

Babcock Marine (Clyde) Limited

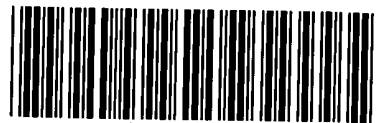
Annual report

For the year ended 31 March 2017

Company registration number:

SC220243

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COMPANIES HOUSE

Babcock Marine (Clyde) Limited

Directors and advisors

Current directors

S Foster
J W Howie
G Lambert
P O Merriman
I S Urquhart

Company secretary

J M Wood

Registered office

Rosyth Business Park
Rosyth
Dunfermline
Fife
KY11 2YD

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
141 Bothwell Street
Glasgow
G2 7EQ

Babcock Marine (Clyde) Limited

Strategic report for the year ended 31 March 2017

The directors present their Strategic report on the Company for the year ended 31 March 2017.

Principal activities

The principal activity of the Company is the provision of services to the Ministry of Defence (MoD) in its operation of Her Majesty's Naval Base Clyde (HMNB Clyde). HMNB Clyde is the Home of the UK Submarine Service and is the Submarine Centre of Specialisation (SMCoS) in the UK.

Review of the business

	2017 £000	2016 £000
Revenue	150,399	135,575
Profit for the financial year	6,325	5,442

The Company is part of the Marine and Technology Division of Babcock International Group PLC ("Babcock") and has continued to participate in a wide range of initiatives that are intended to deliver key elements of the MoD's fleet availability programme. This programme seeks to deliver improvements in both cost effectiveness and performance across the joint industrial-MoD enterprise whilst ensuring that important naval design, build and support capabilities are retained. The MoD programme is operated under a contractual framework set out in the 15 year Terms of Business Agreement ("ToBA") which commenced in April 2010, and has continued to operate successfully. The committed levels of cost benefits to MoD on allocated contracts have been delivered and overall cost and service level performance has met or exceeded requirements.

The delivery contract for the Company to deliver ToBA benefits to MoD up to 30 September 2014 was the Waterfront Support Modernisation Initiative ("WSMI") which was replaced by the Maritime Support Delivery Framework ("MSDF") contract which runs from 1 October 2014 to 31 March 2020. The MSDF contract includes significant additional cost reductions above those committed under the ToBA. Contract To date, the Company has delivered the savings required under the first three years of the MSDF contract, and is continuing to develop initiatives to meet or exceed the cost reduction challenges for future years. The achievement of savings to date along with the Company's view on the risk against delivery of future cost reduction largely determines the profitability for the period.

The Strategic Weapons Support (SWS) Alliance with Lockheed and AWE, which was set up as a result of transferring specialist activities from MoD to industry (operating out of Coulport), has completed its fourth full year of operation successfully with committed cost reductions being delivered whilst maintaining the contracted level of service.

In respect of health and safety in the year to March 2017, the Company saw a decrease in the number of RIDDOR reportable incidents at HMNB Clyde over the previous year's figure from 7 to 3 (57%). The overall number of injury accidents also fell from 145 to 136 (6%). The Company continued to proactively engage with the workforce through our Incident & Injury Free Programme. In addition, closer collaboration with the other Babcock Marine & Technology Business Units at Devonport, Rosyth and Bristol is helping to generate best practice resulting in improved Safety Management Arrangements at Clyde.

Babcock Marine (Clyde) Limited

Strategic report for the year ended 31 March 2017 (continued)

Review of the business (continued)

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.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 68 to 79 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

After a challenging, but ultimately successful third year of MSDF, work will continue during the year ahead to develop and deliver further cost reduction initiatives, as required to achieve the cost reduction challenges committed to MoD in remaining years of the contract.

The Company continues to explore business growth in other areas of activity at HMNB Clyde within the ToBA contractual framework.

Other long term prospects are developing positively, with a number of proposals and opportunities at various stages of development. The Company is actively engaged in pan-industry alliances with the MoD that will look to determine arrangements for delivering and supporting current and future classes of surface ships and submarines.

