			2014		
	Continuing	**Discontinued**	**Total**	Continuing	Discontinued	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Turnover	217,971	51,852	**269,823**	237,743	77,910	315,653
Cost of sales	(191,834)	(42,725)	**(234,559)**	(222,894)	(61,541)	(284,435)
Gross profit	26,137	9,127	**35,264**	14,849	16,369	31,218
Administrative expenses						
- Excluding exceptional items	(9,832)	(1,155)	**(10,987)**	(11,891)	(1,716)	(13,607)
- Exceptional items (note 5)	(10,008)	20	**(9,988)**	292	0	292
Total administrative expenses	(19,840)	(1,135)	**(20,975)**	(11,599)	(1,716)	(13,315)
Amortisation of goodwill	(1,307)	-	**(1,307)**	(1,307)	-	(1,307)
Operating profit	4,990	7,992	**12,982**	1,943	14,653	16,596

4 Interest receivable/(payable) and similar income/(charges)

	2015	2014
	£'000	£'000
Interest receivable and similar income:		
Other interest	**1**	-
Loan interest receivable from group undertaking	**2,132**	2,096
	2,133	2,096
Interest payable and similar charges:		
Bank interest	**(29)**	-
Loan interest payable to group undertakings	**(1,015)**	(987)
	(1,044)	(987)
	1,089	1,109

5 Profit on ordinary activities before taxation

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

	2015	2014
	£'000	£'000
Depreciation – owned fixed assets (note 10)	252	278
Goodwill amortisation (note 9)	1,307	1,307
Auditors' remuneration		
- fees payable for the statutory audit of the financial statements	65	59
- fees payable for other services	-	-
Operating lease rentals		
- other land and buildings	800	800
- plant and machinery	1,701	1,995
Staff costs (note 6)	64,305	77,563
Loss on disposal of fixed assets	31	31
Exceptional items		
- profit on disposal of contract (note 23)	20	-
- profit on disposal of intangible assets	-	(292)
- write off of goodwill (note 9)	(10,008)	-

6 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 322 (2014: 322). The total cost included in the remuneration below was £16,666,000 (2014: £15,771,000).

The average monthly number of employees (including directors) was:

	2015	2014
	Number	Number
Production	1,250	1,528
Administration	343	432
	1,593	1,960

Their aggregate remuneration comprised:

	2015	2014
	£'000	£'000
Wages and salaries	55,587	67,133
Social security costs	4,969	6,185
Other pension costs - Defined contribution	1,901	2,007
Other pension costs - Defined benefit	1,848	2,238
	64,305	77,563

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

7 Directors' remuneration

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

	2015	2014
	£'000	£'000
Emoluments (including benefits in-kind)	**479**	434

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

	2015	2014
	£'000	£'000
Emoluments (including benefits in-kind)	**284**	332

During the year no directors (2014: 2) exercised options of shares in Babcock International Group PLC.

During the year 4 directors (2014: 6) were awarded shares under the Babcock International Group PLC CSOP & PSP scheme.

Retirement benefits are accruing to 6 directors (2014: 6) under defined benefit pension schemes.

Retirement benefits are accruing to 2 directors (2014: 2) under defined contribution pension schemes.

The remuneration of A N Dungate, F Martinelli, R Stoate and R Taylor was incurred by other group companies. No part of their remuneration could be attributed to their services in respect of Babcock Support Services Limited.

The remuneration of D Plester and M Lawton was wholly incurred by Babcock Support Services Limited.

8 Tax on profit on ordinary activities

	2015 £'000	2014 £'000
Current tax		
UK Corporation tax on profits of the year	**4,627**	3,981
Current tax charge for the year	**4,627**	3,981
Deferred tax:		
Charge for the year	**541**	373
Adjustment in respect of prior years:		
- Other	**(524)**	(339)
- Impact of change in UK tax rate	**(25)**	184
Tax charge	**4,619**	4,199

The adjustments in respect of prior year relates mainly to consortium relief for consideration.

The tax assessed for the year is higher (2014: lower) than the standard rate of corporation tax in the UK of 21% (2014: 23%).

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

	2015 £'000	2014 £'000
Profit on ordinary activities before taxation	**16,006**	21,338
Tax on profit on ordinary activities at standard UK corporation tax rate of 21% (2014: 23%)	**3,361**	4,907
Effects of:		
Timing differences	**(705)**	(391)
Intangible amortisation not deductible for tax purposes	**275**	301
Expenses not deductible for tax purposes	**2,846**	-
Income not subject to tax	**(1,150)**	(836)
Total current tax	**4,627**	3,981

9 Intangible assets

	Purchased goodwill	Intellectual property rights and know how	Total
	£'000	£'000	£'000
Cost			
At 1 April 14	26,144	8,100	34,244
Disposals	(26,144)	-	(26,144)
At 31 March 15	-	**8,100**	**8,100**
Accumulated amortisation			
At 1 April 14	14,829	8,100	22,929
Charge for the year	1,307	-	1,307
Disposals	(16,136)	-	(16,136)
At 31 March 15	-	**8,100**	**8,100**
Net Book value			
At 31 March 15	-	-	-
At 31 March 14	11,315	-	11,315

The intellectual property rights and know how consists of the right to use the Babcock name. Goodwill was written off at the end of the year. Goodwill related to the SGI acquisition and the signing of the regional DIO South-West Prime contract. Please refer to the review of the business for more information.

10 Tangible assets

	Leasehold property £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 April 14	1,390	805	2,195
Additions	-	19	19
Disposals	-	(51)	(51)
At 31 March 15	**1,390**	**773**	**2,163**
Accumulated depreciation			
At 1 April 14	311	745	1,056
Charge for the year	221	31	252
Disposals	-	(27)	(27)
At 31 March 15	**532**	**749**	**1,281**
Net book value			
At 31 March 15	**858**	**24**	**882**
At 31 March 14	1,079	60	1,139

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

11 Investments in group undertakings

	Total £'000
Cost	
At 1 April 14	11,296
Additions	8
At 31 March 15	**11,304**
Provision for impairment	
At 1 April 14	716
Charge for the year	3,542
At 31 March 15	**4,258**
Net Book Value	
At 31 March 15	**7,046**
At 31 March 14	10,580

The directors believe 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. Please refer to the review of the business for more information.

On the 24 October 2014, the Company acquired 100% of the equity share capital in Babcock Support Services s.r.l. for £7,839.

11 Investments in group undertakings (continued)

The Company received dividends during the year of £5,477,000 (2014: £3,633,000) 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	100%	England and Wales	Dormant
Air Power International Limited	100%	Scotland	Dormant
Babcock DynCorp Limited	56%	England and Wales	Defence Services
Babcock HSPS Trustees Limited	100%	England and Wales	Pension Trust
Babcock Money Purchase Trustees Limited	100%	England and Wales	Dormant
Babcock Partners No 2010 Limited	100%	England and Wales	Dormant
Babcock Support Services s.r.l.	100%	Italy	Defence Services
Debut Services (Contracts) Limited	9%	England and Wales	Dormant
Debut Services (South West) Limited	50%	England and Wales	Activities of construction holding companies
Debut Services Limited	15%	England and Wales	Activities of construction holding companies
Devonport Management Limited	100%	England and Wales	Dormant
Hiberna FM Limited	100%	England and Wales	Dormant
Mouchel Babcock Education Investments Limited	50%	England and Wales	Non-trading Joint Venture holding company
Mouchel Babcock Education Services Limited	50%	England and Wales	Joint Venture company delivering the BSF Programme contract to the London Borough of Hackney
Peterhouse GmbH	100%	Germany	Defence Services

12 Long term loan to joint ventures

	Total £'000
Cost	
At 1 April 14	156
Additions	-
At 31 March 15	**156**
Impairment	
At 1 April 14	-
Charge for the year	-
At 1 April 14 and at 31 March 15	**-**
Net Book Value	
At 31 March 15	**156**
At 31 March 14	156

At 31 March 2012 the Company had provided funding of £328,000 to the Building Schools for the Future JV. £172,000 of this balance was repaid during the year-ended 31 March 2013 and the balance at 31 March 2015 was £156,000 (2014: £156,000).