We remain confident that the Company will continue to benefit from the strength of its relationship with the MoD.

Challenging objectives have been set for the year ahead for health and safety to align with the Babcock International Group Plc and Marine & Technology Division strategies – work on this has already commenced. At a Company level, a number of initiatives have been developed and will be implemented, including the continuation of more behavioural elements in the safety culture improvement programme (Just Culture & Being Babcock) and improving the effectiveness of self-regulation in business areas.

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 Marine & Technology, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 30 to 37 and 38 to 43 of the annual report of Babcock International Group PLC, which does not form part of this report.

Babcock Marine (Clyde) Limited**Strategic report for the year ended 31 March 2017 (continued)****Key performance indicators (continued)**

	2016 / 17	2015 / 16	
Revenue Growth	10.9%	8.6%	Change in revenue when compared to that of the previous year. In 2016/17, revenue increased significantly. Most of this increase is due to our MSDF contract reflecting greater water front activity in our Fleet Engineering Department as we support the customer's Boat Programme.
Operating Return on Revenue (ORR)	5.31%	4.94%	Operating profit expressed as a percentage of revenue. Margin percentage has increased slightly from the previous year as we are another year into the 6-year MSDF contract and have increasing confidence in the delivery of the contract targets.
Order Book	£889m	£994m	Includes total value of signed contracts and prudent estimate of value of framework contracts. Order book down on previous year due to value of revenue traded during the year.
Total injuries rate per 100,000 hours worked	3.53	3.81	Health and Safety is a core value for the Company. The data includes all reported injuries. There has been a slight decrease in our overall incidents compared to the previous year, our RIDDOR reportable incidents are also down on the previous year.
Number of apprentices	36	37	The level of apprentice intake reflects the forecast future programme of work recognising the current demographics of the workforce. This has been maintained Year on Year

On behalf of the board


S Foster

Director

27 June 2017

Babcock Marine (Clyde) Limited

Directors' report for the year ended 31 March 2017

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2017.

Dividends

An interim dividend of £10,000,000 representing £10,000,000 per ordinary share was declared and paid in the year (2016: £20,000,000). No final dividend for the year ended 31 March 2017 has been provided by the directors (2016: £nil).

Future developments

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

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 34 to 37 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

Directors

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

A A Bethel CBE (resigned 19 September 2016)
S Foster
J W Howie
G Lambert
P O Merriman
I S Urquhart

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.

Babcock Marine (Clyde) Limited

Directors' report for the year ended 31 March 2017 (continued)

Safety policy

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

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate. The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Statement of directors' responsibilities

The directors are responsible for preparing the 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.

Babcock Marine (Clyde) Limited**Directors' report for the year ended 31 March 2017 (continued)****Qualifying third party indemnity provisions**

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.

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



S Foster

Director

27 June 2017

Babcock Marine (Clyde) Limited

Independent auditors' report to the members of Babcock Marine (Clyde) Limited

Report on the financial statements

Our opinion

In our opinion, Babcock Marine (Clyde) 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 2017 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

The financial statements, included within the Annual report (the "Annual Report"), comprise:

- the balance sheet as at 31 March 2017;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable (United Kingdom Generally Accepted Accounting Practice)

In applying the financial reporting framework, the directors have made a number of subjective judgments, 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, 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

Babcock Marine (Clyde) Limited

Independent auditors' report to the members of Babcock Marine (Clyde) Limited (continued)

Other matters on which we are required to report by exception (continued)

- 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 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 and Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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' judgments against available evidence, forming our own judgments, and evaluating the disclosures in the financial statements.