The Company received a dividend of £350,000 (2014: £1,250,000) during the year from the Building Schools for the Future JV.

13 Stocks

	2015 £'000	2014 £'000
Raw material and consumables	-	8
Finished goods and goods for resale	60	99
	60	107

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

14 Debtors

	2015	2014
	£'000	£'000
Due within one year:		
Trade debtors	4,474	11,035
Amounts recoverable on contracts	7,412	31,248
Amounts owed by group undertakings	484,238	483,942
Prepayments and accrued income	9	2,221
UK corporation tax recoverable	39,215	37,991
Deferred tax (note 18)	1,240	1,232
Other debtors	976	494
	537,564	568,163

Amounts owed by Group undertakings includes short term loans of £100,000,000 (2014: £100,000,000); bearing an interest rate of UK LIBOR six monthly rate, plus one hundred basis points. The remaining balance of £384,238,000 (2014: £383,650,000) 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.

15 Creditors - amounts falling due within one year

	2015	2014
	£'000	£'000
Trade creditors	1,929	13,618
Other creditors	1,460	14,362
Payments received on account of long term contracts	19	4,324
Amounts owed to group undertakings	112,050	111,760
VAT	195	1,847
Accruals and deferred income	17,900	53,391
	133,553	199,302

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 21a).

16 Creditors - amounts falling due after more than one year

	2015	2014
	£'000	£'000
Amounts owed to group undertakings	**21,300**	21,300
	21,300	21,300

This debt matures in between one to two years and debt bears an interest rate of UK LIBOR six monthly rate, plus one hundred basis points.

17 Provisions for liabilities

	Contract Provisions	Property and other Provisions	Total
	£'000	£'000	£'000
At 1 April 2014	-	553	553
Utilised	-	(272)	(272)
Charged to profit and loss account	3,091	-	3,091
At 31 March 2015	**3,091**	**281**	**3,372**

The contract provision relates to the regional DIO 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 DIO. 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.

18 Deferred taxation

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

	2015	2014	2015	2014
	Provided	Provided	Full potential	Full potential
	£'000	£'000	£'000	£'000
Accelerated capital allowances	**1,098**	843	1,098	843
Other short term timing differences	**142**	389	142	389
At 31 March 2015	**1,240**	1,232	1,240	1,232

The movement on the deferred tax asset is as follows:

	£'000
At 31 March 2014	1,232
Current year movement	(541)
Adjustment in respect of prior years	524
Impact of change in UK tax rate	25
	1,240

18 Deferred taxation (continued)

A number of changes to the UK Corporation tax system were announced in the March 2012 Budget Statement. Legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 is included in the Finance Act 2013. Further changes to the UK corporation tax system were announced in the March 2013 Budget Statement. These included further reductions to the main corporation rate from 21% to 20% by 1 April 2015. These further changes have been substantively enacted at the balance sheet date and, therefore the impact is included in these financial statements. As a result of the above all deferred tax balances are restated at 20% at the balance sheet date.