Babcock Marine (Clyde) Limited

Independent auditors' report to the members of Babcock Marine (Clyde) Limited
(continued)

What an audit of financial statements involves (continued)

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

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

Kenneth Wilson

Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
27 June 2017

Babcock Marine (Clyde) Limited**Income statement***for the year ended 31 March 2017*

	Note	2017 £000	2016 £000
Revenue	4	150,399	135,575
Cost of sales		<u>(140,141)</u>	<u>(126,676)</u>
Gross profit		10,258	8,899
Administration expenses		<u>(2,432)</u>	<u>(2,201)</u>
Operating profit	7	<u>7,826</u>	<u>6,698</u>
Profit on ordinary activities before interest and taxation		7,826	6,698
Finance income	6	65	77
Other finance costs - pensions	20	<u>(28)</u>	<u>31</u>
Profit on ordinary activities before income taxation		7,863	6,806
Income tax expense	11	<u>(1,538)</u>	<u>(1,364)</u>
Profit for the financial year		<u>6,325</u>	<u>5,442</u>

All of the above results derive from continuing operations.

Statement of comprehensive income*for the year ended 31 March 2017*

	Note	2017 £000	2016 £000
Profit for the financial year		<u>6,325</u>	<u>5,442</u>
Other comprehensive (expense) / income: <i>Items that will not be subsequently reclassified to income statement:</i>			
Gain (loss) on re-measurement of net defined benefit obligation	20	2,339	(2,319)
Tax on net defined benefit obligation		<u>(414)</u>	<u>442</u>
Total comprehensive income for the year		<u>8,250</u>	<u>3,565</u>

Babcock Marine (Clyde) Limited**Balance sheet**
as at 31 March 2017

	Note	2017 £000	2016 £000
Current assets			
Inventories	12	135	137
Trade and other receivables	13	53,742	21,825
Cash and cash equivalents		371	22,728
		<u>54,248</u>	<u>44,690</u>
Trade and other payables – amounts falling due within one year	14	<u>(47,375)</u>	<u>(33,918)</u>
Net current assets		<u>6,873</u>	<u>10,772</u>
Gross pension assets / (liabilities)	20	<u>1,051</u>	<u>(1,098)</u>
Net assets		<u>7,924</u>	<u>9,674</u>
Capital and reserves			
Called up share capital	16	-	-
Retained earnings		<u>7,924</u>	<u>9,674</u>
Total shareholders' funds		<u>7,924</u>	<u>9,674</u>

The notes on pages 14 to 35 are an integral part of these financial statements.

The financial statements on pages 11 to 35 were approved by the board of directors and signed on its behalf by:



S Foster
Director
27 June 2017

Babcock Marine (Clyde) Limited**Statement of changes in equity**
for the year ended 31 March 2017

	Called up share capital £000	Retained earnings £000	Total shareholders' funds £000
Balance at 1 April 2015	-	26,109	26,109
Profit for the financial year	-	5,442	5,442
Other comprehensive income / (expense)	-	(1,877)	(1,877)
Dividends paid	-	(20,000)	(20,000)
Balance at 31 March 2016	-	9,674	9,674
Profit for the financial year	-	6,325	6,325
Other comprehensive income / (expense)	-	1,925	1,925
Dividends paid	-	(10,000)	(10,000)
Balance at 31 March 2017	-	7,924	7,924

Babcock Marine (Clyde) Limited

Notes to the financial statements

1 General information

Babcock Marine (Clyde) Limited is a private company which is incorporated and domiciled in the UK. The address of the registered Office is Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD.

2 Summary of significant accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measure at fair value through profit and loss in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The financial statements are prepared in sterling which is the functional 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 subsidiary of Babcock Marine & Technology Holdings Limited and of its ultimate parent, Babcock International Group PLC. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

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

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- b) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) 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 (reconciliations between the carrying amount at the beginning and end of the period)
- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- f) IAS 7, 'Statement of cash flows'
- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

- h) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- i) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

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 are 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 service contracts

Revenue from long-term service contracts is recognised by reference to the stage of completion of the contract in accordance with IAS 18 'Revenue' and IAS 11 'Construction contracts'. The stage of completion is determined according to the nature of the specific contract concerned. Methods used to assess the stage of completion include incurred costs as a proportion of total costs; labour hours incurred or earned value of work performed.

The profit element of the revenue attributable to a contract is recognised if the final outcome can be reliably assessed. In order to assess the likely outcome of a contract a full estimated cost of completion is produced which will assess risks and opportunities including cost rates, time, volume and performance for the contract and apply a probability to these being realised. As time elapses, these risks and opportunities will become more predictable. Risks and opportunities will vary dependent on the terms of each contract and the commercial environment of each market. Where certain contracts have pain/gain share arrangements, whereby target cost under/over spends are shared with the customer, these sharing arrangements are included in assessing the overall contract outturn and the expected profit.

Any expected loss on a contract is recognised immediately in the income statement.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Contract accounting balances

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs are recognised as an asset and amortised over the life of the contract when it can be reliably expected that a contract will be obtained and the contract is expected to result in future net cash inflows.

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life of the contract.

Inventory and work in progress

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

Trade receivables

Trade receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

Share based payments

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

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 consolidated 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

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

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 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.

Pensions costs and other post-retirement benefits

The Company participates in a defined benefit scheme that shares risks between entities under common control. The defined benefit scheme 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 scheme are charged to 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.

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

The Company participates in a defined benefit contribution scheme. Obligations for contributions to the defined benefit 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.

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.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

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 balance sheet 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 judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Defined benefit pension scheme

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 20 for the disclosures of the defined benefit pension scheme.

Contract accounting

The Company has long term contracts where revenue and expenses are incurred over multiple financial periods. This requires estimates of revenue and expenses over multiple periods, considering various elements such as the frequency and extent of the number of employees, materials and other resources required to fulfil the contract terms, billing rates and cost changes. Revisions that affect a contract's total estimated profitability results in an adjustment of earnings. Where necessary, provisions are established for any probable future losses.

4 Revenue

Revenue is wholly attributable to the principal activities of the Company and arises as follows:

	2017 £000	2016 £000
By area of activity:		
Sales of goods	3,053	2,826
Rendering of services	1,613	3,336
Long term contracts	145,733	129,413
	<u>150,399</u>	<u>135,575</u>

All the revenue originated in the United Kingdom.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

5 Contract revenue

	2017 £000	2016 £000
From ongoing contracts:		
Contract costs incurred	1,392,295	1,261,952
Recognised profits less recognised losses	129,255	119,180
	<u>1,521,550</u>	<u>1,381,132</u>
Progress billings	1,521,014	1,377,992
Due from customers	<u>2,067</u>	<u>3,826</u>
Due to customers	<u>1,531</u>	<u>686</u>

6 Finance income

	2017 £000	2016 £000
Finance income:		
Bank interest	-	6
Loan interest receivable from group undertakings	<u>65</u>	<u>71</u>
	<u>65</u>	<u>77</u>

7 Operating profit

Operating profit is stated after charging:

	2017 £000	2016 £000
Operating lease charges - Other	26	29
Audit fees payable to the Company's auditors	33	37

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

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

8 Staff costs

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

	2017 Number	2016 Number
By activity:		
Production	<u>1,645</u>	<u>1,610</u>

Their aggregate remuneration comprised:

	2017 £000	2016 £000
Wages and salaries	68,473	59,601
Social security costs	6,288	5,191
Other pension costs (note 20)	<u>6,652</u>	<u>7,772</u>
	<u>81,413</u>	<u>72,564</u>

Included in wages and salaries is a total expense of share-based payments of £99,000 (2016: £100,000) of which £99,000 (2016: £100,000) arises from transactions accounted for as equity settled share-based payment transactions.

Included in other pension costs are £187,000 (2016: £453,000) in respect of the defined benefit schemes and £6,465,000 (2016: £7,319,000) in respect of the defined contribution scheme.

The employment costs above include those of employees providing management services to other group companies, as well as staff seconded to other group companies. These are recharged to those business entities.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

9 Directors' remuneration

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

	2017	2016
	£000	£000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	374	370
Defined contribution pension scheme	21	21
	395	391

During the year two (2016: two) directors remunerated by Babcock Marine (Clyde) Limited was entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to five directors (2016: five) under Group pension schemes.