19 Called up share capital

	Ordinary shares of £1 each	Preference shares of £1 each
Allotted, issued and fully paid		
At 1 April 2014	110,035	250,000
At 31 March 2015	**110,035**	**250,000**

20 Reconciliation of movements in shareholders' funds and reserves

	Called up share capital	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 1 April 2014	360	84,990	298,241	383,591
Profit for the financial year	-	-	11,387	11,387
At 31 March 2015	**360**	**84,990**	**309,628**	**394,978**

	Called up share capital	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 1 April 2013	360	84,990	281,102	366,452
Profit for the financial year	-	-	17,139	17,139
At 31 March 2014	**360**	**84,990**	**298,241**	**383,591**

21 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 (2014: £620.8 million) provided to certain group companies. In addition, the Company at the year end had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £15.0 million (2014: £nil).

b) Operating lease commitments

	2015 Land and buildings £'000	**2015 Other £'000**	2014 Land and buildings £'000	2014 Other £'000
Annual commitments under non-cancellable operating leases expiring as:				
- within one year	**-**	**106**	-	1,221
- between two and five years	**800**	**205**	-	950
- after five years	**-**	**-**	800	-
	800	**311**	800	2,171

Leases relating to the RSME contract were transferred to Babcock Land Limited as part of the sale on 1 January 2015.

22 Related party disclosures

The Company, as a wholly owned subsidiary, has taken advantage of the exemption, granted under Financial Reporting Standard 8, Related Party Disclosures, from disclosing details of sales and purchases with other 100% owned subsidiaries of the group headed up by Babcock International Group PLC.

Related party	**Sales to related party £000**	**Purchases from £000**	**Dividends received £000**	**Amounts owed by related party £000**
Debut Services (South West) Limited 2015	**126,237**	**-**	**-**	**4,238**
Holdfast Training Services Limited 2015	**11,274**	**280**	**-**	**-**
Babcock DynCorp Limited 2015	**-**	**-**	**5,127**	**-**
Mouchel Babcock Education Investments Limited 2015	**-**	**-**	**350**	**-**

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

23 Disposals

The Company disposed of the RSME contract to another Group company effective from 1 January 2015 for a total consideration of £nil. There were no adjustments required to the book values of the assets and liabilities of the contract disposed in order to present the net assets of those contracts at fair values in accordance with Group accounting principles. The details of these assets and liabilities are set out below together with the resultant amount of profit on sale arising. This sale has been accounted for as a disposal.

	Book Value £'000
Tangible assets	24
Stock	7
Debtors	32,984
Cash	11,977
Creditors	(45,012)
	(20)
Net liability disposed	
Consideration	-
Profit on disposal	20

24 Pension commitments

The Company had both defined benefit and defined contribution pension plans. In a defined benefit pension scheme, the scheme is funded through payments to trustee-administered funds, determined by periodic actuarial calculations. A defined benefit plan is a pension that defines an 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. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity.

The Company employs members of the Babcock International Group PLC pension scheme and the Rosyth Royal Dockyard Ltd pension scheme, which are treated as a multi-employer defined benefit pension schemes for these financial statements. The schemes will be accounted for on a defined contribution basis as the Company is unable to identify its share of the underlying assets and liabilities. The fund of the schemes is administered by Trustees and is held separately from the group. Independent qualified actuaries complete valuations periodically and, in accordance with their recommendations, annual contributions from employees and employer are paid to the scheme so as to secure the benefits set out in the rules. The cost of these contributions is charged in the Babcock International Group PLC financial statements against profits on a systematic basis over the service lives of the employees. There is no material difference between the FRS17: "Retirement Benefits" and IAS19: "Employee Benefits" valuation. Refer to the Babcock International Group PLC financial statements note 26 for further details.

The net pension asset (2014: liability) on the Group wide pension scheme at 31 March 2015 was £33,900,000 (2014: £(48,300,000)). This represents the asset to Babcock International Group PLC as a whole and does not represent an asset to the Company.

25 Ultimate parent undertaking

The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

The immediate parent undertaking is Babcock Defence and Security Holdings LLP. The ultimate parent undertaking and controlling party is Babcock International Group PLC, a company incorporated in England and Wales.

Babcock International Group PLC is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 March 2015. The consolidated financial statements of Babcock International Group PLC available from www.babcockinternational.com or from:

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