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

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

	2017	2016
	£000	£000
Emoluments (excluding pension contributions)	207	204
Company pension contributions (in place of accrued benefit entitlement under the group's defined contribution scheme)	13	13

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

10 Share based payments

The charge to the income statement is based on the amount charged from Babcock International Group PLC. This charge represents an allocation of the total charge based on the proportion which relates to Babcock Marine (Clyde) Limited. The total charge has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report in the Babcock International Group PLC Annual Report and Accounts.

During the year the total charge relating to employee share-based payment plans was £99,000 (2016: £100,000) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £79,000 (2016: £80,000).

The fair value per option granted and the assumptions used in the calculation are as follows:

DBMP, PSPs, DBP and CSOP₁

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2016 DBMP Matching	479,065	974.5	14.0%	4.0	30%	379.1	974.5	46%	15/6/16
2016 PSP	2,085,427	974.5	14.0%	4.0	30%	389.9	974.5	46%	15/6/16
2016 DBP	14,714	974.5	14.0%	3.0	100%	–	974.5	46%	15/6/16
2016 DBP	62,845	974.5	14.0%	4.0	100%	–	974.5	46%	15/6/16
2016 PSP	27,578	991.0	14.0%	3.75	30%	396.4	991.0	46%	12/10/16
2015 DBMP Matching	936,197	1,121.0	12.0%	4.0	13%	364.0	1,121.0	46%	11/6/15
2015 PSP	1,688,368	1,121.0	12.0%	4.0	20%	374.0	1,121.0	46%	11/6/15
2015 DBP	3,863	1,121.0	12.0%	4.0	100%	–	1,121.0	46%	11/6/15
2014 PSP	14,196	1,007.0	12.0%	3.5	27%	165.0	1,007.0	46%	29/1/15
2014 DBMP Matching	853,803	1,218.0	15.0%	4.0	18%	536.0	1,218.0	46%	12/6/14

Both the vesting period and the expected life of all DBMP, PSP and CSOP awards is three years, but for the DBP it is two years. The holders of all awards receive dividends, except for CSOP awards.

The DBMP Matching awards are split evenly between the performance criteria of TSR, EPS and ROCE, whilst the PSP and CSOP awards are split evenly between TSR and EPS. There are no performance conditions attached to the DBP. The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan, DBP = 2012 Deferred Bonus Plan and CSOP = 2009 Company Share Option Plan.

2. These DBMP, PSP and CSOP have been restated to take account of the rights issue in May 2016.

Babcock Marine (Clyde) Limited**Notes to the financial statements (continued)****11 Income tax****Tax expense included in income statement**

	2017	2016
	£000	£000
Current tax:		
UK Corporation tax on profits for the year	<u>1,666</u>	<u>1,338</u>
Current tax charge for the year	<u>1,666</u>	<u>1,338</u>
Deferred tax:		
Origination and reversal of temporary differences	(86)	25
Prior year adjustments	(53)	-
Impact of change in UK tax rate	<u>11</u>	<u>1</u>
Total deferred tax charge / (credit) (note 15)	<u>(128)</u>	<u>26</u>
Tax on profit on ordinary activities	<u>1,538</u>	<u>1,364</u>

Tax expense / (income) included in other comprehensive income**Current tax****Deferred tax:**

- Tax impact of actuarial gains/losses on pension liability	468	(464)
- Impact of change in tax rates	<u>(54)</u>	<u>22</u>
Tax expense / (income) included in other comprehensive income	<u>414</u>	<u>(442)</u>

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

11 Income tax (continued)

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

	2017 £000	2016 £000
Profit on ordinary activities before taxation	7,863	6,806
Profit on ordinary activities multiplied by standard UK corporation tax rate of 20% (2016: 20%)	1,573	1,361
Effects of:		
Impact of change in UK tax rate	11	1
Expenses not deductible for tax purposes	7	2
Adjustments in respect of deferred tax for prior years	(53)	-
Total tax charge for the year	1,538	1,364

In the 2015 Budget, it was announced that the UK corporation tax rate will reduce to 19% from April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. It was subsequently announced in 2017 UK Budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 17% as this is the tax rate that will apply on reversal.

Babcock Marine (Clyde) Limited**Notes to the financial statements (continued)****12 Inventories**

	2017 £000	2016 £000
Finished goods and goods for resale	135	137

13 Trade and other receivables

	2017 £000	2016 £000
Amounts falling due within one year:		
Trade receivables	1,647	194
Amounts due from customers for contract work	2,067	3,826
Amounts owed by group undertakings	47,471	16,338
Deferred tax asset (note 15)	-	205
Other receivables	2,036	785
Prepayments and accrued income	521	477
	53,742	21,825

Amounts owed by group undertakings are unsecured and repayable on demand.

14 Trade and other payables

	2017 £000	2016 £000
Amounts falling due within one year:		
Trade creditors	13,418	5,389
Amounts owed to parent and group undertakings	4,720	4,950
Taxation and social security	1,665	1,521
UK corporation tax payable	7,470	5,805
Deferred tax (Note 15)	81	-
Payments received on account	1,531	686
Other payables	1,316	772
Accruals and deferred income	17,174	14,795
	47,375	33,918

Amounts owed to parent and group undertakings are unsecured, interest free, and repayable on demand.

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 18(a)).

Babcock Marine (Clyde) Limited**Notes to the financial statements (continued)****15 Deferred taxation**

The major components of the deferred tax liabilities and deferred tax assets are recorded as follows:

Deferred tax (assets)/liabilities	Accelerated capital allowances	Other	Total
	£000	£000	£000
At 1 April 2015:	-	(211)	(211)
- Charged / (credited) to the income statement	-	(26)	(26)
- Charged / (credited) to other comprehensive income	-	442	442
At 31 March 2016:	-	205	205
- Charged / (credited) to the income statement	1	127	128
- Charged / (credited) to other comprehensive income	-	(414)	(414)
At 31 March 2017:	1	(82)	(81)

16 Share capital

	2017	2016
	£	£
Allotted and fully paid		
1 (2016: £1) ordinary shares of £1 each	1	1

17 Dividends

Dividends declared and paid were £10,000,000 (2016: £20,000,000), this is equivalent to £10,000,000 per share (2016: £20,000,000). There are no plans for a final dividend.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

18 Guarantees and financial commitments

a) Contingent liabilities

At the year-end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2016: £nil) provided to certain group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2016: £nil).

b) Operating lease commitments

At 31 March 2017, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2017 Land and buildings £000	2017 Other £000	2016 Land and buildings £000	2016 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	24	1	24	1
- between two and five years	48	-	48	-
	72	1	72	1

The entity leases an office and a vehicle under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

19 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group PLC and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group PLC, for which the consolidated financial statements are publicly available.

20 Pension commitments

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

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

20 Pension commitments (continued)

The nature of the scheme 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. These 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 through 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.

These schemes are funded by payments to legally separate trustee-administered funds. The trustees of these 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 independent trustees and members 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 2017 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 2013. The major assumptions used for the IAS 19 valuation were:

	2017 %	2016 %	2014 %
Major assumptions			
Rate of increase in salaries	2.3	2.2	2.2
Rate of increase in pension payment	3.0	2.8	2.8
Discount rate	2.6	3.5	3.4
Inflation	2.1	1.9	1.9

The expected total employer contributions to be made by participating employers to the scheme in 2017/18 are £18.5m. The future service rate is 32.0%. 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 £18.5m is £3.0m 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.

Babcock Marine (Clyde) Limited**Notes to the financial statements (continued)****20 Pension commitments (continued)**

The mortality assumptions used were:

	2017 Years	2016 Years	2014 Years
Life expectancy from age 65 (male age 65)	22.6	22.9	23.0
Life expectancy from age 65 (male age 45)	23.7	24.5	24.7

The changes to the Babcock International Group Plc balance sheet at March 2017 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 2017 £000	Income statement 2017 £000
Initial assumptions	1,371,686	11,776
Discount rate assumptions increased by 0.5%	(104,900)	(4,800)
Discount rate assumptions decreased by 0.5%	104,900	3,700
Inflation rate assumptions increased by 0.5%	62,400	2,600
Inflation rate assumptions decreased by 0.5%	(57,800)	(2,300)
Total life expectancy increased by half a year	28,200	1,000
Total life expectancy decreased by half a year	(28,200)	(900)
Salary increase assumptions increased by 0.5%	10,400	700
Salary increase assumptions decreased by 0.5%	(10,400)	(600)

The weighted average duration of cashflows (years) was 15

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

20 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 2017 were:

Fair value of plan of assets	2017	2016
	£'000	£'000
Equities	321,942	285,320
Property	96,346	95,937
Absolute return and multi strategy funds	4,768	1,588
Bonds	445,079	426,204
Matching assets	596,325	423,129
Active position on longevity swaps	(48,451)	(50,692)
Total assets	1,416,009	1,181,486
Present market value of liabilities - funded	(1,371,686)	(1,205,869)
Gross pension surplus / (deficit)	44,323	(24,383)

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

The scheme does not invest directly in assets or share of Babcock International Group Plc.

The longevity swaps have been valued, in 2017, in line with assumptions that are consistent with the requirements of IFRS 13.

Analysis of amount charged to the income statement in Babcock International Group Plc	2017	2016
	£000	£000
Current service cost	8,910	11,712
Incurred expenses	2,203	2,258
Total included within operating profit	11,113	13,970
Net interest cost / (income)	663	(1,311)
Total charged to the income statement	11,776	12,659

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 £337k for service cost (2016: £370k) and net interest cost of £20k (2016: £35k).

Babcock Marine (Clyde) Limited**Notes to the financial statements (continued)****20 Pension commitments (continued)**

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")	2017 £000	2016 £000
Actuarial gain / (loss) recognised in the SOCl	(182,960)	21,071
Experience gains/(losses)	240,677	(80,237)
Other gains/(losses)	4,015	(9,387)
	<u>61,732</u>	<u>(68,553)</u>

The actuarial gain recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £2,412k (2016 loss: £2,251k).

The equity investments and bonds are valued at bid price.

	2017 £000	2016 £000
Reconciliation of present value of scheme assets in Babcock International Group Plc		
At 1 April	1,232,177	1,292,931
Interest cost	42,556	43,539
Employee contributions	304	411
Employer contributions	18,751	22,892
Benefits paid	(70,210)	(62,146)
Actuarial gain / (loss)	240,882	(65,450)
At 31 March	<u>1,464,460</u>	<u>1,232,177</u>

	2017 £000	2016 £000
Reconciliation of present value of scheme liabilities		
At 1 April	1,205,869	1,219,048
Service cost	8,910	11,712
Incurred expenses	2,203	2,258
Interest on liabilities	41,445	40,870
Employee contributions	304	411
Actuarial (gain) / loss – demographics	(29,948)	(15,784)
Actuarial (gain) / loss – financial	212,909	(5,287)
Experience (gain) / losses	205	14,787
Benefits paid	(70,210)	(62,146)
At 31 March	<u>1,371,687</u>	<u>1,205,869</u>

Babcock Marine (Clyde) Limited**Notes to the financial statements (continued)****20 Pension commitments (continued)**

The asset 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 £1,343k (2016 deficit: £889k).

Rosyth Pension scheme

The IAS 19 valuation has been updated at 31 March 2017 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 2015. The major assumptions used for the IAS 19 valuation were:

	2017 %	2016 %	2015 %
Major assumptions			
Rate of increase in salaries	2.3	2.2	2.2
Rate of increase in pension payment	3.3	3.0	3.0
Discount rate	2.6	3.5	3.4
Inflation	2.1	1.9	1.9

The expected total employer contributions to be made by participating employers to the scheme in 2017/18 are £29.7m. The future service rate is 24.0%. 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 £29.7m is £17.5m 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:

	2017 Years	2016 Years	2015 Years
Life expectancy from age 65 (male age 65)	20.3	19.2	19.3
Life expectancy from age 65 (male age 45)	21.5	23.2	20.8

Babcock Marine (Clyde) Limited**Notes to the financial statements (continued)****20 Pension commitments (continued)**

The changes to the Babcock International Group Plc balance sheet at March 2017 and the changes to the Babcock International Group Plc income statement for the year to March 2018, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2017 £m	Income statement 2017 £m
Initial assumptions	1,059,811	11,766
Discount rate assumptions increased by 0.5%	(91,400)	(2,500)
Discount rate assumptions decreased by 0.5%	91,400	1,700
Inflation rate assumptions increased by 0.5%	80,800	2,600
Inflation rate assumptions decreased by 0.5%	(73,700)	(2,400)
Total life expectancy increased by half a year	21,900	700
Total life expectancy decreased by half a year	(21,900)	(700)
Salary increase assumptions increased by 0.5%	5,700	300
Salary increase assumptions decreased by 0.5%	(5,700)	(300)

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

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 2017 were:

Fair value of plan assets	2017 £'000	2016 £'000
Equities	273,449	231,437
Property	55,487	54,468
Absolute return and multi strategy funds	3,262	3,153
Bonds	138,961	128,934
Matching assets	441,695	282,696
Active position on longevity swaps	(60,055)	(37,909)
Total assets	852,799	662,779
Present market value of liabilities - funded	(1,059,811)	(836,271)
Gross pension surplus / (deficit)	(207,012)	(173,492)

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.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

20 Pension commitments (continued)

The longevity swaps have been valued, in 2017, in line with assumptions that are consistent with the requirements of IFRS 13.

Analysis of amount charged to the income statement in Babcock International Group Plc	2017 £000	2016 £000
Current service cost	5,250	6,121
Incurred expenses	609	748
Total included within operating profit	5,859	6,869
Net interest cost / (income)	5,907	3,651
Total charged to the income statement	11,766	10,520

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 £8k for service cost (2016: £8k) and net interest cost of £8k (2016: £8k).

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")	2017 £000	2016 £000
Actuarial gain / (loss) recognised in the SOCl	(234,847)	15,733
Experience (losses) / gains	218,539	(105,640)
Other gains / (losses)	(20,816)	23,732
	(37,124)	(66,175)

The actuarial loss recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £73k (2016: £68k).

The equity investments and bonds are valued at bid price.

	2017 £000	2016 £000
Reconciliation of present value of scheme assets in Babcock International Group Plc		
At 1 April	700,688	764,570
Interest on assets	24,311	25,875
Employer contributions	15,374	15,889
Employee contributions	12	31
Benefits paid	(31,750)	(29,001)
Actuarial (loss) / gain	204,219	(76,676)
At 31 March	912,854	700,688

Babcock Marine (Clyde) Limited

Notes to the financial statements *(continued)*

20 Pension commitments *(continued)*

	2017 £000	2016 £000
Reconciliation of present value of scheme liabilities		
At 1 April	836,271	817,643
Service cost	5,250	6,121
Incurred expenses	609	748
Interest on liabilities	28,891	27,498
Employee contributions	12	31
Actuarial (gain) / loss – demographics	58,403	(12,947)
Actuarial (gain) / loss – financial	176,445	(2,786)
Experience (gain) / losses	(14,320)	28,964
Benefits paid	(31,750)	(29,001)
At 31 March	1,059,811	836,271

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 £292k (2016: £209k).

21 Ultimate parent undertaking

The Company's immediate parent company is Babcock Marine & Technology Holdings Ltd, a company 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